JOINT STOCK COMPANY COMMERCIAL BANK “PRIVATBANK” ANNUAL REPORT

31 December 2018

Translation from Ukrainian original

CONTENTS

I. MANAGEMENT REPORT

MANAGEMENT REPORT

II. FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

SEPARATE FINANCIAL STATEMENTS

Notes to the Separate Financial Statements

Management report of JSC "PrivatBank"

The nature of the business

JSC CB "PrivatBank" (the Bank) is a universal bank with a focus on the retail segment and selective presence in the corporate segment.

The Bank carries out its activities in accordance with the license of the National Bank of Ukraine (NBU) since March 1992. As at 31 December 2018, the Bank has 30 departments and 1991 operating branches in Ukraine and the Cyprus branch.

External environment

In 2018 Ukraine's economy grew and real GDP increased by 3.3% in the year - the highest figure for the last seven years. This growth is mainly due to the following factors: a) expansion of consumer demand due to the significant growth rates of real incomes (growth of real wages 12.5%), b) increase of retail trade (+ 14%, or in absolute figures +112 billion UAH to UAH 929 billion in 2018), в) development of passenger transport sector, d) agricultural growth due to record harvest of cereals and oilseeds (70 million tons).

Consumer inflation slowed down to 9.8% in 2018 (from 13.7% in 2017) - the lowest level in the last five years, which is largely due to: a) tight monetary policy of the NBU (raising the discount rate to 18%); b) the strengthening of the hryvnia exchange rate - by 6.7% for NEEK and 13.1% for REER hryvnia in 2018, which is largely due to Ukraine's positive balance of payments ($ 2,877 million) under the influence of: 1) high prices for export goods in foreign markets; 2) significant volumes of remittances ($ 11 billion); 3) external financing: IMF, MFIs, Eurobonds.

The financial result of the banking sector reached record highs – profit of solvent banks amounted to UAH 21.7 billion, including UAH 10.8 billion in the fourth quarter. Operating income increased by 15.5% primarily due to the growth of net interest and commission income, while expenses increased by 7%. Operating profit before the formation of reserves increased by 90%. Operational efficiency was 52%.

The growth of the NBU discount rate (to 18% in 2018) led to an increase in market interest rates on deposits in the 4th quarter: the average cost of 12-month deposits of individuals in hryvnia increased by 0.6 pp to 15.7% per annum, in US dollars - by 0.1 percentage points to 3.6% per annum (according to the Ukrainian index of rates on deposits of individuals). Increasing competition in the deposit market has led to a rise in hryvnia business deposits to 15.3% per annum in December 2018 (+5.7 pp a year, +1.6 pp for the 4th quarter). The growth of the cost of deposits in the 4th quarter of 2018 was accompanied by an increase in the cost of loans: a) for individuals: by 1.4 pp to 30.3% per annum in December 2018; b) for legal entities from 19.6% in September to 20.6% in December.

Management and organizational structure

Structure of corporate governance

To ensure a balance between management and control, the clear division of powers and the distinction between general management by the General Meeting and the Supervisory Board and the management of the Bank's current activities by the Management Board, the Bank implements a transparent and clear corporate governance structure of the Bank.

Shareholders of the Bank

The only shareholder of the Bank, which holds 100% of the Bank's shares, is the State represented by the Ministry of Finance of Ukraine (location: 01008 Kyiv, Hrushevskoho street, 12/2, identification number 00013480).

On 21 December 2016, the State, represented by the Ministry of Finance of Ukraine, acquired the ownership of 100% of the Bank's shares in accordance with Article 41.1 of the Law of Ukraine "On the System of Guaranteeing Deposits of Physical Persons" and pursuant to the Resolution of the Cabinet of Ministers of Ukraine "Certain Issues on Ensuring the Stability of the Financial System", dated December 18, 2016, No. 961."

The shareholder of the Bank has a set of rights determined by the current legislation of Ukraine, the Charter of the Bank, the Regulations on the General Meeting of Shareholders, observance and protection of which is ensured by the Bank.

The State shall exercise its ownership right in respect of the Bank, and the governing bodies of the Bank shall act in conformity with the world best corporate governance practices, including, the Guidelines on Corporate Governance of State-Owned Shares of the Organization for Economic Cooperation and Development, the Corporate Governance Principles for Banks by the Basel

Committee on Banking Supervision, the Guidelines on Internal Governance by the European Banking Authority, which apply to the extent that they are not inconsistent with binding provisions of applicable law of Ukraine.

During 2018, the Bank did not have any operations to buy / sell shares of the Bank.

All operations with the Shareholder are carried out under arm's length terms. Bank's decisions about operations with a Shareholder are based on their economic expediency. The total volume of transactions with the Shareholder is limited by the maximum risk ratios of 1 insider.

The Bank promotes the implementation and protects the rights and legitimate interests of the shareholderThe Bank promotes the implementation and protects the rights and legitimate interests of the shareholder, stipulated by the Charter, the Regulations on the General Meeting and the current legislation of Ukraine.

General Meeting

The General Meeting is the highest governing body of the Bank.

The General Meeting may decide on any matter of the Bank's activities except for those that fall under the exclusive competence of the Supervisory Board.

If the Supervisory Board of the Bank resolves in accordance with applicable law to submit any issue that the law or the Charter assigns to the exclusive competence of the Supervisory Board of the Bank for consideration of the General Meeting, the General Meeting shall have the right to consider and decide on such issue.

The general meeting is based on the current legislation of Ukraine, the Bank's Charter and the Regulation on General Meeting.

The General Meeting shall have exclusive competence:

- Determination of the main directions of the Bank's activities and approval of reports on their execution;
- Approval of development strategy for the Bank, approved by the Supervisory Board;
- Approval of the annual report of the Bank;
- Consideration of the report of the Supervisory Board and measures to be taken upon its consideration;
- Amendment to the Bank's Charter;
- Changes in the Bank's authorized capital;
- Bank type changes;
- Stock placement;
- Placement of securities convertible into shares;
- Crushing or consolidation of shares;
- Placement of securities, except for the shares and other securities convertible into shares, in an amount that is equal to or greater than 25 percent of the value of assets in accordance with the latest annual financial statements of the Bank;
- Cancellation of redeemed shares of the Bank;
- Matters regarding procedure for holding General Meeting;
- Approval and amend of regulations on the General Meeting, the Supervisory Board, the Management , the Revision Commission;
- Approval of the regulation on remuneration of the members of the Supervisory Board of the Bank;
- Approval of the report on remuneration of the members of the Supervisory Board of the Bank;
- Election of members of the Supervisory Board, to approve the terms and conditions of civil law agreements (contracts), that will be executed with them, to determine their remuneration, including incentive and compensatory payments, the election of a person authorized to sign civil contracts with members of the Supervisory Board;
- Termination of the powers of the members of the Supervisory Board, except in cases established by law;
- Deciding on the consequences of reviewing the report of the Supervisory Board, the Management Board, the Audit Commission;
- Election of members of the Revision Commission, termination of their powers and authorities before the expiry date;
- Approval of corporate governance guidelines (code) of the Bank;
- Distribution of profit and loss coverage;
- Approval of the amount of annual dividends;
- granting consent to a significant transaction, if the market value of property, works or services underlying such transaction exceeds 25% of the value of Bank's assets pursuant to its latest annual financial statements, and to pass a resolution on granting consent to a significant transaction if the market value of property (works, services) underlying such transaction is equal or exceeds 10% of the value of assets according to the latest annual financial statements of theBank, if such transactions relate to the alienation of domestic government loan bonds in favor of the National Bank of Ukraine;
- committing interests with interest in accordance with the legislation and the Bank's Charter;

- spin off and terminate the Bank, to liquidate the Bank, to elect a liquidation commission of the Bank, to approve procedure and timeframe for the liquidation, to approve procedure for the distribution of property remaining after the satisfaction of creditors' claims among the shareholders, and to approve the liquidation balance sheet;
- Election of a termination commission for the Bank;
- Non-exercise of the pre-emptive right of shareholders to purchase shares of additional issue in the process of their placement;
- Resolution of other issues that fall under the exclusive competence of the General Meeting in accordance with the current legislation and the Bank's Charter.

The Annual General Meeting shall be held no later than 30 April in the year following a reporting year. All other General Meetings, other than Annual General Meeting, shall be deemed extraordinary. The National Bank of Ukraine shall be entitled to request the convocation of an extraordinary General Meeting.

Information relating to the General Meeting is disclosed in accordance with the procedure established by the current legislation of Ukraine and the Bank's Charter.

The Supervisory Board

The Supervisory Board is a management body of the Bank, which protects the rights of depositors, creditors and shareholders of the Bank, and, within the competence defined by the legislation and the charter of the Bank, monitors and regulates the activities of the Management Board. The Supervisory Board does not participate in the current management of the Bank.

The Supervisory Board reports to the General Meeting about its activities, the general state of the Bank and its actions aimed at achieving the purpose of the Bank's activities.

The competence, structure, procedure, rights, responsibilities and responsibilities of the Supervisory Board are determined by the current legislation of Ukraine, the Charter and the Regulations on the Supervisory Board of the Bank.

The exclusive competence of the Supervisory Board in accordance with the Charter of the Bank include:

- General issues related to the Bank's activities (approval of the bank's development strategy in accordance with the main directions of activity determined by the general meeting of the Bank participants, approval of the business plan of the Bank development, control over the implementation of the Bank's main activities).
- Issues related to the financial activities of the Bank (approval of the budget of the Bank, including the budget of the internal audit, approval of the draft annual financial report of the Bank before its submission to the General Meeting, approval of the plan for restoration of the Bank, determination of the Bank's credit policy, decision making on the placement of the Bank of securities, preliminary consideration by the Board of Directors of the draft resolution on losses and distribution of profit, approval of dividend policy with subsequent approval by the General Meeting, approval of the provisions on the Bank's funds, subsidiaries, approval of the market value of the Bank's property, the decision to elect the Bank's property appraiser, the decision to elect a depositary institution that provides the Bank with additional services, and/or a clearing institution and approval of the terms of the agreement.
- Personnel matters (appointment and dismissal of the Chairman and members of the Management Board, approval of the terms of civil law, employment contracts concluded with the Chairman and members of the Management Board, determination of the amount of remuneration to the Chairman and members of the Management Board, the decision to appoint a person, acting Chairman of the Management Board, appointment to the position and dismissal of the head of the internal audit unit of the Bank, approval of the terms of civil law, labor contracts concluded with employees of the internal audit unit, establishment the size of their remuneration, the election and termination of powers of the chairman and members of other bodies of the Bank).
- Issues concerning the organizational structure of the Bank (definition of the organizational structure of the Bank, approval of internal regulations governing the activities of the Bank, except those that are assigned to the exclusive competence of the General Meeting, and those that were submitted to the Management Board for approval, approval of the report on remuneration of board members, decision making regarding the establishment and participation of subsidiaries, their reorganization and liquidation, approval of their statutes and regulations).
- Matters related to the system of internal and external control, risk management and financial monitoring.
- The matter of providing the activities of the General Meeting and interaction with the shareholders.
- Control and supervisory powers: the establishment of limits on transactions that may be made by decision of the Management Board, setting of limits on the maximum amount of loans to one related person to be provided at the decision of the Management Board in accordance with the economic standards established by regulatory acts of the NBU; establishment of the limits of authority of the Management Board for writing off at the expense of the provision for compensation of possible losses due to active banking operations; approval of the procedure for alienation of the property of the Bank, making a decision on investing in authorized capital of other legal entities through membership of legal entities, the termination of participation; Granting consent to commit significant transactions; making decisions on the

Bank's conclusion of agreements with related parties in cases and in the manner prescribed by the current legislation of Ukraine, initiation, if necessary, of extraordinary audits and special audits of financial and economic activity, control over the activities of the Board of the Bank, making suggestions for its improvement, analysis actions of the Management Board concerning the management of the Bank, implementation of investment, technical and pricing policies; assessment of the work of the Chairman of the Management Board and the Board as a collegial body, the definition of the audit firm for conducting external audits, approval of the terms of the contract, which concludes with it, setting the amount of payment for services; consideration of the conclusion of the external audit of the Bank and the preparation of recommendations to the general meeting of the bank participants to make a decision on it; Control over the removal of problems identified by the National Bank of Ukraine and other governmental authorities and administrative bodies, which exercise supervision within the scope of their competence over activities of the Bank, internal audit unit and the audit firm, on the basis of results of external audit; consider reports of the Management Board on the implementation of the main directions of the Bank's development, development strategy (strategic development plan) for the Bank, budgets, business plan of the Bank's development, capitalization programs, restructuring plans and capital investments.

- Other issues: Pass a resolution on the establishment of committees of the Supervisory Board and approve their regulations, to elect and terminate powers of the chairpersons and members of such committees; ensuring timely provision by the Bank of reliable information regarding its activities in accordance with the legislation; Resolving on other matters referred to the exclusive competence of the Supervisory Board in accordance with laws of Ukraine, Regulations on the Supervisory Board or transferred to the resolution of the Supervisory Board by the General Meeting.

The Supervisory Board of the Bank shall take steps to prevent conflicts of interest in the Bank and facilitate their settlement.

The Supervisory Board consists of 7 persons elected from among persons representing the interests of the Bank's shareholder and independent members. The majority of Supervisory Board members should be independent members.

For the purpose of effective overall management and control of the Bank's financial and business activities, as well as the proper performance by the Supervisory Board of its responsibilities, the members of the Supervisory Board shall have appropriate professional qualifications, qualifications, education, experience and business reputation. Additional requirements for members of the Supervisory Board shall be established by the current legislation of Ukraine.

Verification of the professional and qualification compliance of the members of the Supervisory Board, compliance with the requirements of Ukrainian legislation and bank legal requirements regarding business reputation and professional suitability is carried out in each case, when it is necessary, in accordance with the requirements of the legislation of Ukraine.

Independent members (directors) are elected to the Supervisory Board in order to ensure objective and impartial control over the Board's activities and to ensure effective management in the interests of shareholders, the number of which must comply with the requirements of the legislation.

Following the results of the year, the Supervisory Board reports to the General Meeting about its activities.

Meetings of the Supervisory Board shall be held on an as-needed basis, but at least once per full calendar month.

The Supervisory Board may set up temporary and permanent Steering Committee committees that assist the Supervisory Board in the exercise of its powers through prior examination and consideration of the most important issues that fall within the competence of the Supervisory Board. The list of such committees, procedure for their formation and their functions shall be determined by applicable law, Charter of the Bank, Regulations on the Supervisory Board and by regulations on relevant committees as approved by the Supervisory Board.

The Supervisory Board must establish the following committees:

- Audit Committee;
- Risk Committee;
- Remuneration and Appointment Committee.

The above mentioned committees shall be composed of at least three members of the Supervisory Board, which shall be independent. The Committees of the Supervisory Board are headed by independent members.

On the proposal of the Chairperson of the Supervisory Board, the Supervisory Board may elect a corporate secretary in accordance with the established procedure. The corporate secretary shall be responsible for the Bank's interaction with the shareholder.

The Management Board

The Management Board is the executive body of the Bank, which organizes and manages the Bank's current activities in accordance with the current legislation of Ukraine, the Bank's Charter and other internal documents of the Bank. The Management Board shall be accountable to the General Meeting and the Supervisory Board and shall ensure the implementation of their resolutions.

The Charter, the Regulations on the Management Board determine the competence, structure and procedure of the Bank's Management Board. The Management Board shall be competent to address all matters in connection with the management of current operations of the Company, except for matters referred to the exclusive competence of the General Meeting and the Supervisory Board.

The Management Board shall be accountable to the General Meeting and the Supervisory Board and shall ensure the implementation of their resolutions. The Management Board shall act on behalf of the Bank within the limits established by applicable law, Charter and Regulations on the Management Board.

The Management Board shall be competent, among other things, to:

- agree upon and ensure the preparation for approval by the Supervisory Board of a draft development strategy (strategic development plan) for the Bank and business plan of the Bank, to approve operational plans and to monitor their implementation; draft budgets of the Bank, including the budget of internal audit unit;
- implement the strategy and business plan of the Bank's development;
- determine the form of, and establish procedure for, the monitoring of the Bank's activities;
- implement the risk management strategy and policy as approved by the Supervisory Board, to ensure the implementation of risk identification, assessment, control and monitoring procedures;
- address matters in accordance with resolutions of the Supervisory Board on the opening, reorganization and liquidation of separated units of the Bank;
- ensure security of information systems of the Bank and of the systems of safekeeping of client assets;
- inform the Supervisory Board on the performance of the Bank, discovered violations of legislation, internal regulations of the Bank and on any deterioration in the financial position of the bank or a threat of such deterioration, on the level of risks that arise in the course of the Bank's activities;
- prepare annual report of the Bank, submit such report to the Supervisory Board for approval prior to its submission to the General Meeting;
- organize business operations of the Bank, financing, accounting and reporting;
- ensure organizational support (by resolution of the Supervisory Board) in connection with convening and holding regular and extraordinary General Meetings;
- make a decision on the establishment of permanent committees of the Bank, expect for those establishment of which is within the competence of the Supervisory Board according to the legislation and this Charter, to approve their regulations, to determine their rules of procedure, to appoint heads and deputy heads of such committees. If such committees of the Bank make part of the organizational structure of the Bank, the decision shall be taken with due regard to the organizational structure of the Bank as determined by the Supervisory Board;
- Decision on the acquisition by the Bank of corporate rights as a result of foreclosure with the purpose of exercising such corporate rights or for further resale thereof during a period not exceeding one year from the date of acquisition thereof, shall be made by the Management Board independently within the scope of authorities of the Management Board as approved by the Supervisory Board.
- Approve internal documents of the Bank, including those that determine terms and procedures and accounting policies in respect of banking transactions and that regulate current activities of the Bank, except for those referred to the competence of the General Meeting and the Supervisory Board. To develop internal regulations that govern activities of structural and standalone units of the Bank in accordance with the development strategy of the Bank, and other regulations which according to the legislation and this Charter are approved by the Supervisory Board, to agree upon the same and to ensure preparation of such regulations for approval by the Supervisory Board;
- Prepare reports of the Management Board to the Supervisory Board on the implementation of the priority directions for the Bank's development, development strategy (strategic development plan) for the Bank, budgets, business plan of the Bank, capitalization programs, restructuring plans and capital investments;
- form organizational structure of the Bank as determined by the Supervisory Board;

- determine the basic principles of remuneration and material incentives of employees of the Bank;
- Determine the organizational structure of the Head Office of the Bank, develop and approve regulations on structural units of the Head Office of the Bank;
- Manage activities of structural units and subsidiaries of the Bank, to ensure fulfillment of their tasks;
- Make a decision regarding proposals of the responsible officer of the Bank related to the Bank’s compliance with the requirements of Ukrainian AML/CTF legislation;
- Make a decision, within the scope of authorities of the Management Board as approved by the Supervisory Board, to write off debts (receivables, debts on securities and other corporate rights, excluding securities, debt on credit operations, debt on monetary funds kept in correspondent accounts in other banks) and other receivables treated as a bad debt in accordance with the Ukrainian legislation, from the provisions for covering potential losses from active banking operations;
- Determine information that constitutes commercial secrets and confidential information of the Bank, to determine procedure for its use and protection;
- Ensure the implementation of resolutions of the General Meeting and the Supervisory Board;
- Make decisions on the conduct by the Bank of transactions with its related entities in cases and in the manner prescribed by applicable law of Ukraine;
- Make decisions on sale and determination of recommended (initial) price of disposal (sale) of immovable property of the Bank, except for those referred to the competence of the General Meeting or the Supervisory Board, according to the procedure of disposal (sale) of the Bank’s property.
- Address other matters except for those referred to the exclusive competence of the General Meeting or the Supervisory Board.

The Chairman of the Management Board manages the Bank's Management Board and manages its work in accordance with the powers determined by the current legislation of Ukraine, the Bank's Charter, the Regulations on the Management Board of the Bank and decisions of the General Meeting, the Supervisory Board and the Management Board.

The Management Board shall consist of at least 5 persons, including its Chairperson. The composition of the Management Board shall be appointed by the Supervisory Board.

The Chairman and members of the Management Board are responsible for the Bank's activities within its authority.

Verification of the professional and qualification compliance of the members of the Management Board, compliance with the requirements of Ukrainian legislation and bank legal requirements regarding business reputation and professional suitability is carried out in each case, when it is necessary, in accordance with the requirements of the legislation of Ukraine.

In order to increase the efficiency of the work of the Management Board, permanent collegial bodies (committees) are formed, whose activities are regulated by separate internal documents of the Bank.

Following the results of the year, the Management Board reports to the General Meeting and the Supervisory Board. An evaluation of the activities of the Chairman and members of the Board is carried out annually by the Supervisory Board.

The Revision Commission

The Revision Commission is a control body whose task is to exercise control over the financial and business activities of the Bank.

The Revision Commission acts on the basis of the current legislation, the Charter of the Bank, and the Regulations on the Revision Commission.

The Revision Commission reports to the General Meeting about its activities, the general state of the Bank and its actions aimed at achieving the purpose of the Bank.

The Revision Commission is elected by the General Meeting for 3 years in a number of 3 persons.

Members of the Revision Commission shall be elected by the General Meeting. The Revision Commission shall exercise its authorities until the new composition of the Revision Commission is elected. The term of office may not exceed 5 (five) years

The Revision Commission shall:

- carry out audits of financial and business activities of the Bank in a financial year.
- at least once per year, submit to the General Meeting its report and opinion on the results of audits of financial and business activities and reliability of financial statements of the Bank for the previous (reporting) year.
- submit to the General Meeting or Supervisory Board proposals on any matters referred to the competence of the Revision Commission, which relate to the financial security and stability of the Bank and the protection of client interests.

The Revision Commission shall carry out audits of financial and business activities of the Bank by order of the General Meeting or the Supervisory Board. The Revision Commission may engage external and internal experts and auditors (auditing firm) to carry out audits and inspections. The Revision Commission shall report the results of audits and inspections to the General Meeting or the Supervisory Board.

Meetings of the Revision Commission shall be held on as-needed basis, but at least once per year. Extraordinary meetings of the Revision Commission may be convened by the Supervisory Board.

Audit

The Bank shall establish an internal audit unit that shall be part of the internal control system and carry out audits of activities of the Bank (and its structural units).

The Internal Audit Department performs the following functions:

- verify the availability and evaluate the efficiency of risk management systems, their adequacy to the types and volumes of operations carried out by the Bank, and internal control of the Bank;
- examine the process of capital adequacy assessment in view of the risks of the Bank;
- monitor compliance of the executives and employees of the Bank with requirements of legislation and internal regulations of the Bank as approved by the Supervisory Board;
- asses information and technical support of the management and operations;
- verify the accuracy and reliability of accounting and financing reporting;
- inspect financial and business activities of the Bank;
- verify compliance of Bank employees with qualification requirements and examine performance of their professional duties;
- identify and examine abuses of powers by the Bank's officers and conflicts of interest in the Bank;
- verify the accuracy and timeliness of the delivery of information to public authorities and administrative bodies, which exercise supervision over the Bank's activities in accordance with the their competence;
- prepare and submit to the Supervisory Board of the Bank reports and proposals on remedying identified breaches;
- perform other functions related to the supervision over the Bank's activities.

The internal audit unit shall be subordinate to the Supervisory Board and shall operate under the Regulations on the Internal Audit Unit, as approved by the Supervisory Board in accordance with applicable law of Ukraine.

The internal audit unit shall report on its activities to the Supervisory Board at least once per year.

To verify and confirm the authenticity of annual financial statements, consolidated financial statements and other information on financial and economic activities, the Bank annually engages an independent auditing company that is not linked to property interests with the Bank or its shareholders, which has a corresponding license and is included in the Register of Audit Firms, which are entitled to conduct audits of banks) conducted by the National Bank of Ukraine.

In 2018, the Bank approved a new organizational structure that is in line with the world's leading corporate governance practices and the existing domestic regulatory framework. At the end of the year, the Management Board was composed of:

Krumhanzl P., Chairman of the Board

Dreling O.G., Board Member (Information Technology)[1]

[1] Performed duties until February 2019. New Member of the Board on Information Technology is Gritsynuk A.V.

Lebedynets I.A., Board Member (Compliance, Anti Money Laundering and Legal Issues)

Pachachuk G.D., Deputy Chairman of the Management Board (Bad Assets Management and Treasury)

Samarina G.Yu., Deputy Chairman of the Management Board (Finance)

Sergeev O.M., Board Member (Corporate business)

Kharitich SV, board member (E-commerce)

Chernyshova L.P., Member of the Board (Risk management)

Shaban O.V. (Member of the Board (Retail business)

The Board also includes the position of the Management Board member on operational activity, the selection of candidates for which is in the process.

The Strategy and Transformation office, Regional Network Management Division and the HR and Corporate Governance Division were created during 2018 with directly subordination to the Chairman of the Board in accordance with the strategic priorities of the Bank.

Business model

The Bank provides universal service to a wide range of clients, being the leader of the Ukrainian market in the retail segment, actively promoting services for small and medium-size businesses and selectively working in the corporate sector. The base of the Bank's resource is the funds of individuals in the national currency, with a significant share of current accounts. The strategic goal of the Bank is to build a high-quality loan portfolio of retail loans and SME loans. The Bank has a high-powered Transactional Platform Privat24, which allows to manage customer accounts for all segments effectively and generates the high level of commission income. Along with online services, the Bank has a wide network of branches, ATMs and self-service terminals that allow to serve clients throughout the country (excluding temporarily occupied territories).

Goals of management and strategies for their achievement

2018 was a year of transformation processes in the Bank, this was the year the Ministry of Finance of Ukraine approved the Bank's Development Strategy till 2022, for which the Board of Directors has developed an action plan and strategic projects. The Supervisory Board approved a new organizational structure in accordance with the best practices of corporate governance, and the composition of the Board of Directors was updated.

The priorities of the Bank's activities were and will continue to improve the quality of customer service, with the obligatory observance of the legislation requirements, the development of lending with a high quality of loan portfolio, improvement and development of banking products / services, optimization of infrastructure. All these actions led to an increase in the Bank's financial performance: already in the first quarter, the Bank has been profitable and finished the year with a record profitability for the Ukrainian banking system.

The Bank pays serious attention to the research and development, stimulate the development of innovations in the organization (data science technology, machine learning, agile methods in project management, innovation awards, the hackaton events). The Bank’s efforts in this area are aimed the new products development and improvement of services for customers availability. The Bank also develops a network of ATMs and terminals, updating their software and adding new service.

Ecological and social aspects of activity

First of all, the Bank's social position is its status as one of the best employers in Ukraine. Thus, in 2018 PrivatBank is in the TOP-20 employers of Ukraine, and also received an award "HR-brand Ukraine 2018". The Bank provides its employees with competitive employment conditions, provides a full social package and additional benefits in the form of preferential lending for morgage and cars, providing advice on legal issues, ensuring the safety of employees and their family members. 4% of the bank’s employees are people with disabilities.

PrivatBank, as a socially responsible institution, increases the inclusiveness of the branches, provides and organizes comfortable conditions for the servicing of persons with disabilities. All new offices and branches that are re-equipped, are obligatory equipped with ramps. According to the schedule of the NBU, in 2019 the bank has to make premises, where clients are served, available for low-mobility groups - at least 50% of all premises in Kyiv and cities with a population of more than 300 thousand people and at least 30% of all premises located in other towns.

Also, the Bank has a home-based customer service program for clients with disabilities and low- mobility clients. On request, employees provide the delivery of bank cards at the specified address, teach and advise on remote servicing through the Internet-bank Privat24, help to carry out banking operations.

In addition, Privatbank has been increasing the financial literacy of pupils in the large-scale educational project "Junior Bank" for almost 10 years. More than 50,000 children visited interesting excursions to PrivatBank branches in 2018, that open the secrets of professions and processes in the largest bank of Ukraine. Top managers and the best specialists of the bank conduct free master classes on managing their own finances, family budget, oratory skills. In total over 672,000 pupils have attended the educational events of PrivatBank during 10 years.

Charity activity of PrivatBank is aimed to support a number of programs, in particular the program "For Life", the charity fund "To help simple", help to the army and the wounded in the ATO, addressing the seriously diseased. It is very easy to join to the good affairs and contribute to the fund. Everyone can join and transfer money to charity on the site of the fund blago.privatbank.ua, in the Internet bank Privat24, in any PrivatBank ATM or Terminal throughout the territory of Ukraine. The Fund "To help simple" work is as transparent as possible. Each benefactor receives a message about how his money was used. More than 1.4 million patrons joned to the fund and already donated to charity programs more than 100 million UAH.

The Bank implements a number of programs in the sphere of environmental protection, the first among which is paper-less customer service. For example, during 2018, the share of cash documents signed by customers using an electronic digital signature is 34% (0% in 2017) and continues to increase (target in 2019 to achieve a share of such operations at 70%). Also, the Bank uses the ecological collection technology, on which 99.05% of the documents signed electronically.

The basis of the economy of any country is a small and medium business. The prosperity of the country as a whole depends on the stable development of this sector. To support entrepreneurs, PrivatBank provides a CUB (Country of Successful Business) program that includes not only cheap lending and incentive programs for start-up entrepreneurs, but also free couching and training for business owners and those who are just planning to open their business. According to the results of 2018, the volume of small and medium-sized businesses financing by PrivatBank has exceeded 6 billion hryvnia. In 2019 the bank plans to allocate at least UAH 8 billion to Ukrainian business financing programs.

Resources, risks and relationships

Resources

The keys in the Bank's activity are financial, labor and technological resources.

The sources of financial resources for the Bank are:

A) Capital, consisting of share capital and reserve funds. Taking into account the losses incurred in past years due to the former beneficial owners transactions, the bank has accumulated deficit, which is covered by contributions to the share capital during the year 2017.

B) Clients' funds, of which at the end of 2018, about 50% were current highly diversified accounts, mainly individuals accounts. Due to the low concentration of the client base, the Bank has stable current liabilities, which provide low cost of attracted resources compared with competitors.

B) Funds of the interbank market and refinancing of the NBU. Bank does not rely on this type of resources in its liquidity management policy, using them only in exceptional cases and in limited quantities.

The Bank's management policy is aimed to efficient management of all types of resources, improvement of Bank financial performance and increase the value of its assets. Consequently, an important element of corporate governance is the regular development, review and approval of the Strategy, as well as the identification of the priorities of each business activities and the Bank as a whole.

As part of the management system, the Bank uses budget management and planning as well as a system for monitoring the implementation of plans and evaluating the Bank's performance.

The Bank's internal normative documents establish qualitative and quantitative indicators of activity in business areas, which allow assessing the activities of various divisions of the Bank.

The most valuable resource of the Bank is its staff, the Bank's successful work, further development and implementation of the Strategy depend on staff. As of January 1, 2019 the Bank employs more than 22 thousand employees, with a monthly recruitment of over 400 candidates.

The Code of Conduct (Ethics) has been approved by the Bank for the purpose of a corporate culture establishing, defining the ethics of team relations, respecting employees to clients, to each other to management and business. In accordance with the Code of Conduct (Ethics) in the sphere of human resources management and respect to human rights, the Bank:

- Values its employees, creates conditions under which everyone can fully realize their professional potential.
- Involves in its team and promotes the best employees on actively and consistently basis, regardless of age, gender, religion, beliefs or nationality, and rewards them for success in their work.
- Respect human dignity and identity and believe in the importance of an atmosphere of trust and cooperation.
- Creates conditions for open and timely communication, healthy working microclimate, observance of safety, provides an opportunity for individual growth and self-affirmation of employees.
- Interested in the proper observance of labor laws.

Recognizing that investing in skilled staff is the basis of long-term success, the Bank cares about raising the skills of employees, their motivation, and social security. The Bank increases the professional level of employees. The Bank pays constant attention to the improvement and strengthening of the corporate culture, workers health care and the safety of their working conditions.

At the same time, the Bank's key resources are technological resources. In this area, on the one hand, the Bank develops customer service through the automation of a significant part of business processes, builds a comprehensive system of sellers training, develops technologies for business supports; on the other hand, develops its organizational structure, which will allow to implement the changes and manage the Bank more efficiently (the new organizational structure of the Bank approved by the Supervisory Board in July 2018). In addition, the Bank supports the stability of its IT system, develops its target architecture, implements projects to develop and support critical systems.

Organization of risk management and internal control

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

In the reporting year, changes were made to the organizational structure of risk management, in particular, the Risk Committee of the Supervisory Board was established, direct subordination of the member of the Management Board (on risk management issues) directly to the Supervisory Board was ensured, the risk assessment functions were transferred directly to the Block of Risk Management Units subordinate to the member of the Management Board (on risk management issues). This ensures the independence of the risk assessment function.

Risk management system is created and acting in the Bank for the purpose of efficient risk management; it provides distribution of rights and obligations, responsibilities between governing bodies and business divisions of the Bank, separation of risk identification and assessment processes, processes of efficiency evaluation of risk management system from risk acceptance processes.
The parties of the Bank's risk management system are:

- Supervisory Board;
- Audit Committee of the Supervisory Board;
- Risk Committee of the Supervisory Board;
- Management Board of the Bank;
- Risk Committee of the Management Board
- Credit Committee;
- Asset and Liability Management Committee;
- Internal Audit;
- Block of Risk Management Units;
- Compliance Direction;
- Treasury Department;
- Assets, Liabilities and Investments Analysis Department;
- Other support divisions (Back and Middle Office);
- Business divisions that directly accept risks.

The Bank's significant risks and management approaches (Mitigation and Potential opportunities Plan) are as follows.

Credit risk. The Bank shall face credit risk defined as risk of financial losses incurred by one Party of transaction with financial instrument to the other Party of this transaction due to failure to perform obligations under an agreement. Credit risk rises in result of loan and other transactions of the Bank with its counter-parties leading to creation of financial assets.

Credit policy of the Bank shall define common basis for credit process conduct and credit risk management, shall establish common approach to credit risk acceptance, principles and standards of credit activity, shall establish powers and responsibility of governing bodies, employees and structural divisions of the Bank at each stage of credit process, shall provide comprehensive approach to credit risk management.

Credit risk management shall be performed on basis of regular assessment of borrower and potential borrower capacity to perform their obligations of loan repayment and interest payment, regular analysis of loan portfolio quality with goal of credit risk monitoring, by the way of change, if necessary, of credit limits via pledge receipt, assessment and re-evaluation of the pledge with established regularity, by receipt of corporate and personal warranties and other means of risk mitigation.

For the purpose to limit risks faced by the Bank due to credit transactions the Bank has the following system of authorities to making resolutions on credit transactions.

Also information System shall allow the management to perform timely and regular monitoring of loans. The Bank shall regularly monitor risk based on each loan. For this goal it shall perform: (i) review of financial state of a borrower and his position at the market, and (ii) assessment of loan collateral adequacy. The borrower's financial state and his position at the market shall be regularly analyzed and the internal credit rating of borrower shall be reviewed in accordance with results of this assessment. This assessment shall be based on data concerning funds income to client account, recent financial reports and other commercial information of the borrower provided to the Bank or received by the Bank by any other way.

The Bank shall perform regular monitoring of market value of the collateral to assess its sufficiency for certain loan coverage. Assessment of collateral shall be performed by independent companies, assets values, certified by the Bank or qualified as internal values. Regularity of these assessments shall depend on type of pledge.

The Bank shall record credit histories of clients. It allows the Bank to control the level of credit risk by working with borrowers with a positive credit history.

Market risk. Market risk is a probability of occurrence of losses or additional expenses or a shortfall in the planned revenues as a result of unfavorable changes in the foreign exchange rates, interest rates, cost of financial instruments and commodities (market quotation, indexes, etc.) The Bank's policy strategic task in area of market risk management is minimization and prevention of possible losses that can arise in case of market conditions change.

Currency risk. Currency risk is risk of change in value of financial instruments owned by the Bank due to currency exchange rates variations.

The Bank policy related to currency exchange positions shall comply with the Ukrainian legislation establishing regulatory limits for these positions. Bank shall perform daily control of compliance with regulatory limits and currency exchange positions.

Interest rate risk. Interest rate risk in the banking book is a probability of occurrence of losses or additional expenses, or a shortfall in the planned revenues due to the effect of unfavorable changes in the interest rates. Interest rate risk shall impact on economic value of the Bank capital and net interest profit of the Bank.

The Bank's policy strategic task in area of interest rate risk management is minimization and prevention of possible losses that can arise in case of market conditions change. The Bank shall be faced by financial losses risk due to interest rates changes for assets and liabilities, mainly as a result of fixed interest rate loans granting for terms and in amounts different from terms and amount of liabilities with fixed interest rate.

The Bank shall perform stress-testing of interest rate risk to define the conditions under which the Bank faces risks of losses and to define amount of these losses and impact on the Bank interest income. Stress-testing shall be performed by means of net interest profit sensitivity analysis to interest rate change based on suggestion that rates are increased or decreased by a certain number of basic points.

Liquidity risk. Liquidity risk is a probability of losses or additional expenses, or a shortfall in the planned revenues as a result of the Bank's inability to finance the growth of its assets and/or fulfil its obligations in due time.

Strategic tasks of the bank policy in area of liquidity risk management shall be: liquidity indicators keeping at level higher the regulatory level, minimization of liquidity risk by keeping of sufficient amount of high quality liquid assets as possible source of pledge for case of stressing situations implementation, limits of borrowed funds concentration by formation of diversifying resources base, etc.

The Bank strives to support stable form of financing, develop sources of funds, in first turn, funds of individuals and legal entities.

Liquidity risk control shall be implemented via compliance with regulatory liquidities ratios (immediate, current and short-term), including LCR ratio, and limits and requirements by liquidity GAPs, amount of high quality liquid assets, funding sources concentrations.

The Bank shall calculate regulatory liquidity ratios established by the National Bank of Ukraine on a daily basis. Reports on actual values of liquidity ratios shall be used by Treasury for daily liquidity management. The Bank Treasury shall manage current liquidity, analyses schedules of payments, manage liquidity position within working day by placing and borrowing of short-term funds at interbank market, purchase or sale of securities, or by other available financial instruments. Treasury also shall analyse possible consequences of outflows of essential amounts of funds to maximally reduce probability of unexpected changes of resources volumes. Treasury shall ensure compliance with requirements of mandatory reserve and regulatory liquidity ratios.

Contingency Funding Plan was developed to manage liquidity in crisis periods. It contains a list of possible reasons leading to crisis, signs of crisis and list of measures on crisis events localization and liquidation. The Plan establishes responsible bodies for certain measures and procedure of their interaction. The Bank also shall provide stress-testing of liquidity by scenarios that include possible unfavorable conditions.

The distribution of functions between the management bodies of the Bank provides an effective system of management and internal control. Such an internal control system includes activities:

- Management bodies of the Bank (General Meeting of Shareholders, Supervisory Board, Management Board).
- Audit Commission;
- Internal Audit Department.
- Chief accountant and his deputies.
- Heads of separate structural subdivisions (branches, outlets) of the Bank.
- Risk Management.
- Compliance control.
- Heads of units and employees who carry out internal control in accordance with the determined functions in the internal documents of the Bank, including the responsible person for anti money laundering and terrorist financing.

The internal control system covers all stages of the Bank's operations and includes:

- preliminary control carried out before the actual operations of the bank are provided in terms of recruitment, attraction and placement of funds, material resources, choice of suppliers of goods, works and services, development and introduction of new products;
- current control, which is carried out during operations of the Bank, and includes control over observance of laws and acts of internal regulation of the Bank regarding the implementation of these operations, the order of decision-making on their implementation, control over the complete, timely and accurate reflection of transactions in accounting and reporting, control for the preservation of the Bank's property;
- further control carried out after the operations of the Bank are to verify the validity and correctness of transactions, the compliance of the documents with the established forms and requirements for their execution, the compliance of the duties performed by the employees with their official instructions, the identification of the causes of violations and shortcomings and the determination of measures for their elimination, control over performance of the planned performance indicators, defined in the strategy of the Bank development, its business plans and budget, verification of completeness and reliability of the tribute financial, statistical, administrative, tax and other reports, the existing Bank.

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

- control of the Bank's executives for compliance with the legislation of Ukraine and acts of internal regulation of the Bank;
- division of responsibilities during the Bank's activities;
- control over the risk management system;
- control over information security and information exchange;
- introduction internal control procedures;
- monitoring of the internal control system;
- introduction of internal audit procedures.

The Bank shall implement and maintain the compliance function in keeping with laws and regulations of the National Bank of Ukraine and best international practices.

The Bank identifies compliance as conformance to provisions of law, regulatory guidelines and rules, self- regulating organizations, industry- specific and common banking standards and Code of Conduct (Ethics) governing the issues related to adherence to good behavior principles in the market, management of conflicts of interest, handling of such issues as anti-money laundering and counter-terrorist financing, investigation of corruptive and fraudulent practices.

The Bank shall assess its own conformance in the three compliance areas:

(1) Institutional compliance includes issues of corporate governance, internal structure and decision-making process, principles of corporate social accountability, information disclosure policy, reporting on the Bank's development and compliance with internal procedures.

(2) Operational compliance includes an assessment of regulatory and reputational risks inherent in the Bank's operations, and compliance with AML, CTF and KYC principles.

Furthermore, operational compliance covers the issues of conformity during development and implementation of new products or business practice.

(3) Compliance in the domain of conflicts of interest, anti-corruption laws, insider information and other matters associated with the professional conduct of the members of management and supervisory bodies of the Bank and the Bank's staff.

To avoid significant compliance risks the Bank shall not participate in transactions undertaken by customers to avoid requirements regarding regulatory and financial reporting, or to evade tax liabilities. The Bank shall not facilitate illegal and unlawful conduct of its customers.

Compliance risk is inherent in business operations, therefore the compliance risk management in the Bank is considered an essential activity. Compliance risk identification, assessment and proper management are elements of any business process required to implement relevant countermeasures for the purpose of risk mitigation. The Bank is committed to reducing the compliance risk, taking into account the nature, scale and complexity of its business.

Corporate Ethics Code

All the Bank's management bodies operate on the basis of the Code of Conduct (Ethics).

The corporate conduct at PrivatBank is based on the rules of law, transparency, competence and respect for the rights and interests of customers, Bank lenders, shareholders and Employees, and aims to enhance the Bank's performance, maintain its financial stability and profitability.

The Code covers:

- Values and principles of conduct (ethics);
- Prohibition of illegal activities;
- Relations between the Bank and its customers, employees, suppliers and competitors;
- Business ethics;
- Conflict of interests;
- Bank's assets Preservation;
- Gifts and remuneration;
- Responsibility for non-compliance with the Code, etc.

Corporate values of the Bank are:

Customer relations: The Bank is committed to the highest customer service standards and to protecting the interests of each customer. The Bank develops transactions, products and operations guided by the principle of reasonable conservatism. The Bank is dedicated to assuring transparency in its relations with the customers and providing them with reliable information about its services. The Bank seeks long-term relationships with its customers.

Staff relations: The Bank's staff is key to its success. The Bank is proactive and consistent in engaging and distinguishing the best employees irrespective of their age, race, sex, religion, convictions or nationality, and rewards them for their performance. The Bank values its staff and maintains an environment where every Employee has the opportunity to explore their professional background. The Bank respects human dignity and personality and believes that an atmosphere of trust and cooperation is essential.

Shareholder relations: In its relations with shareholders the Bank is committed to pursuing transparency and complying with the following corporate governance principles: respect and enforce rights of the shareholders, always act in their interests, provide timely information disclosures, follow an active communications policy, enhance the visibility and availability of information by improving the quality of reporting and accounting.

Relations with government authorities: The Bank upholds neutrality with regard to business groups, political parties and associations, and operates in the interests of its depositors, customers, Bank lenders and shareholders. The Bank's employees must conduct business with government authorities strictly outside their personal interests and without any inappropriate influence on the decision-making.

Business Ethics

PrivatBank managers are committed to nourishing in their subordinates a sense of involvement in the Bank's high performance by creating a staff of fellow thinkers striving to achieve the strategic goals at hand.

Managers must treat the requests of Bank Employees in all seriousness.

Managers must respect the personal dignity of their subordinates.

Bank employees must take steps to address the causes and conditions complicating or preventing them from due performance of their job, and immediately notify the Bank's management and\or, the Compliance Division about such events and also refrain from actions which may damage the Bank.

Conflict of interests

Bank employees should avoid situations which may be perceived as a conflict or interest or which may put the Employees, their colleagues, the Bank or shareholders in an awkward position

Bank managers and employees shall not engage in activities where their interests may conflict with the Bank's interests or be perceived as a conflict of interest. Furthermore, employees shall not be involved in such activities directly or indirectly through family members or individuals acting on their behalf. The term "family member" is disclosed by means of the definition of associated persons in accordance with the provisions of the Law of Ukraine "On Banks and Banking". A "family member" shall include spouse, children (own or adopted ones) and other relatives. PrivatBank employees shall not use the Bank, its reputation or information for personal enrichment or enrichment of other persons

Anticorruption program

Bank employees, officials, managers and founders (participants) in their internal activities, as well as in legal relationships with business partners, state authorities, local governments are guided by the principle of "zero tolerance" to any corruption and will take all necessary actions obliged by law to corruption prevention.

The Bank approved the Anti-corruption Program, which is based on: the principles of the Convention against Corruption (ratified by Ukraine - Law N251-V (251-16) from October 18, 2006), in accordance with Article 62 of the Law of Ukraine "On Prevention of Corruption"; decisions of the National Agency for the Prevention of Corruption of March 02, 2017 N 75 "On Approval of the Standard Anti-Corruption Program of a Legal Entity"; taking into account the decision of the Cabinet of Ministers of Ukraine dated April 29, 2015 N 265; Statute of JSC CB "PRIVATBANK".

Anticorruption program is a set of rules, standards and procedures for identifying, counteracting and preventing corruption in the Bank's activities. The program sets standards and requirements that are not lower than those in Law of Ukraine "On Prevention of Corruption" and the Standard Anti-Corruption Program, approved by the decision of the National Agency for the Prevention of Corruption. The anti-corruption program was approved by the decision of the Management Board after discussing it with the Bank's employees. The text of the Anticorruption Program is permanently available to the Bank's employees, officials, as well as its business partners, on the official website of the Bank and internal information resources.

In accordance with the Anti-corruption Program, Bank appointed the Commissioner to implement the Program, organized the channels for sending communications about Anti-corruption program violations, corruption or corruption-related offenses, namely: a link (button) on the Bank's internal information resources to the dedicated line "Stop Corruption", the telephone number for the messages, the address of the special e-mail.

During 2018, 28 communications were received through existing communication channels regarding possible violation of the "Anticorruption Program". According to the results of the reviews: 5 cases were sent to law enforcement agencies, 1 person was convicted, 4 were released, 8 were attracted to disciplinary responsibility. 72 conclusions were drawn on the absence of corruption risks in charity providing by the Bank. 5622 business partners of the bank were under anti-corruption check in 2018.

Results of activity and further development

The Bank, along with other state-owned banks, occupied a significant position on the market in 2018: the aggregate share of state-owned banks amounted to 54.7% and 63.4%, respectively, for net assets and deposits of the population. One of the main factor of the growth of banking system net assets in 2018 was an increase of highly liquid assets (+48 bln UAH). Loan portfolio of the banking system have increased by +33 billion UAH: +11 billion USD increase of the loan portfolio of legal entities, + 22 billion UAH increase of the loan portfolio of individuals.

The growth of the Bank's loan portfolio was +11.8 billion UAH, which is the result of lending development: a) legal entities (+3.6 billion UAH) due to the traditional products (credit lines, investments) and innovative products development (CUB); b) individuals +8.1 billion UAH due to the card products (card "universal") and new products development (payment by installments).

The development of the banking sector in 2018 was accompanied by a significant increase in digital services and electronic sales channels: a) the increase in the number of active cards was +6% (from 34.9 million in 2017 to 36.9 million in 2018), b) the number of ATMs increased by 7% in state banks (from 7.2 thousand in 2017 to 7.7 thousand in 2018); c) the number of payment terminals increased from 251.7 to 292.3 thousand pcs.

The Bank continues the quantitative and qualitative development of services, which contributes to the growth of the active cards number by 4% from 19.6 million (in 2017) to 20.4 million in 2018. The number of operations in the TCO increased by 22 million compared to 2017 (+ 1 803 per 1 TCO terminal). The number of operations in the ATM in 2018 amounted to 433 million units. (59 thousand units per ATM). The number of clients of Privat24 system increased by +1.3 mln. (+ 18%).

The total number of Bank's payment terminals increased from 145.1 to 174.1 ths. in 2018. The network of ATMs (ATM and TCO) of the Bank for 2018 amounted to 19,900 pieces (the Bank share is 54% of the banking network), while the Bank installed 250 innovative cash-recycling ATMs, which significantly help to improve the quality of services and optimize ATM service costs.

According to the NBU forecast, in 2019 the growth of the banking system's funding base is expected at the level of the previous year. Banks will keep interest in retail lending. The growth of the corporate portfolio, which began in 2018, will accelerate. This will be supported by the expected commercial interest rates declining, as the NBU can move to mitigate monetary policy in 2019. NBU continues to introduce new regulations based on CRD / CRR4. During 2019 the concept of the new long-term liquidity norm NSFR will be presented, as well as a new concept of the regulatory capital structure.

According to the results of 2018, the Bank remains the leader of the Ukrainian banking sector by most positions:

- liquidity of assets: 92% of client accounts and deposits are fully covered by liquid assets. All norms of the bank far exceed the norms set by the NBU: instant liquidity was 43.46% (norm> 30%), current liquidity was 142% (norm> 40%), short-term liquidity was 98% (norm> 60%). The Bank also maintains on high level the new NBU norm - LCR, which demonstrates the bank's resilience to short-term liquidity shocks.
- UAH 12.79 bln. net profit provided 1 place on this indicator among Ukrainian banks. This is a record figure for the banking system of Ukraine since the beginning of the economic crisis.

The achievement of such high indicators was result of continuing work on raising the interest margin for banking products. According to the results of 2018, the interest margin was 4.0% (+2.2 pp compared to 2017). Keeping the profitability of active operations, the Bank managed to significantly reduce the value of liabilities (6.2% in 2018, -2.6 pp compared to 2017). Together with the decrease in the value of liabilities, the Bank replaced the currency portfolio with hryvnia liabilities: hryvnia deposits and current customers' funds increased by 23.8 billion UAH in 2018.

At the same time, thanks to the Bank's leadership in non-cash and cash settlements, the Bank increased its commission income by 48% to UAH 19.6 billion. The commissions are significant part of the Bank's profit and an important factor in the sustainability of the business model: the Bank's net commission income covers 109% of administrative expenses.

- With a large outpace, the Bank takes 1 place on the individuals funds market and 2 place on the legal entities funds market;
- The Bank has strengthened its leadership on the active clients quantity both individuals and SME clients, reaching the figure of 14.9 million active customers of individuals (+ 9.5% compared to 2017), 629.3 thousand active clients of legal entities and private entrepreneurs (+ 26% by 2017).
- During 2018, the Bank increase its loan portfolio significantly by 31% (+11.8 billion UAH). Despite such a significant increase in the loan portfolio, its quality has improved due to the risk management processes improvement: the NPL level

in 2018 was 34.1% (-600 pp from the 2017 indicator). The cost of credit risk in 2018 was also lower than in 2017 and amounted to 2.0% (-130 pp to 2017). At the same time, Bank recognized 6 billion UAH. insurance reserves in 2018.

- At the end of the year, the Bank has a sufficient level of capital. The regulatory capital of the Bank at the end of 2018 amounts to UAH 19.6 billion, and the capital adequacy ratio is 17.5% (with the norm> 10%). According to the results of the stress testing conducted by the NBU in 2018, the level of capital adequacy will not be lower than the regulatory even in the case of the most negative scenario.

The Bank's goal for the next year is to achieve profitability in line with the Bank's Business Strategy objectives, with the preservation of leading positions in the Ukrainian banking market.

The main priorities of the Bank for the near future:

- Further increase of a quality loan portfolio, which will continue to dominate the retail segment;
- Support an optimal and sufficient level of the resource base with further decrease of cost (up to 5.7%, -50 pp);
- Internal business processes transformation that will improve business efficiency and customer service quality;
- Further optimization and bringing to the proper state of the regional network of branches and banking infrastructure;
- Development and introduction of high-quality and innovative products and services;

Bank plans to receive UAH 9.1 billion. profits in 2019

Key Profitability Indicators

During 2018 the bank increased significantly the level of profitability and achieved the following indicators.

Due to the weighted interest rate policy in 2018, the bank significantly improved its interest margin and reached a spread of 2.3%, while in 2017 the Bank had a net interest loss and a negative interest spread of -1.1%.

The increase in the number of active clients (by 10%) and the increase in transactions volumes, both in the branches and on-line channels, allowed to achieve an increase in net commission income by 49% compared to 2017 - up to UAH 15.2 billion.

At the same time, operating expenses remained at the managed level (+ 14.7% to 2017 compared to the annual inflation rate of 9.8% and the increase of the average nominal wage in Ukraine by 20.5%). The Cost / Income ratio for 2018 was 45%, which is one of the best among competitors.

The Bank completed the year with a profit of UAH 12.8 billion, which is the maximum in the Bank's history and is precondition of the largest profit for the Ukrainian banking system over the past five years.

Translation from Ukrainian original

Building a better working world

Ernst & Young Audit Services LLC
19A Khreshchatyk Street
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
www.ey.com/ua

ТОВ «Ернст енд Янг
Аудиторські послуги»
вул. Хрещатик, 19А
Київ, 01001, Україна
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030

Independent auditor's report

To the Shareholder and Supervisory Board of Joint Stock Company Commercial Bank "PrivatBank"

Report on the audit of the separate financial statements

Qualified Opinion

We have audited the separate financial statements of Joint Stock Company Commercial Bank "PrivatBank" (the Bank), which are presented on pages 1 to 90 of Section II of the Bank's Annual Report 2018 and comprise the separate statement of financial position as at 31 December 2018, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in paragraph 1 of the *Basis for qualified opinion* section of our report, and except for the effects of the matter described in paragraph 2 of the *Basis for qualified opinion* section of our report, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at 31 December 2018 and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements for the preparation of financial statements established by Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

Basis for Qualified Opinion

1. As at 31 December 2017, the Bank recognised repossessed properties of UAH 5,613 million within repossessed collateral. We were unable to obtain sufficient appropriate audit evidence in respect of the fair value of these repossessed properties as at 31 December 2017 and 2016. Our auditor's reports on the separate financial statements for 2017 and 2016 were modified accordingly.

   As described in Note 7 to the separate financial statements, in 2018, the Bank reversed repossession of collateral and recognised a loan to customer for the total value of repossessed properties of UAH 5,613 thousand. Simultaneously, the Bank has recognised an impairment equal to the total carrying amount of the above mentioned loan. We were unable to obtain sufficient appropriate audit evidence about the period the impairment loss relates to. As a result, we were unable to determine whether any adjustments were necessary to the separate statement of profit or loss and other comprehensive income for 2018 and 2017 and the carrying amount of repossessed collateral as at 31 December 2017.

Building a better working world

2. The Bank did not complete an analysis of whether criteria for derecognition were met in respect of certain amounts due to customers that were subject to conversion into equity. Such amounts due to customers, and a corresponding receivable of UAH 8,144 million (net of impairment allowance of UAH 734 million) as at 31 December 2018 and 2017 (Note 13), were recognised in the separate statement of financial position of the Bank. This receivable does not meet the definition of an asset in accordance with IFRS. As a result, the Bank's other assets were overstated by UAH 8,144 million as at 31 December 2018 and 2017, respectively, and administrative and other operating expenses for 2017 were overstated by UAH 734 million. The effect of not completing the analysis of the criteria for derecognition of the amounts due to customers on the Bank's liabilities and equity as at 31 December 2018 and 2017 as well as interest expense and foreign exchange gains and losses for 2018 and 2017 has not been determined.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate 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 qualified opinion.

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. In addition to the matters described in the *Basis for qualified opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

EY
Building a better working world

Key audit matter	How our audit addressed the key audit matter
Assessment of expected credit loss on loans and advances to customers	
IFRS 9 "Financial instruments" effective 1 January 2018 introduced new requirements for impairment of financial assets and new concept of expected credit loss. The determination of criteria for identification of significant increase in credit risk since initial recognition, estimation of the recoverable amounts and how forward-looking macroeconomic information affect them, the identification of impairment were inherently uncertain processes involving various assumptions and factors under a range of scenarios. The use of different modelling techniques and assumptions made to incorporate historical and forward looking information, such as historical losses, macroeconomic indicators and projected exposure at default, into expected credit loss calculation could produce significantly different estimates of expected credit loss. Additionally, for individually assessed defaulted loans, the Bank applied judgments to estimate fair value of collateral and expected cash flows under a range of scenarios. Due to significance of the balance of loans and advances to customers to the financial statements and judgemental nature of expected credit loss assessment, this matter was one of the key audit matters. Notes 3, 8 and 26 to the separate financial statements provide information on transition to IFRS 9, expected credit loss on loans and advances to customers and the Bank's risk management policies.	Our audit procedures included assessment of the methodology, modelling techniques and assumptions used by the Bank to identify significant increase in credit risk and impairment indicators, and develop probability-weighted scenarios based on forward-looking macroeconomic information. We identified and tested controls related to calculations, identification of significant increase in credit risk and impairment indicators as well as input data. We tested input data used in development of assumptions and calculation of expected credit loss including but not limited to historical losses and recoveries, macroeconomic indicators, projected exposure at default and other inputs. For individually assessed loans with collateral, we assessed the methodology of collateral valuation, assumptions used to estimate its fair value and expected cash flows under various scenarios. We analysed disclosures on transition to IFRS 9 and expected credit loss of loans and advances to customers included in Notes to the separate financial statements.

EY
Building a better working world

Classification and measurement of financial assets

Transition to IFRS 9 has resulted in significant changes in requirements for classification and subsequent measurement of financial assets.

To determine classification and measurement category for the financial assets (debt instruments), the Bank conducts an on-going analysis based on a combination of the Bank's business model assessment for managing assets and the instruments contractual cash flow characteristics (SPPI assessment). The business model assessment is based on the performance of business models, expected frequency, value and timing of sales and, thus is subjective.

The SPPI assessment requires application of judgement in consideration of various relevant factors and contractual features such as prepayment and extension options, contractually - linked instruments and non-recourse arrangements. Such considerations were in particular complex and extensive at transition to IFRS 9, and thus a key area of judgment.

Taking into account the significance of the carrying amount of financial assets (in particular, investment securities and loans to customers), we considered classification and measurement of financial assets to be a key audit matter.

Notes 3, 8 and 9 to the separate financial statements provide information on transition to IFRS 9 and significant accounting policies regarding classification and measurement of financial assets.

We obtained an understanding of the process of gathering information, portfolio segmentation and assessment performed by the Bank to form a basis for the classification of financial assets.

We analysed business model and SPPI assessment documentation produced by the Bank and discussed it with the Bank's management.

We tested significant standardised and a sample of non-standardised products. As part of this testing, we assessed the terms of financial assets including characteristics of underlying cash flows and analysed Bank's business model assessment.

In addition, we analysed the Bank's disclosures in respect of transition to IFRS 9, and significant accounting policies regarding classification and measurement of financial assets included in Notes to the separate financial statements.

Building a better working world

Valuation of investment securities at fair value through profit or loss

Valuation of investment securities at fair value through profit or loss with embedded derivative feature was a key area of judgments for the Bank's management due to complexity of the model, subjectivity of assumptions and valuation techniques. Also, the carrying value of UAH 86,244 million is significant to the financial statements. Therefore we considered this matter to be a key audit matter. Information on the investment securities at fair value through profit of loss is presented in Notes 9 and 29 to the separate financial statements.	Our audit procedures included evaluation of the assumptions and valuation techniques applied by the Bank's management. Also, we tested inputs used in the model, such as historical exchange rates, volatility of exchange rates, terms of financial instruments and discount rates We also analysed disclosures in respect of investment securities at fair value through profit or loss included in the Notes to the separate financial statements.

Other information included in the Bank's Management report and the Bank's Annual Information of the Issuer of Securities for 2018

Other information consists of the Bank's Management report and other information included in the Bank's Annual Information of the Issuer of Securities (including the Corporate Governance report), but does not include separate financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate 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 separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Supervisory Board for the separate financial statements

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

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

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

Auditor's responsibilities for the audit of the separate financial statements

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

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

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

EY
Building a better working world

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

Translation from Ukrainian original

Appointment of the auditor and period of engagement

We were first appointed as independent auditors to perform a statutory audit of the Bank's separate financial statements on 17 January 2017 by the Supervisory Board. Our appointment has been renewed annually by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Bank is three years.

Consistency of the independent auditor's report with the additional report to the Audit Committee

We confirm that our independent auditor's report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 22 April 2019 in accordance with Article 35 of Law No. 2258-VIII.

Provision of non-audit services

We declare that no prohibited non-audit services referred to in Article 6 paragraph 4 of Law No. 2258-VIII were provided. In addition, there are no non-audit services which were provided by us to the Bank or its controlled entities and which have not been disclosed in the separate financial statements or the Bank's Management report.

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

For and on behalf Ernst & Young Audit Services LLC

Svistich O.M.
General Director

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

Studynska Y.S.
Partner

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

Simak M.V
Auditor

Registration number in the Register of auditors and audit firms: 101255

Kyiv, Ukraine

23 April 2019

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

In millions of Ukrainian hryvnias	Note	31 December 2018	31 December 2017 (restated)	31 December 2016 (restated)
ASSETS				
Cash and cash equivalents and mandatory reserves	7	27,360	25,296	30,159
Due from banks		-	2,903	-
Loans and advances to customers	8	50,140	38,335	32,616
Investment securities:				
- at fair value through profit or loss	9	86,244	-	-
- available-for-sale	9	-	90,354	64,409
- at fair value through other comprehensive income	9	79,299	-	-
- held to maturity	9	-	36,322	-
- at amortized cost	9	14,538	-	-
Embedded derivative assets	9	-	34,336	27,044
Current income tax prepayment	24	184	184	181
Investments in subsidiaries and associate		30	30	246
Investment properties	10	3,340	3,648	691
Premises, leasehold improvements, equipment and intangible assets	11	3,793	3,326	3,409
Other financial assets	12	2,743	2,940	2,639
Other assets	13	8,899	8,815	9,585
Repossessed collateral		1,361	7,069	8,782
Assets held for sale		117	117	-
TOTAL ASSETS		**278,048**	**253,675**	**179,761**
LIABILITIES				
Due to the NBU	14	9,817	12,394	18,047
Due to banks and other financial institutions	15	195	234	2,667
Customer accounts	16	231,055	212,167	180,656
Debt securities in issue		2	2	2
Deferred income tax liability	24	136	150	138
Other financial liabilities	17	2,247	1,688	1,932
Provisions and non-financial liabilities	18	3,132	3,292	2,545
Subordinated debt		-	129	122
TOTAL LIABILITIES		**246,584**	**230,056**	**206,109**
EQUITY				
Share capital	19	206,060	206,060	50,695
Share premium	19	23	23	23
Contributions received for new shares issued but not registered	19	-	-	111,591
Revaluation reserve of premises	11	687	769	805
Unrealised gains/(losses) on investment securities		(3,303)	(479)	521
Result from transactions with the shareholder		12,174	12,174	9,934
General reserves and other funds	19	6,211	6,211	1,619
Accumulated deficit		(190,388)	(201,139)	(201,536)
TOTAL EQUITY		**31,464**	**23,619**	**(26,348)**
TOTAL LIABILITIES AND EQUITY		**278,048**	**253,675**	**179,761**

Approved for issue and signed on 23 April 2019.

Petr Krumphanzl
Chairman of the Board

Ganna Y. Samarina
Deputy Chairman of the Board (finance)

Valentyna V. Yarmolenko
Chief Accountant

In millions of Ukrainian hryvnias	Note	2018	2017 (restated)
Interest income	20	30,754	24,485
Interest expense	20	(14,002)	(18,374)
Net interest income		**16,752**	**6,111**
Charge for impairment	21	(6,089)	(7,379)
Net interest income after charge for impairment		**10,663**	**(1,268)**
Fee and commission income	22	19,590	13,211
Fee and commission expense	22	(4,402)	(3,017)
Gains less losses from embedded derivatives	9	-	3,491
Gains less losses from trading in foreign currencies and swaps		1,983	1,084
Foreign exchange translation gains less losses		1,145	(2,501)
Gains less losses from sale of investment securities at FVOCI		3	-
Losses less gains on revaluation of investment securities at FVPL	9	(3,085)	-
(Losses)/gains on the valuation of premises and investment property		(553)	247
Intangible assets write off		-	(1)
Impairment from revaluation of repossessed collateral		(13)	(71)
Impairment of investments in an associate		-	(99)
Administrative and other operating expenses	23	(13,988)	(12,194)
Other income		1,457	1,530
Other losses		(11)	(15)
Profit before tax		**12,789**	**397**
Income tax credit/(expense)	24	9	(19)
Net profit for the year		**12,798**	**378**
Other comprehensive income/(loss):			
Items that will be reclassified subsequently to profit or loss:			
Financial assets on fair value through other comprehensive income:			
- Unrealised losses on investment securities		(1,872)	(1,000)
- Gains reclassified to profit or loss		(3)	-
- Changes in provision for expected credit losses		-	-
- Income tax effect		-	-
Items that will not be reclassified to profit or loss:			
Premises:			
- Valuation of premises		2	(20)
- Income tax effect		(1)	4
Other comprehensive loss		**(1,874)**	**(1,016)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**10,924**	**(638)**
Earnings per share for income attributable to the shareholder of the Bank, basic and diluted (expressed in UAH per share)	19	**17.39**	**0.90**

Approved for issue and signed on 23 April 2019.

Petr Krumphanzl
Chairman of the Board

Ganna Y. Samarina
Deputy Chairman of the Board (finance)

Valentyna V. Yarmolenko
Chief Accountant

Separate Statement of Changes in Equity

In millions of Ukrainian hryvnias	Note	Share capital	Share premium	Contributions received for new shares issued but not registered	Result from transactions with the shareholder	Unrealised gains/(losses) on investment securities	Revaluation reserve of premises	General reserves and other funds	Accumulated deficit (restated)	Total equity (restated)
Balance at 1 January 2017 as reported		**50,695**	**23**	**111,591**	**9,934**	**521**	**783**	**1,619**	**(176,048)**	**(882)**
Effect of restatement	3	-	-	-	-	-	22	-	(25,488)	(25,466)
Balance at 1 January 2017 (as restated)		**50,695**	**23**	**111,591**	**9,934**	**521**	**805**	**1,619**	**(201,536)**	**(26,348)**
Profit for the year (as restated)		-	-	-	-	-	-	-	378	378
Other comprehensive losses for the year		-	-	-	-	(1,000)	(16)	-	-	(1,016)
Total other comprehensive income/(losses) for the year (as restated)		-	-	-	-	(1,000)	(16)	-	378	(638)
Registration of share capital		155,365	-	(155,365)	-	-	-	-	-	-
Increase in share capital financed by government bonds		-	-	48,365	-	-	-	-	-	48,365
Effect from initial recognition of government bonds received as a contribution into the share capital		-	-	-	2,240	-	-	-	-	2,240
Other decrease in share capital		-	-	(4,591)	-	-	-	2,008	2,583	-
Transfer (depreciation) of the reserve for revaluation of premises into retained earnings		-	-	-	-	-	(20)	-	20	-
Transfer of reserves		-	-	-	-	-	-	2,584	(2,584)	-
Balance at 31 December 2017 (as restated)		**206,060**	**23**	**-**	**12,174**	**(479)**	**769**	**6,211**	**(201,139)**	**23,619**
Impact of the transition to IFRS 9	3	-	-	-	-	(949)	-	-	(2,130)	(3,079)
Balance at 1 January 2018		**206,060**	**23**	**-**	**12,174**	**(1,428)**	**769**	**6,211**	**(203,269)**	**20,540**
Profit for the year		-	-	-	-	-	-	-	12,798	12,798
Other comprehensive losses for the year		-	-	-	-	(1,875)	1	-	-	(1,874)
Total other comprehensive income/(losses) for the year		-	-	-	-	(1,875)	1	-	12,798	10,924
The change in revaluation reserves for premises due to:										
- reclassification of premises to other assets		-	-	-	-	-	(31)	-	31	-
- disposal of premises		-	-	-	-	-	(32)	-	32	-
- transfer (depreciation) of the reserve for revaluation of premises into retained earnings		-	-	-	-	-	(20)	-	20	-
Balance at 31 December 2018		**206,060**	**23**	**-**	**12,174**	**(3,303)**	**687**	**6,211**	**(190,388)**	**31,464**

Approved for issue and signed on 23 April 2019.

Petr Krumphanzl
Chairman of the Board

Ganna Y. Samarina
Deputy Chairman of the Board (finance)

Valentyna V. Yarmolenko
Chief Accountant

In millions of Ukrainian hryvnias	Note	2018	2017
Cash flows from operating activities			
Interest income received		29,791	20,865
Interest paid		(14,163)	(18,475)
Fee and commission received		19,590	13,211
Fee and commission paid		(4,402)	(3,017)
Income received on trading in foreign currencies and swaps		1,958	1,084
Staff costs paid		(5,727)	(4,547)
Administrative and other operating expenses paid, except for staff costs paid		(7,487)	(5,386)
Other losses incurred		1,422	1,530
Cash flow from in operating activities before changes in operating assets and liabilities		**20,982**	**5,265**
Changes in operating assets and liabilities			
Net increase in mandatory reserve balances		(1)	(35)
Net decrease/(increase) in due from banks		2,911	(2,768)
Net increase in loans and advances to customers		(13,515)	(10,387)
Net decrease/(increase) in other financial assets		55	(217)
Net increase in other assets		(188)	(216)
Net (increase)/decrease in due to the NBU		(1,500)	1,500
Net decrease in due to banks and other financial institutions		(24)	(2,380)
Net increase in customer accounts		20,911	25,109
Net decrease/(increase) in provisions, other financial and non-financial liabilities		512	(247)
Net cash from operating activities		**30,143**	**15,624**
Cash flows from investing activities			
Proceeds from sales of premises, leasehold improvements and equipment		14	83
Acquisition of premises, leasehold improvements and equipment		(1,368)	(627)
Proceeds from sale and redemption of investment securities on fair value through profit or loss		112	-
Acquisition of sale and redemption of investment securities on fair value through profit or loss		(24)	-
Proceeds from sale and redemption of investment securities at fair value through other comprehensive income		7,074	-
Acquisition of sale and redemption of investment securities at fair value through other comprehensive income		(32,926)	-
Proceeds from sale and redemption of investment securities at amortized cost		4,305	-
Acquisition of sale and redemption of investment securities at amortized cost		(3,519)	-
Proceeds from sale and redemption of investment securities available-for-sale		-	1,400
Acquisition of sale of investment securities available-for-sale		-	(10,788)
Proceeds from redemption of investment securities held to maturity		-	285
Acquisition of redemption of investment securities held to maturity		-	(4,440)
Net cash used in investing activities		**(26,332)**	**(14,087)**
Cash flows from financing activities			
Proceeds from the NBU refinancing loans		-	15,701
Repayment of the NBU refinancing loans		(1,000)	(22,876)
Repayment of the subordinated debt		(134)	-
Net cash used in financing activities	32	**(1,134)**	**(7,175)**
Effect of exchange rate changes on cash and cash equivalents		(506)	486
Effect of expected credit losses on cash and cash equivalents		(15)	-
Net decrease/(increase) in cash and cash equivalents		**2,156**	**(5,152)**
Cash and cash equivalents at the beginning of the year		23,521	28,673
Cash and cash equivalents at the end of the year	7	**25,677**	**23,521**

Approved for issue and signed on 23 April 2019.

Petr Krumphanzl Chairman of the Board	Ganna Y. Samarina Deputy Chairman of the Board (finance)	Valentyna V. Yarmolenko Chief Accountant

1 Introduction

Joint Stock Company Commercial Bank PrivatBank ("PJSC PrivatBank" or "the Bank") was initially registered as a limited liability company and then, re-organised into a closed joint stock entity in 2000. In 2009, the Bank changed its legal form to a public joint stock company, where shareholders liability is limited by number of shares owned in accordance with changes in Ukrainian legislation. In June 2018, the Bank changed its organisational and legal form from public joint stock company into a joint stock company.

As at 31 December 2018 and 2017 years, the Government of Ukraine represented by the Ministry of Finance of Ukraine was the ultimate controlling party of the Bank.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Ukraine. The Bank has operated under a full banking licence issued by the National Bank of Ukraine (the "NBU") since March 1992. The Bank participates in the State deposit insurance plan (registration #113 dated 2 September 1999), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). As at 31 December 2018 and 2017 the Deposit Guarantee Fund of Ukraine guaranteed repayment of individual deposits and interest on them for the amount up to UAH 200 thousand per individual (31 December 2017: UAH 200 thousand) in case bank liquidation procedure is started.

As at 31 December 2018, the Bank has 30 branches and 1,991 operating outlets in Ukraine and a branch in Cyprus (31 December 2017: 30 branches and 2,213 operating outlets in Ukraine and a branch in Cyprus). Additionally, as at 31 December 2018 and 31 December 2017 the Bank has representative office in Kyiv (Ukraine).

Registered address and place of business. The Bank's registered address as at the date of these separate financial statements is:

1D, HRUSHEVSKOHO STR.
01001, KYIV,
Ukraine.

Presentation currency. These separate financial statements are presented in million ("UAH million"), unless otherwise stated.

2 Operating Environment of the Bank

The Bank carries out the main part of its activities in Ukraine. Ukraine's economy has certain characteristics that threaten its long-term stability. Such characteristics include, but are not limited by relatively low levels of liquidity in capital markets and a deficit in the balance of public finances and foreign trade.

In December 2018, the international rating agency Moody's raised the sovereign rating of Ukraine mainly due to approval of new stand-by loan program between Ukraine and the International Monetary Fund.

In 2018 - 2017, external risks for Ukraine generally decreased. The growth of the global economy, prices on financial and commodity markets have helped to reduce threats. Direct geopolitical risks have changed insignificantly. At the same time, medium-term risks to financial stability are gradually increasing.

The renewal of solvency of the real sector of the economy continues. Companies of most sectors of the economy have increased operating profitability, thus normalized the debt leverage. At the same time, the criteria for assessing the solvency of borrowers have become stricter.

The weakness of the national currency, which experienced more than triple devaluation against US dollar since the beginning of 2014, combined with cross border settlement restrictions, negative external trade balance, along with continued lack of stability in the country's traditional export commodity markets, and high inflation represent key risks to the stabilisation of the Ukrainian operating environment in the near future. Further support from the IMF and other international donors depends on maintenance of dynamics of the structural reforms described above.

The known and estimable effects of the above factors on the financial position and performance of the Bank in the reporting period have been taken into account in preparing these separate financial statements.

Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimize any negative effect to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Bank's financial position and performance in a manner not currently determinable.

3 Summary of Significant Accounting Policies

Basis of preparation. These separate financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Law of Ukraine «On accounting and financial statements in Ukraine» № 996-XIV of 16 July 1999 on the preparation of financial statements (as amended). Users of these separate financial statements shall read them together with consolidated financial statements of the Bank and its subsidiaries for the year ended 31 December 2018 with the purpose to obtain a correct understanding of financial standing, financial performance results and cash flows of the Bank and its subsidiaries.

Changes of accounting policy

The Bank applied IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) and IFRS 9 "Financial Instruments" (IFRS 9) for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 9 "Financial Instruments" that replaced IAS 39 "Financial Instruments: Recognition and Measurement" for annual periods beginning on 1 January 2018. The Bank did not change the comparative information of 2017 regarding financial instruments that are within the scope of IFRS 9. Therefore, comparative information of 2017 is presented in accordance with IAS 39 and cannot be compared with the information presented for 2018. Differences arising from the application of IFRS 9 were recognized directly in retained earnings as at 1 January 2018 and are disclosed below.

Changes in the principles of classification and measurement of financial instruments

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

The classification of debt financial assets relevant SPPI criteria is determined by a business model according to which these instruments are managed:

- instruments that are holding for the purpose of collecting contractual cash flows are measured at amortized cost (AC);
- instruments that are holding for the purpose of collecting contractual cash flows and for sale are measured at fair value through other comprehensive income (FVOCI);
- instruments that are managed on other basis, including trading financial assets, are measured at fair value through profit or loss (FVPL).

Business models for managing of financial assets are defined by Management taking into account the Bank's business strategy, portfolio management performance indicators and inherent risk.

Equity financial assets are classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognized in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remained unchanged. Derivatives will continue to be measured at FVPL.

Changes in the principles of impairment measurement

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39 incurred loss approach with a forecasted expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset match the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

3 Summary of Significant Accounting Policies (Continued)

IFRS 7 "Financial Instruments" (revised)

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. The changes relate to the disclosure of information during the transition and detailed quantitative and qualitative information regarding the definition of ECL.

Impact of the transition to IFRS 9

There are the effects of the transition of IFRS 9 on unrealised losses from investment securities and the accumulated deficit as at 1 January 2018 below:

In millions of Ukrainian hryvnias	Unrealised loss on investment securities and accumulated deficit
Unrealised loss on investment securities	
As at 31 December 2017 (IAS 39)	(479)
Adjustment due to the reclassification of investment securities from held to maturity category to the category of investment securities at fair value through other comprehensive income	(1,286)
Adjustment due to the reclassification of investment securities from categories available for sale to the category of investment securities at fair value through profit or loss	469
Adjustment due to the reclassification of the securities from available for sale category to the category of investment securities at amortized cost	(129)
Recognition of expected credit losses on investment securities at fair value through other comprehensive income	(3)
Tax effect	-
Total changes in unrealised loss on investment securities	(949)
Balance at 1 January 2018 (IFRS 9)	(1,428)
Accumulated deficit	
As at 31 December 2017 (IAS 39) as restated	(201,139)
Recognition of expected credit losses on investment securities at fair value through other comprehensive income	3
Adjustment due to the reclassification of investment securities from categories available for sale to the category of investment securities at fair value through profit or loss	(469)
Adjustment due to the reclassification of investment securities from held to maturity category to the category of investment securities at fair value through profit or loss	(116)
Recognition of expected credit losses on cash and cash equivalents	(24)
Recognition of expected credit losses on loans and advances to customers	(1,335)
Recognition of expected credit losses on credit commitments	(189)
Deferred tax asset	240
Unrecognised deferred tax asset	(240)
Total changes in accumulated deficit	(2,130)
Balance at 1 January 2018 (IFRS 9)	(203,269)
Total changes in equity according to the transition of IFRS 9	(3,079)

3 Summary of Significant Accounting Policies (Continued)

The impact of the transition of IFRS 9 on the carrying amount of investment securities and embedded derivative financial assets as at 1 January 2018 is presented below:

In millions of Ukrainian hryvnias	According to IAS 39	Reclassification	Changes in the estimation of balance / fair value as a result of transfer to category according to IFRS 9	According to IFRS 9
Embedded derivative financial instruments (2)	34,336	(34,336)	-	-
To the category: Investment securities at FVPL	34,336	(34,336)	-	-
Investment securities available-for-sale	90,354	(59,019)	-	31,335
To the category: Investment securities at AC (1)	11,747	(11,747)	-	-
To the category: Investment securities at FVPL (2)	47,444	(47,444)	-	-
To the category: Investment securities at FVOCI	31,163	172	-	31,335
Investment securities held to maturity	36,322	(32,142)	-	4,180
To the category: Investment securities at AC	3,227	-	-	3,227
To the category: Investment securities at AC	953	-	-	953
To the category: Investment securities at FVPL (2)	7,604	(7,604)	-	-
To the category: Investment securities at FVOCI (3)	24,538	(24,538)	-	-
Investment securities at AC (1)		11,431	(128)	11,303
From the category: Investment securities available-for-sale	X	11,431	(128)	11,303
Investment securities at FVPL (2)		89,528	(117)	89,411
From the category: Investment securities available-for-sale	X	47,588	-	47,588
From the category: Embedded derivative financial assets	X	34,336	-	34,336
From the category: Investment securities held to maturity	X	7,604	(117)	7,487
Investment securities at FVOCI (3)		24,538	(1,286)	23,252
From the category: Investment securities held to maturity	X	24,538	(1,286)	23,252

Notes:

(1) - Investment securities available-for-sale according to IAS 39 as at 31 December 2017 were classified as investment securities at AC according to IFRS 9 as at 1 January 2018 in accordance with the business model determined by Management based on the Bank's business strategy and liquidity management targets.

(2) - Investment securities with an embedded option that were available-for-sale, held to maturity, as well as embedded derivative financial instruments according to IAS 39, as at 31 December 2017, were classified as investment securities at FVPL, according to requirements of IFRS 9 for financial instruments with embedded derivatives.

(3) - Investment securities held to maturity according to IAS 39 as at 31 December 2017 were classified as investment securities at FVOCI according to IFRS 9 as at 1 January 2018 in accordance with the business model determined by Management based on the Bank's business strategy and liquidity management targets.

3 Summary of Significant Accounting Policies (Continued)

The effect of adoption of IFRS 9 on the carrying value of loans and advances to customers, cash and cash equivalents and mandatory reserves and other financial liabilities as at 1 January 2018 is presented in the table below:

In millions of Ukrainian hryvnias	IAS 39 measurement	Changes in the classification of gross carrying amount and allowance for impairment of loans	Other changes - in interest income adjustment on impaired loans	Remeasurement	According to IFRS 9
Loans and advances to customers at AC					
Loans managed as a separate portfolio	185,575	-	14,772	-	200,347
Corporate loans	3,330	-	308	-	3,638
Loans to individuals – cards	30,354	-	6,143	-	36,497
Loans to individuals – mortgage	9,130	(186)	3,017	-	11,961
Loans to individuals – consumer	3,144	-	87	-	3,231
Loans to individuals – auto	264	(2)	74	-	336
Loans to individuals – other	660	-	118	-	778
Loans to small and medium enterprises (SME)	4,210	(1)	1,625	-	5,834
Finance lease receivables – corporate customers	191	X	1	-	192
Finance lease receivables – individuals	197	X	13	-	210
Finance lease receivables – small and medium enterprises (SME)	126	X	1	-	127
Purchase/originated credit-impaired	-	189	-	-	189
Allowance for loan impairment (IAS 39)					
Less: Allowance for loan impairment	(198,846)	198,846	-	-	-
Expected credit losses (IFRS 9)					
Less: Allowance for 12 month ECL	-	(528)	-	(390)	(918)
Less: Allowance for lifetime ECL	-	(192)	-	(101)	(293)
Less: Allowance for ECL on credit-impaired loans	-	(198,018)	(26,139)	(840)	(224,997)
Less: Allowance for ECL on purchased/originated credit-impaired loans	-	(108)	(20)	(4)	(132)
Total loans and advances to customers	38,335	-	-	(1,335)	37,000
Cash and cash equivalents and mandatory reserves	25,296	-	-	-	25,296
Less: Allowance for 12 month ECL	-	-	-	(24)	(24)
Total cash and cash equivalents and mandatory reserves	25,296	-	-	(24)	25,272
Other financial liabilities					
Provision for expected credit losses/provision for credit related commitments	(181)	-	-	(189)	(370)

IFRS 15 Revenue from Contracts with Customers IFRS 15 (issued on 28 May 2014 and applied to annual periods beginning on or after 1 January 2018). IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. According to IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Individual batches of goods or service packages that are clearly identified should be recognized separately, and any discounts and retrospective discounts on the contract price, as a rule, should be treated as separate items. If the amount of remuneration for any reason changes, should be recognized as the minimum amount in the absence of significant risk there. Expenses incurred in connection with guarantees for contracts with customers must be capitalized and amortized during the period of receipt of the benefits from the contract. The transition to IFRS 15 did not have material effect on the separate financial statements.

3 Summary of Significant Accounting Policies (Continued)

Restatement

During 2018, management of the Bank took additional steps to obtain information that was the basis for determining the fair value of collateral for loans, investment property and repossessed collateral as at 31 December 2016, for a proper allocation of the valuation result and charge to the allowance for impairment of loans between 2017 and previous years. The Bank engaged independent valuation appraisers to perform valuation of such objects.

Based on the results of the valuation, the Bank restated comparative information as at 31 December 2016 and 2017.

The effect of the restatement is presented in the tables below.

In millions of Ukrainian hryvnias	As at 31 December 2017 as reported	Reclassification	Amount of restatement	As at 31 December 2017 as restated
Separate Statement of Financial Position				
Investment properties	579	3,069	-	3,648
Repossessed collateral	11,268	(3,069)	(1,130)	7,069
TOTAL ASSETS	254,805	-	(1,130)	253,675
Deferred income tax liability	106	-	44	150
TOTAL LIABILITIES	230,012	-	44	230,056
Revaluation reserve of premises	747	-	22	769
Accumulated deficit	(199,943)	-	(1,196)	(201,139)
TOTAL EQUITY	24,793	-	(1,174)	23,619

Separate Statement of Profit or Loss and Other Comprehensive Income	2017 as reported	Reclassification	Amount of restatement	2017 as restated
Charge for impairment	(18,346)	-	10,967	(7,379)
Net interest income after charge for impairment	(12,235)	-	10,967	(1,268)
Impairment of investments in an associate	(286)	-	187	(99)
(Losses)/gains on the valuation of premises and investment property	(1,112)	-	1,359	247
Intangible assets write off	(292)	-	291	(1)
Impairment of repossessed collateral	(11,559)	-	11,488	(71)
(Loss)/profit before tax	(23,895)	-	24,292	397
Net (loss)/profit for the year	(23,914)	-	24,292	378

3 Summary of Significant Accounting Policies (Continued)

In millions of Ukrainian hryvnias	31 December 2016 as reported	Amount of restatement	31 December 2016 as restated
Separate Statement of Financial Position			
Loans and advances to customers	43,583	(10,967)	32,616
Investments in subsidiaries and associate	433	(187)	246
Investment properties	1,358	(667)	691
Premises, leasehold improvements, equipment and intangible assets	3,956	(547)	3,409
Repossessed collateral	21,836	(13,054)	8,782
TOTAL ASSETS	205,183	(25,422)	179,761
Deferred income tax liability	94	44	138
TOTAL LIABILITIES	206,065	44	206,109
Revaluation reserve of premises	783	22	805
Accumulated deficit	(176,048)	(25,488)	(201,536)
TOTAL EQUITY	(882)	(25,466)	(26,348)

Reclassifications

At the beginning of 2018, the Bank conducted an analysis of the small and medium business segment and changed the approaches to the classification of loans and advances to customers from this date. As a result, the following changes were made in Note 8 as at 31 December 2017 in order to comply with the classification of the segment of small and medium businesses from the date of the change of approach and for the year ended 31 December 2018:

In millions of Ukrainian hryvnias	As at 31 December 2017 according to IAS 39 (as restated)	Reclassification due to changes in the approach to the classification of the SME segment	As at 31 December 2017 according to IAS 39 (as reclassified)
Loans and advances to customers			
Corporate loans	3,479	(149)	3,330
Loans to individuals – other	769	(109)	660
Loans to small and medium enterprises (SME)	3,952	258	4,210
Finance lease receivables – corporate customers	317	(126)	191
Finance lease receivables – small and medium enterprises (SME)	-	126	126
Allowance for loan impairment			
Less: Allowance for corporate loan impairment	(1,720)	29	(1,691)
Less: Allowance for loan to individuals impairment - other	(646)	86	(560)
Less: Allowance for loan to small and medium enterprises (SME) impairment	(1,965)	(115)	(2,080)
Less: Allowance for finance lease receivables impairment – corporate customers	(27)	13	(14)
Less: Allowance for finance lease receivables impairment – small and medium enterprises (SME)	-	(13)	(13)

3 Summary of Significant Accounting Policies (Continued)

The following reclassifications have been made to 2017 balances to conform to the 2018 presentation:

In millions of Ukrainian hryvnias	2017 (as reported)	Reclassification	2017 (as reclassified)
Separate Statement of Financial Position			
Due from banks	4,516	(1,613)	2,903
Guarantee deposits with banks	1,613	(1,613)	-
Other financial assets	490	2,450	2,940
Guarantee deposits	-	2,450	2,450
Other assets	9,652	(837)	8,815
Other	1,112	(837)	275
Customer accounts	212,750	(583)	212,167
Provisions, other financial and non-financial liabilities	4,397	(4,397)	-
Other financial liabilities	-	1,688	1,688
Provisions and non-financial liabilities	-	3,292	3,292
Separate Statement of Cash Flows			
Net (increase)/decrease in due to the NBU	-	1,500	1,500
Proceeds from the NBU refinancing loans	17,201	(1,500)	15,701

The following reclassifications have been made to 2016 balances to conform to the 2018 and 2017 presentation:

In millions of Ukrainian hryvnias	2016 (as reported)	Reclassification	2016 (as reclassified)
Separate Statement of Financial Position			
Due from banks	2,410	(2,410)	-
Guarantee deposits with banks	2,410	(2,410)	-
Other financial assets	229	2,410	2,639
Guarantee deposits	-	2,410	2,410
Customer accounts	181,133	(477)	180,656
Provisions, other financial and non-financial liabilities	4,000	(4,000)	-
Other financial liabilities	-	1,932	1,932
Provisions and non-financial liabilities	-	2,545	2,545

Financial instruments – key measurement definitions. 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 from the sale of an asset or paid on a liability in a orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is a market in which asset and liability transactions are held at a sufficient frequency and in sufficient volumes to provide current pricing information.

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 entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held by the Bank and placing orders to sell the position in a single transaction might affect the quoted price.

3 Summary of Significant Accounting Policies (Continued)

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

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. Refer to Note 29.

Transaction costs are additional expenses directly related to the acquisition, issue or disposal of a financial asset or liability and which could not have occurred if the entity did not issue, acquire or sell a financial instrument. 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.

Amortized cost is the value at which the financial asset or financial liability is measured and comprised of the acquisition cost reduced by the amount of principal repayment, increased (reduced) by the amount of accumulated amortisation of any difference between the original cost and the repayment value calculated using the effective interest rate, adjusted in the case of financial assets, for expected credit losses (before 1 January 2018 - reduced by impairment). Accrued interest includes amortisation of transaction costs at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items of the statement of financial position.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability (or a group of financial assets or financial liabilities) and distributing income or interest expenses over the relevant period. The effective interest rate is the rate that discounts the expected flow of future cash payments or receipts over the life of the financial instrument to the gross carrying amount of a financial asset or to the gross amortised cost of a financial liability (before 1 January 2018 - to the net book value (amortized cost) of financial instrument). The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. Gains or losses on initial recognition are recorded in the statement of profit or loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at settlement date, which is the date that the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the contractual rights to cash flows from the financial asset expire, or (b) the Bank transfers the financial asset and this transfer match the criteria for derecognition.

3 Summary of Significant Accounting Policies (Continued)

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 cash on hand, unrestricted demand and overnight deposits with central and other banks. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the Central Banks. Mandatory cash balances with the Central Banks are carried at amortised cost and are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Loans and advances to customers. Before 1 January 2018, "Loans and advances to customers" included financial assets that were recognized when the Bank advanced money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and had no intention of trading the receivable. All loans and advances to customers were carried at amortised cost.

Since 1 January 2018 the Bank measures loans and advances to customers at amortized cost if both of the following conditions are met:

(a) an asset is managed on a "hold to collect" basis;

(b) the contractual terms of the financial asset provide for certain dates of cash flows, which are solely the repayment of the principal amount and payment of interest on the outstanding principal amount.

In more detail, such conditions are presented below.

The Bank determines the business model at a level that better reflects how the grouped financial assets are managed to achieve a specific business goal. The Bank's business model is not assessed at the level of individual instruments, but at a higher level of portfolio aggregation and is based on observable factors such as:

- how the performance of the business model and the profitability of financial assets held within this business model are assessed, and how this information is communicated to the key management staff of the Bank;
- risks affecting the performance of the business model (and the profitability of financial assets held under this business model) and, in particular, the method of managing these risks.

At the second stage of the classification process, the Bank evaluates the contractual terms of the financial asset to determine whether the contractual cash flows for the asset are solely payments from the principal amount and interest on the outstanding part of the principal amount (SPPI test).

For the purposes of this test, the "principal amount of the debt" is the fair value of the financial asset at initial recognition, and it may change over the term of the financial asset. The most significant elements of interest under a loan contract are usually reimbursement for the time value of money and reimbursement for credit risk. For the SPPI test, the Bank applies judgments and analyzes relevant factors, such as the currency in which the financial asset is expressed, and the period for which the interest rate is set.

When financial assets are renegotiated and the renegotiated terms differ substantially from the previous terms, the new asset is initially recognised at its fair value. From 1 January 2018, such an asset at initial recognition is classified as purchase/originated credit-impaired if at the date of purchase/renegotiation was impaired.

In the case of purchase/originated credit-impaired financial assets, expected credit losses are measured based on cash flows discounted at the adjusted for credit risk effective interest rate determined upon initial recognition.

If the renegotiated terms differ substantially do not significantly differ from the previous terms, such changes do not lead to derecognition of the original asset, instead the Bank recognizes a gain or loss on the modification based on changes in cash flows discounted at the original effective interest rate.

Assessment of expected credit losses (from 1 January 2018)

Credit loss is the difference between all contractual cash flows payable to the Bank under the contract and all cash flows that the Bank expects to receive (that is, taking into account all cash shortages) discounted at the original effective rate (or adjusted risk for purchased or originated credit impaired financial assets).

The Bank estimates cash flows by taking into account all contractual terms for a financial instrument (for example, advances, extensions, a call option and similar options) during the expected life of such a financial instrument.

3 Summary of Significant Accounting Policies (Continued)

Also the Bank includes cash flows from the sale of retained collateral or other credit enhancement mechanisms that are an integral part of the terms of the contract.

The Bank assumes that it is possible to make a reliable estimate of the expected life of the financial instrument. At the same time, in those rare cases when it is impossible to make a reliable estimate of the expected life of a financial instrument, the Bank uses the remaining term stipulated by the contract for such a financial asset.

Allowance for 12 month ECL is the portion of lifetime of the expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within 12 months after the reporting date.

For all financial instruments, depending on the type of instrument and the type of a debtor, the following factors of significant increase in credit risk are determined:

- overdue payments of more than 30 days as at reported date (for banks more than 7 days);
- overdue of payments of more than 30 days that occur more than twice during last 12 months (loans to customers); and other.

Allowance for lifetime ECL are expected credit losses that result from all possible default events over the expected life of a financial instrument.

The Bank estimates the amount of expected credit losses of a financial instrument in such a way that it reflects: (a) an objective and probability-weighted amount, which is determined by evaluating a number of possible results; (b) time value of money; and (c) reasonable and acceptable information about past events, current conditions and forecasts regarding future economic conditions, which can be obtained without any extra effort or expense as of the reporting date.

Expected credit losses reflect the Bank's own expectations of credit losses. However, taking into account all reasonable and confirmed information that can be obtained without extra costs or effort when assessing credit losses, the Bank also considers observant market information about the credit risk of a particular financial instrument or similar financial instruments.

The Bank recognizes, at each reporting date, a change in the amount of expected credit losses over the entire term as a profit or loss from impairment in profit or loss.

For all financial instruments, depending on the type of instrument and the type of a debtor, the following impairment factors are determined:

- the existence of overdue over 90 days as at reported date (for banks from 30 days);
- initiation of a procedure or recognition of bankruptcy; initialization of liquidation of a legal entity;
- detection and/or evidence of financial transaction fraud; and other.

The Bank recognizes, at each reporting date, a change in the amount of expected credit losses over the entire term as a profit or loss from impairment in profit or loss. The Bank recognizes favorable changes in expected credit losses over the entire term as a profit from impairment, even if the amount of expected credit losses during the term is less than the amount of expected credit losses that were taken into account in estimating cash flows upon initial recognition.

The Bank regularly assesses the quality of the loan portfolio and assesses the expected loss from possible losses. The amount of expected credit loss is equal to the 12-month expected credit loss or expected credit loss for the lifetime of the financial instrument, if deterioration in credit quality after initial recognition occurred. Expected credit losses for the entire term of a financial instrument are recognized if the credit risk of a financial instrument has increased significantly since the initial recognition.

The assessment of financial instruments, depending on their significance, is conducted on an individual or portfolio basis. In the estimation of expected losses on an individual basis, the Bank uses scenario analysis based on discounted cash flows weighted with probability.

To estimate expected credit losses on a portfolio basis, historical data (regarding default events, losses in case of default, etc.) are used for groups of loans with similar characteristics taking into account forecast macroeconomic information and using probability-weighted scenarios.

The Bank directly reduces the gross carrying amount of a financial asset if it does not have reasonable expectations for the restoration of the financial asset as a whole or part of it. Write-off is a derecognition event.

3 Summary of Significant Accounting Policies (Continued)

For the purposes of credit quality analysis the Bank categorizes loans and advances as corporate clients, SME and private entrepreneurs into large, medium and small borrowers based on the size of the loan exposure:

Large borrowers	Above UAH 100 million
Loans to medium size borrowers	From UAH 1 million to UAH 100 million
Loans to small borrowers	Less than UAH 1 million

For the purposes of credit quality analysis the Bank categories loans and advances to individuals based on the size of the loan exposure:

Loans between UAH 1-100 million
Loans less than UAH 1 million

Impairment of financial assets at amortised cost (before 1 January 2018)

Impairment losses were recognised in profit or loss for the period when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. If the Bank determined that no objective evidence existed that impairment was incurred for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Bank considered in determining whether a financial asset was impaired are its overdue status and realisability of related collateral, if any.

The following other principal criterions were also used to determine whether there was objective evidence that an impairment loss had occurred:

- any instalment was overdue and the late payment could not 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 Bank obtained;
- the borrower considered bankruptcy or a financial reorganisation;
- there was 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; or
- the value of collateral significantly decreased as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets were grouped on the basis of similar credit risk characteristics. Those characteristics were 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.

Future cash flows in a group of financial assets that were collectively evaluated for impairment were 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 was 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. Past experience was the basis for the estimation of the loss identification period, in particular the time lag between the actual loss event and identification of the loss event by the Bank. This approach ensured that the impact of losses which had not yet been specifically identified was included in the estimation of loan loss impairment.

If the terms of an impaired financial asset were renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment was measured using the original effective interest rate before the modification of terms.

Impairment losses were 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 had 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 reflected 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 could 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 was reversed by adjusting the allowance account through profit or loss for the period.

3 Summary of Significant Accounting Policies (Continued)

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

Repossessed collateral. Repossessed collateral represents non-financial assets repossessed by the Bank in settlement of past due loans. The assets are initially recognised at lower of fair value or gross carrying value of the related loans. Further the Bank measures such assets the lower of their carrying amount and net realisable value. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Credit related commitments and financial guarantees. The Bank enters into credit related commitments, including commitments to extend credit, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a proportion basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; in this case loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) after 1 January 2018 - estimated allowance for expected credit losses (before 1 January 2018 - the best estimate of expenditure required to settle the commitment at the end of the reporting period).

Investment securities. After 1 January 2018 the Bank determines the category of securities valuation in accordance with the business model and SPPI criteria according to IFRS 9:

1) Investment securities are measured at amortized cost if both of the following conditions are performed:

(a) an asset is matched on a "hold to collect" basis;

(b) the contractual terms of the financial asset provide for certain dates of cash flows, which are only the repayment of the principal amount and payment of interest on the outstanding principal amount.

2) Investment securities are measured at fair value through other comprehensive income if:

(a) an asset is matched on a "hold to collect and for sale" basis;

(b) the contractual terms of the financial asset provide for certain dates of cash flows, which are only the repayment of the principal amount and payment of interest on the outstanding principal amount.

After initial recognition, such securities are measured at fair value with the result of the revaluation transferred to other comprehensive income, except for impairment losses, gains or losses from foreign currency transactions and interest income accrued using the effective interest method are recognized directly in the statement of profit and loss and other comprehensive income. When securities are selling, the profit/loss previously reflected in other comprehensive income will be reflected in profit and loss.

3) Investment securities are measured at fair value through profit or loss, unless it is measured at amortized cost or at fair value through other comprehensive income. After 1 January 2018, due to the implementation of IFRS 9 the embedded derivative is accounted together with the host contract. For each reporting date investment securities measured at fair value through profit or loss are revalued together with an embedded option to fair value. Before 1 January 2018, embedded derivative was accounted separately from the host contract. For each reporting date a separate revaluation of investment securities and a separate revaluation of option were performed to fair value.

Before 1 January 2018, the Bank determined the categories of valuation of investment securities in accordance with IAS 39:

- available-for-sale;
- held to maturity;
- other financial assets measured at fair value through profit or loss.

3 Summary of Significant Accounting Policies (Continued)

Before 1 January 2018 investment securities available-for-sale included investment securities which the Bank intended to hold for an indefinite period of time and which may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available-for-sale were carried at fair value. Interest income on available-for-sale debt securities was recognised using the effective interest method and recognised in profit or loss for the period. Dividends on available-for-sale equity instruments were recognised in profit or loss for the period when the Bank's right to receive payment was established and it was probable that the dividends will be collected. All other elements of changes in the fair value were recognised in other comprehensive income until the investment was derecognised or impaired, at which time the cumulative gain or loss was reclassified from other comprehensive income to profit or loss for the period.

Before 1 January 2018 impairment losses were recognised in profit or loss for the period when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available-for-sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it was impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – was reclassified from other comprehensive income to profit or loss for the period. Impairment losses on equity instruments were not reversed and any subsequent gains were recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss for the period.

Before 1 January 2018 investment securities held to maturity included quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank had both the intention and ability to hold to maturity. Management determined the classification of investment securities held to maturity at their initial recognition and reassessed the appropriateness of that classification at each balance sheet date. Investment securities held to maturity were carried at amortised cost.

Investments in subsidiaries. The Bank accounts for its investments in subsidiaries at cost. Dividends from a subsidiary are recognised in these separate financial statements when the Bank's right to receive the dividend is established.

Investment property. Investment property is property held by the Bank to earn rental income or for capital appreciation, or both and which is not occupied by the Bank. 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 the Bank's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

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

Premises 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. 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 period. The revaluation reserve of premises included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. At the date of revaluation accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Construction in progress is carried at cost less impairment where required. Construction in progress is not depreciated until the asset is available for use.

All other items of premises, leasehold improvements and equipment are stated at cost.

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.

3 Summary of Significant Accounting Policies (Continued)

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 period to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the period.

Depreciation. Land is not depreciated. Depreciation on other items of premises, leasehold improvements and equipment begins with the date when the asset is available for use and is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	50 years
Computers	2-10 years
Furniture and equipment	4-13 years
Motor vehicles	5-20 years
Intangible assets	2-10 years
Other	4-15 years

Leasehold improvements are depreciated over the term of the underlying lease. The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Bank's intangible assets other than goodwill have 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 to use the specific software.

Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if 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 from 2 to 10 years.

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

Finance lease receivables. Where the Bank is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in profit or loss for the period.

Assets held-for-sale. The Bank classifies assets as non current assets held-for-sale if their carrying amount is recovered principally through a sale transaction rather than through the operation. For this purpose, assets should be available for immediate sale in their present condition that is typical for such non assets offered for sale, it is highly probable that these assets will be sold and management of the Bank has an intention and ability to sell them.

3 Summary of Significant Accounting Policies (Continued)

If assets are classified as assets held-for-sale, the Bank initiates an approved plan to complete the sale at fair value within one year. The Bank measures such assets the lower of their carrying amount and fair value less costs to sell. No depreciation is charged on assets held-for-sale.

Due to banks and other financial institutions. Amounts due to banks and other financial institutions are recorded when money or other assets are advanced to the Bank by counterparty banks or other financing institutions. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include bonds issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the separate statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Subordinated debt. Subordinated debt represents long-term borrowing agreements that, in case of the Bank's default, would be secondary to the Bank's primary debt obligations. Subordinated debt is carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, forward rate agreements, currency swaps and currency options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the period. The Bank does not apply hedge accounting.

When the fair value of derivative does not change in response to the changes in the foreign exchange rates and other variables and future cash flows from the derivative become certain the Bank ceased to account for a derivative and recognises a receivable within other financial assets. The receivable continues to be measured at fair value through profit or loss until settled.

Derecognition of financial liabilities. The Bank derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. An exchange between the Bank 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 (whether or not attributable to the financial difficulty) is accounted for as an extinguishment 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, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss. 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 percent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Income taxes. Income taxes have been provided for in the separate financial statements in accordance with legislation enacted or substantively enacted by the end of reporting period. The income tax charge comprises current tax and deferred tax and is recognised in 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. Taxable profits or losses are based on estimates if the separate financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

3 Summary of Significant Accounting Policies (Continued)

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

Uncertain tax positions. The Bank'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 the 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.

Provisions. Provisions are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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 and share premium. 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.

Profit or loss arising from transactions with the shareholder is recognised in equity under "Result from transactions with the shareholder".

Income and expense recognition. 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.

After 1 January 2018 the Bank recognizes interest income on non-impaired financial assets based on the gross carrying value of such assets applying the original effective interest rate.

For impaired financial instruments, interest income is calculated as the product of the net book value (amortized cost) and the effective interest rate.

Before 1 January 2018, the Bank recognized interest income on non-impaired assets applying the effective interest rate to amortized cost. If there were doubts about the possibility of repaying loans or other debt instruments, their value decreased to the present value of expected cash flows, after which interest income was recognised based on the effective interest rate for this instrument, used to calculate the impairment loss.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retains no part of the loan package for itself or retains a part at the same effective interest rate as for the other participants.

3 Summary of Significant Accounting Policies (Continued)

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of the Bank, and the Bank's presentation currency, is the national currency of Ukraine, Ukrainian hryvnia ("UAH"). Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency are translated into 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 translation of monetary assets and liabilities into functional currency at period-end official exchange rates of the NBU are recognised in profit or loss for the period (as foreign exchange translation gains less losses). Translation at period-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity instruments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

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

	31 December 2018, UAH	31 December 2017, UAH	31 December 2016, UAH
1 US Dollar (USD)	27.688264	28.067223	24.000667
1 Euro (EUR)	31.714138	33.495424	26.223129

Fiduciary assets. Assets held by the Bank in its own name, but on the account of third parties, are not reported in the separate statement of financial position. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the separate 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.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to shareholder of the Bank by the weighted average number of participating shares outstanding during the reporting period.

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

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the separate financial statements and the carrying amounts of assets and liabilities within the next financial period. 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 separate financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

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

Impairment losses on loans and advances to customers. The Bank regularly assesses the quality of the loan portfolio and assesses the expected losses from possible losses. The amount of expected loan loss is equal to the 12-month expected credit loss or expected credit loss for the lifetime of the financial instrument, if deterioration in credit quality after initial recognition occurred. Allowance for lifetime ECL of a financial instrument are recognized if the credit risk of a financial instrument has increased significantly since its initial recognition.

As at 31 December 2018, a 10% increase or decrease in actual and forecast parameters on loans with estimate of allowance for 12 month ECL and with estimate of allowance for lifetime ECL on a portfolio basis would lead to an increase or decrease in the allowance for expected credit losses of UAH 136 million.

As at 31 December 2018, a 10% increase or decrease in actual loss on impaired loans, which are assessed on a portfolio basis, would result in an increase or decrease in the allowance for expected credit losses of UAH 494 million or UAH 2,817 million, respectively (2017: in an increase or decrease of allowance for loan impairment of UAH 666 million or UAH 1,487 million, respectively).

As at 31 December 2018, a 10% increase or decrease in the actual loss from individually impaired significant loans, which could arise from differences in amounts and terms of the cash flows, would result in an increase or decrease allowance for expected credit losses of UAH 1,158 million or UAH 21,200 million, respectively (2017: in an increase or decrease of allowance for loan impairment of UAH 1,335 or UAH 18,398 million, respectively)

The fair value of investment securities at FVPL with an embedded option. The fair value of investment securities at FVPL with an embedded option that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel. To the extent practical, only observable data are used in models, but where this is not feasible, for example, estimates of volatility for exchange rates, a degree of judgment is required in establishing fair values. If the volatility would be higher by 10% or lower by 5%, the fair value of investment securities at FVPL with an embedded option would increase by UAH 404 million and decrease by UAH 180 million. Additional details are provided in Note 29.

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 28.

5 Adoption of New or Revised Standards and Interpretations

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

5 Adoption of New or Revised Standards and Interpretations (Continued)

The following new and revised standards and interpretations were adopted in the reporting year, but they had no impact on these financial statements:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Amendments resulting from Annual Improvements 2014–2016 Cycle (issued on December 2016; apply to annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2 Share-based Payment - Amendments to clarify the classification and measurement of share-based payment transactions (issued on June 2016; apply to annual periods beginning on or after 1 January 2018).
- IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice.
- Amendments to IFRS 4 Insurance Contracts- Amendments regarding the interaction of IFRS 4 and IFRS 9 (issued on September 2016; apply to annual periods beginning on 1 January 2018).
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration.
- Amendments to IAS 40 Investment Property - Amendments to clarify transfers or property to, or from, investment property (issued on December 2016; apply to annual periods beginning on 1 January 2018).

6 New Accounting Pronouncements

Standards issued but not yet effective

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

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Bank does not expect a material effect from application of these amendments.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

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

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

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

The Bank did not apply IFRS 19 early and thus the Bank does not expect a material effect on the separate financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces 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. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Bank did not apply IFRS 16 early. The application of IFRS 16 as at 1 January 2019, according to the Bank's estimates at the date of these financial statements, will result in an increase of assets (recognition of «right-to-use» assets) in the amount of UAH 1,674 million and to increase in liabilities (recognition of lease liabilities) in the amount of UAH 1,664 million.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

IFRS 17 is not applicable to the Bank.

Annual Improvements 2014-2017 Cycle

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Bank.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

6 New Accounting Pronouncements (Continued)

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. The Bank expects no impact of these amendments on the Bank's separate financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the Interpretation may affect its separate financial statements and the required disclosures. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments effective for annual periods beginning on or after 1 January 2019:

Amendments to IFRS 3 Business Combinations - Amendments resulting from Annual Improvements 2015–2017 Cycle(issued on December 2017; apply to annual periods beginning on or after 1 January 2019).

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

Amendments to IFRS 9 Financial Instruments - Amendments regarding prepayment features with negative compensation and modifications of financial liabilities (issued on October 2017; apply to annual periods beginning on or after 1 January 2019).

Amendments to IAS 12 Income Taxes - Amendments resulting from Annual Improvements 2015–2017 Cycle (issued on December 2017; apply to annual periods beginning on or after 1 January 2019).

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

Amendments to IFRS 11 Joint Arrangements - Amendments resulting from Annual Improvements 2015–2017 Cycle (income tax consequences of dividends) (issued on December 2017; apply to annual periods beginning on or after 1 January 2019).

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

Amendments to IAS 19 Employee Benefits - Amendments regarding plan amendments, curtailments or settlements (issued on February 2018; apply to annual periods beginning on or after 1 January 2019).

Amendments to IAS 28 Investments in Associates and Joint Ventures - Amendments regarding long-term interests in associates and joint ventures (issued on October 2017; apply to annual periods beginning on or after 1 January 2019).

Amendments to IAS 23 Borrowing Costs - Amendments resulting from Annual Improvements 2015–2017 Cycle (income tax consequences of dividends) (issued on December 2017; apply to annual periods beginning on or after 1 January 2019).

6 New Accounting Pronouncements (Continued)

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

The Bank does not expect these amendments will have a significant impact on these separate financial statements.

Amendments effective for annual periods beginning on or after 1 January 2020:

Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

The Bank does not expect these amendments will have a significant impact on these separate financial statements.

7 Cash and Cash Equivalents and Mandatory Reserves

In millions of Ukrainian hryvnias	31 December 2018	31 December 2017
Cash on hand	15,905	14,256
Cash balances with the NBU	6,061	4,766
Cash balances and mandatory reserves with the Central Bank of Cyprus	1,682	1,775
Correspondent accounts and overnight placements with banks		
- Ukraine	5	7
- OECD	3,549	4,461
- Other countries than OECD	173	31
Less: Allowance for 12 month ECL	(15)	-
Total cash and cash equivalents and mandatory reserves	27,360	25,296

As at 31 December 2018, the mandatory reserve balances of the Bank's branch in Cyprus kept with the Central Bank of Cyprus was UAH 96 million (31 December 2017: UAH 100 million). In addition, as at 31 December 2018 cash balances with the Central Bank of Cyprus of UAH 1,586 million (31 December 2017: UAH 1,675 million) were restricted in similar manner as a mandatory reserve balances and were not available for operating activities.

As the respective liquid assets are not freely available to finance the day-to-day operations of the Bank, for the purposes of the separate statement of cash flow, UAH 1,682 million of such balances were excluded from cash and cash equivalents (31 December 2017: UAH 1,775 million).

In millions of Ukrainian hryvnias	31 December 2018	31 December 2017
Total cash and cash equivalents and mandatory reserves	27,360	25,296
Less mandatory reserves and other restricted balances	(1,683)	(1,775)
Cash and cash equivalents for the purposes of the separate statement of cash flows	25,677	23,521

As at 31 December 2018, UAH 1,294 million of mandatory reserve balances with the NBU (31 December 2017: UAH 1,294 million) has been pledged as a collateral for the refinancing loan received from the NBU. Refer to Notes 14 and 28. These funds were available to finance the day-to-day operations of the Bank.

For the purposes of determining the expected credit losses the Bank assesses all financial assets in cash and cash equivalents and mandatory reserves on an individual basis with the use of ratings and indicators of probability of defaults, published by international rating agencies Fitch Ratings, Moody's and Standard & Poor's, which have a continuous, coherent and long-term history of defaults.

For the correspondent account in the NBU, the counterparty is assessed based on the highest rating on the national scale.

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

The credit quality of cash and cash equivalents balances may be summarised based on Moody's ratings where available, or other rating agencies converted to the nearest equivalent on Moody's rating scale at 31 December 2018 as follows:

In millions of Ukrainian hryvnias	Cash on hand	Cash balances with the central banks, including mandatory reserves	Correspondent accounts and overnight placements with banks	Total
Cash on hand	15,905	-	-	15,905
Cash balances with the Central Banks	-	7,743	-	7,743
Aa1 to Aa2 rated	-	-	2,625	2,625
A1 to A2 rated	-	-	829	829
Baa1-Baa3 rated	-	-	68	68
Ba2 to Ba3 rated	-	-	24	24
Caa1-Caa2 rated	-	-	138	138
Unrated	-	-	43	43
Total cash and cash equivalents and mandatory reserves, gross	15,905	7,743	3,727	27,375

The credit quality of cash and cash equivalents balances may be summarised based on Moody's ratings where available, or other rating agencies converted to the nearest equivalent on Moody's rating scale at 31 December 2017 as follows:

In millions of Ukrainian hryvnias	Cash on hand	Cash balances with the central banks, including mandatory reserves	Correspondent accounts and overnight placements with banks	Total
Neither past due nor impaired				
Cash on hand	14,256	-	-	14,256
Cash balances with the Central Banks	-	6,541	-	6,541
Aa1 to Aa3 rated	-	-	3,881	3,881
A1 to A3 rated	-	-	495	495
Baa3 rated	-	-	20	20
Ba2 to Ba3 rated	-	-	22	22
Caa1 rated	-	-	6	6
Caa3 rated	-	-	3	3
Unrated	-	-	72	72
Total cash and cash equivalents and mandatory reserves	14,256	6,541	4,499	25,296

Significant non-cash transactions related to changes in operating assets and liabilities

During 2018, as a result of additional information obtained, the Bank reinstated loans and advances to customers and respectively corrected (reduced) the carrying value of the repossessed collateral in the amount of UAH 5,613 million.

Geographical, maturity and interest rate analysis of cash and cash equivalents and mandatory reserves is disclosed in Note 26.

8 Loans and Advances to Customers

In millions of Ukrainian hryvnias	31 December 2018	31 December 2017	31 December 2016 (restated)
Loans and finance lease managed as a separate portfolio	212,795	185,575	191,139
Corporate loans	5,648	3,330	2,639
Loans to individuals – cards	45,314	30,354	19,749
Loans to individuals – mortgage	12,923	9,130	9,045
Loans to individuals – consumer	4,193	3,144	1,069
Loans to individuals – auto	332	264	264
Loans to individuals – other	672	660	1,054
Loans to small and medium enterprises (SME)	8,251	4,210	2,494
Finance lease receivables – corporate customers	710	191	307
Finance lease receivables – individuals	654	197	164
Finance lease receivables – small and medium enterprises (SME)	248	126	-
Purchase/originated credit-impaired - corporate customers	196	-	-
Total loans and advances to customers, gross	291,936	237,181	227,924
Less: Allowance for expected credit losses/allowance for loan impairment	(241,796)	(198,846)	(195,308)
Total loans and advances to customers	50,140	38,335	32,616

As at 31 December 2018, 2017 and 2016, category "Loans managed as a separate portfolio" includes non-performing loans, which were issued before 19 December 2016. Management considers that these loans bears similar credit risk characteristics regardless of the economy sector or commercial activity at the date of issuance of such loans. As at 31 December 2018 the Bank recognised UAH 209,453 million of allowance for expected credit losses under these loans (31 December 2017: allowance for impairment UAH 181,887 million; 31 December 2016: allowance for impairment UAH 180,114 million).

8 Loans and Advances to Customers (Continued)

The table below presents an analysis of changes in the gross carrying amount of loans and advances to customers in 2018:

		Transfer of loans to categories							
In millions of Ukrainian hryvnias	Gross carrying amount at 1 January 2018	With estimate of allowance for 12 month ECL	With estimate of allowance for lifetime ECL	Credit-impaired loans	Derecognition of financial instruments	New recognized financial assets	Other changes in gross carrying amount	Exchange differences	Gross carrying amount at 31 December 2018
With estimate of allowance for 12 month ECL	31,176	4,924	(5,202)	(252)	(16,133)	35,081	(3,868)	39	45,765
Loans managed as a separate portfolio	4	-	(9)	-	(4)	-	(32)	41	-
Corporate loans	1,476	496	(518)	(22)	(1,542)	2,952	486	(2)	3,326
Loans to individuals – cards	24,393	3,414	(3,623)	(128)	(10,596)	15,788	3,204	-	32,452
Loans to individuals – mortgage	257	119	(23)	(66)	(25)	719	(72)	-	909
Loans to individuals – consumer	2,873	220	(171)	(8)	(1,929)	8,451	(5,503)	-	3,933
Loans to individuals – auto	2	1	-	(1)	-	-	(1)	-	1
Loans to individuals – other	17	-	-	-	(52)	75	(1)	-	39
Loans to small and medium enterprises (SME)	1,858	451	(614)	(20)	(1,937)	5,695	(1,651)	-	3,782
Finance lease receivables	296	223	(244)	(7)	(48)	1,401	(298)	-	1,323
With estimate of allowance for lifetime ECL	2,806	(4,232)	5,351	(2,100)	(1,326)	1,524	(392)	(75)	1,556
Loans managed as a separate portfolio	502	-	9	(12)	(433)	-	(17)	(39)	10
Corporate loans	269	(496)	532	(28)	(244)	322	(71)	-	284
Loans to individuals – cards	1,142	(2,839)	3,657	(1,694)	(371)	482	219	-	596
Loans to individuals – mortgage	444	(46)	93	(91)	(36)	28	(70)	(9)	313
Loans to individuals – consumer	132	(209)	171	(63)	(96)	342	(257)	-	20
Loans to individuals – auto	2	-	-	-	-	-	(1)	-	1
Loans to small and medium enterprises (SME)	242	(430)	629	(171)	(213)	356	(195)	-	218
Finance lease receivables	73	(212)	260	(41)	67	(6)	-	(27)	114
Credit-impaired loans	229,169	(692)	(149)	2,352	(464)	65	15,059	(921)	244,419
Loans managed as a separate portfolio	199,841	-	-	12	(96)	-	13,665	(637)	212,785
Corporate loans	1,893	-	(14)	50	(21)	1	164	(35)	2,038
Loans to individuals – cards	10,962	(574)	(32)	1,822	(179)	39	226	2	12,266
Loans to individuals – mortgage	11,260	(73)	(70)	157	(66)	4	665	(176)	11,701
Loans to individuals – consumer	226	(10)	-	71	(20)	13	(39)	(1)	240
Loans to individuals – auto	332	(1)	-	1	(3)	-	4	(3)	330
Loans to individuals – other	761	-	-	-	(36)	5	(57)	(40)	633
Loans to small and medium enterprises (SME)	3,734	(22)	(16)	190	(43)	8	431	(31)	4,251
Finance lease receivables	160	(12)	(17)	49	-	(5)	-	-	175
Purchase/originated credit-impaired	189				(2)	2	7	-	196
Total loans and advances to customers, gross	263,340	-	-	-	(17,925)	36,672	10,806	(957)	291,936

8 Loans and Advances to Customers (Continued)

The analysis of the change in the allowance for expected credit losses for 2018 is as follows:

In millions of Ukrainian hryvnias	Allowance for expected credit losses of subject at 1 January 2018	Transfer of loans between categories: With estimate of allowance for 12 month ECL	Transfer of loans between categories: With estimate of allowance for lifetime ECL	Transfer of loans between categories: Credit-impaired loans	Derecognition of financial instruments	Newly recognized financial assets	Changes in risk parameters for the reporting period	Adjustment of interest income on impaired loans	Written off	Exchange differences	Allowance for expected credit losses of subject at 31 December 2018
Allowance for 12 month ECL	918	1,377	(833)	(9)	(280)	563	(699)	-	-	-	1,037
Loans managed as a separate portfolio	2	-	(2)	-	-	-	(1)	-	-	1	-
Corporate loans	246	39	(216)	(1)	(31)	98	(13)	-	-	(1)	121
Loans to individuals – cards	555	1,225	(570)	(5)	(212)	310	(581)	-	-	-	722
Loans to individuals – mortgage	6	66	(1)	(2)	(1)	14	(63)	-	-	-	19
Loans to individuals – consumer	35	8	(4)	-	(3)	16	(13)	-	-	-	39
Loans to small and medium enterprises (SME)	57	27	(28)	(1)	(32)	66	(1)	-	-	-	88
Finance lease receivables	17	12	(12)	-	(1)	59	(27)	-	-	-	48
Allowance for lifetime ECL	293	(889)	930	(965)	(40)	47	1,039	-	-	(1)	414
Loans managed as a separate portfolio	6	-	2	(2)	-	-	(3)	-	-	-	3
Corporate loans	21	(39)	227	(3)	(6)	16	(128)	-	-	-	88
Loans to individuals – cards	161	(812)	598	(895)	(17)	12	1,199	-	-	-	246
Loans to individuals – mortgage	73	(10)	35	(11)	(3)	8	(52)	-	-	(1)	39
Loans to individuals – consumer	8	(6)	4	(6)	(1)	1	10	-	-	-	10
Loans to small and medium enterprises (SME)	19	(15)	40	(46)	(13)	7	31	-	-	-	23
Finance lease receivables	5	(7)	24	(2)	-	3	(18)	-	-	-	5
Allowance for ECL on credit-impaired loans	224,997	(488)	(97)	974	(319)	47	6,033	9,985	(25)	(938)	240,169
Loans managed as a separate portfolio	196,546	-	-	2	(96)	-	5,432	8,215	-	(649)	209,450
Corporate loans	1,810	-	(11)	4	(15)	1	(20)	259	-	(40)	1,988
Loans to individuals – cards	10,761	(413)	(28)	900	(119)	38	410	366	-	-	11,915
Loans to individuals – mortgage	10,768	(57)	(34)	14	(31)	1	101	679	(21)	(174)	11,246
Loans to individuals – consumer	221	(2)	-	6	(4)	1	(5)	20	-	(1)	236
Loans to individuals – auto	332	-	-	-	(1)	-	(2)	6	(1)	(4)	330
Loans to individuals – other	731	-	-	-	(27)	1	(46)	9	-	(41)	627
Loans to small and medium enterprises (SME)	3,683	(11)	(12)	46	(24)	5	131	431	(3)	(29)	4,217
Finance lease receivables	145	(5)	(12)	2	(2)	-	32	-	-	-	160
Allowance for ECL on purchased/originated credit-impaired loans	132	-	-	-	(1)	1	31	13	-	-	176
Total allowance for expected credit losses	226,340	-	-	-	(640)	658	6,404	9,998	(25)	(939)	241,796

8 Loans and Advances to Customers (Continued)

In 2018 loans and advances to customers, which the Bank previously wrote off as not collectible were recovered in total amount of UAH 360 million, including recoveries of UAH 249 million of credit cards, UAH 106 million of corporate loans and UAH 5 million of small and medium-sized business loans. The amount of recoveries was credited directly to charge for impairment on loans and advances to customers. Refer to Note 21.

The movements in allowances for impairment of loans and advances during 2017 are as follows:

In millions of Ukrainian hryvnias	Loans managed as a separate portfolio	Corporate loans	Loans to individuals					SME	Finance lease receivables	Total
			Cards	Mortgage	Auto	Consumer	Other			
Allowance for loan impairment at 1 January 2017 (restated)	180,114	1,377	4,048	7,036	251	108	709	1,592	73	195,308
Provision for impairment during the period	6,308	256	517	62	(15)	22	(79)	291	17	7,379
Amounts written off during the period as uncollectible	(5,863)	(1)	-	-	-	-	-	-	-	(5,864)
Recoveries of amounts previously written-off as uncollectible	-	17	221	4	13	-	12	37	-	304
Currency translation differences	1,328	71	2	263	6	-	4	45	-	1,719
Allowance for loan impairment at 31 December 2017	181,887	1,720	4,788	7,365	255	130	646	1,965	90	198,846

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

In millions of Ukrainian hryvnias	31 December 2018 Amount	%	31 December 2017 Amount	%	31 December 2016 (Restated) Amount	%
Loans managed as a separate portfolio	212,795	73	185,575	79	191,139	84
Loans to individuals	64,284	22	43,749	18	31,345	14
Corporate loans						-
Agriculture and food industry	2,298	1	1,234	1	893	-
Consumer	771	-	570	-	215	-
Other	3,289	1	1,717	1	1,838	1
Loans to small and medium enterprises (SME)						-
Services	2,664	1	1,114	-	1,125	1
Agriculture and food industry	1,934	1	170	-	293	-
Consumer	1,240	-	79	-	250	-
Infrastructure	556	-	2,723	1	417	-
Other	2,105	1	250	-	409	-
Total loans and advances to customers, gross	291,936	100	237,181	100	227,924	100

As at 31 December 2018, the gross aggregate amount of loans to top 10 borrowers of the Bank amounted to UAH 60,814 million (31 December 2017: UAH 54,720 million; 31 December 2016: UAH 53,193 million) or 21% of the gross loan portfolio (31 December 2017 and 2016: 23%). Allowance for expected credit losses (31 December 2017: allowance for loan impairment) related to these borrowers was UAH 60,814 million (31 December 2017: UAH 54,720 million; 31 December 2016: UAH 52,975 million).

8 Loans and Advances to Customers (Continued)

Finance lease receivables (gross investment in the leases) and their present values at 31 December 2018 are as follows:

In millions of Ukrainian hryvnias	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
Finance lease payments receivables as at 31 December 2018	5,697	7,606	1,332	14,635
Unearned finance income	(928)	(1,847)	(110)	(2,885)
Present value of lease payments receivables as at 31 December 2018	4,769	5,759	1,222	11,750
Allowance for expected credit losses	(3,585)	(3,896)	(1,034)	(8,515)
Total finance lease receivables	1,184	1,863	188	3,235

Finance lease receivables (gross investment in the leases) and their present values at 31 December 2017 are as follows:

In millions of Ukrainian hryvnias	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
Finance lease payments receivables as at 31 December 2017	3,703	8,385	2,874	14,962
Unearned finance income	(1,422)	(3,421)	(500)	(5,343)
Present value of lease payments receivables as at 31 December 2017	2,281	4,964	2,374	9,619
Allowance for impairment	(1,755)	(3,785)	(1,903)	(7,443)
Total finance lease receivables	526	1,179	471	2,176

Finance lease receivables (gross investment in the leases) and their present values at 31 December 2016 are as follows:

In millions of Ukrainian hryvnias	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
Finance lease payments receivables as at 31 December 2016(restated)	2,766	12,199	8,017	22,982
Unearned finance income	(1,644)	(4,501)	(1,377)	(7,522)
Present value of lease payments receivables as at 31 December 2016 (restated)	1,122	7,698	6,640	15,460
Allowance for impairment	(774)	(5,806)	(5,164)	(11,744)
Total finance lease receivables (restated)	348	1,892	1,476	3,716

8 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	Loans managed as a separate portfolio	Corporate loans	Loans to individuals: Cards	Loans to individuals: Mortgage	Loans to individuals: Auto	Loans to individuals: Consumer	Loans to individuals: Other	SME	Finance lease receivables – corporate customers	Finance lease receivables – individuals	Finance lease receivables – small and medium enterprises (SME)	Total
With estimate of allowance for 12 month ECL												
Not overdue												
Loans to large borrowers	-	1,266	-	-	-	-	-	-	-	-	-	1,266
Loans to medium size borrowers	-	2,003	-	-	-	-	-	936	559	-	95	3,593
Loans to small borrowers	-	45	-	-	-	-	-	2,751	13	-	76	2,885
Loans between UAH 1-100 million	-	-	19	180	-	1	22	-	-	19	-	241
Loans less than UAH 1 million	1	-	31,443	717	1	3,883	13	-	-	525	-	36,583
Less than 30 days overdue	-	17	990	7	-	49	5	91	4	22	8	1,193
Total loans and advances to customers with estimate of allowance for 12 month ECL	1	3,331	32,452	904	1	3,933	40	3,778	576	566	179	45,761
With estimate of allowance for lifetime ECL												
not overdue	31	282	35	286	1	-	-	179	95	-	4	913
less than 30 days overdue	-	-	21	5	-	-	-	6	-	1	-	33
31 to 90 days overdue	-	2	542	6	-	19	-	33	1	4	9	616
over 90 days overdue	-	-	-	-	-	-	-	-	-	-	-	-
Total loans and advances to customers with estimate of allowance for lifetime ECL	31	284	598	297	1	19	-	218	96	5	13	1,562
Credit-impaired loans												
not overdue	13,820	248	65	73	1	5	13	24	7	1	2	14,259
less than 30 days overdue	4,435	-	14	17	-	-	1	11	4	-	-	4,482
31 to 90 days overdue	201	5	24	5	-	1	-	7	-	-	1	244
91 to 180 days overdue	157	15	484	17	-	14	1	38	1	2	3	732
181 to 360 days overdue	5,248	12	627	18	-	9	3	87	-	2	6	6,012
over 361 days overdue	188,902	1,753	11,050	11,592	329	212	614	4,088	26	78	44	218,688
Total impaired loans and advances to customers	212,763	2,033	12,264	11,722	330	241	632	4,255	38	83	56	244,417
Purchase/originated credit-impaired	-	-	-	192	1	-	2	1				196
Less: Allowance for 12 month ECL	-	(121)	(722)	(19)	-	(39)	-	(88)	(33)	(5)	(10)	(1,037)
Less: Allowance for lifetime ECL	(3)	(88)	(246)	(39)	-	(10)	-	(23)	(4)	-	(1)	(414)
Less: Allowance for ECL on credit-impaired loans	(209,450)	(1,988)	(11,915)	(11,246)	(330)	(236)	(627)	(4,217)	(31)	(82)	(47)	(240,169)
Less: Allowance for ECL on purchased/originated credit-impaired loans	-	-	-	(173)	(1)	-	(1)	(1)				(176)
Total loans and advances to customers	3,342	3,451	32,431	1,638	2	3,908	46	3,923	642	567	190	50,140

8 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals					SME	Finance lease receivables	Total
		Cards	Mortgage	Auto	Consumer	Other			
Neither past due nor impaired									
- Large borrowers with credit history with the Bank over 2 years	573	-	-	-	-	-	-	-	573
- Large new borrowers with credit history with the Bank less than 2 years	398	-	-	-	-	-	-	-	398
- Loans to medium size borrowers	1,063	-	-	-	-	14	167	165	1,409
- Loans to small borrowers	115	-	-	-	-	-	1,752	30	1,897
- Loans between UAH 1-100 million	-	4	186	-	-	-	-	-	190
- Loans less than UAH 1 million	-	24,330	596	6	2,963	99	-	125	28,119
Total neither past due nor impaired (gross)	2,149	24,334	782	6	2,963	113	1,919	320	32,586
Past due but not impaired									
- less than 30 days overdue	39	1,020	40	-	48	5	63	48	1,263
- 31 to 90 days overdue	25	340	35	1	15	4	26	16	462
Total past due but not impaired (gross)	64	1,360	75	1	63	9	89	64	1,725
Loans individually determined to be impaired (gross)									
- Not overdue	22,291	-	22	-	-	-	-	-	22,313
- less than 30 days overdue	262	-	-	-	-	-	-	-	262
- 31 to 90 days overdue	9,107	-	-	-	-	-	-	922	10,029
- 91 to 180 days overdue	707	284	17	1	9	6	17	7,938	8,979
- 181 to 360 days overdue	132,687	423	59	-	7	55	56	288	133,575
- over 361 days overdue	12,331	4,070	8,178	256	102	817	1,871	87	27,712
Total individually impaired loans (gross)	177,385	4,777	8,276	257	118	878	1,944	9,235	202,870
Allowance for impairment	(175,907)	(4,904)	(7,366)	(255)	(130)	(876)	(1,965)	(7,443)	(198,846)
Total loans and advances to customers	3,691	25,567	1,767	9	3,014	124	1,987	2,176	38,335

8 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2016 is as follows:

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Cards	Mortgage	Auto	Consumer	Other	SME	Finance lease receivables	Total
Neither past due nor impaired									
- Large borrowers with credit history with the Bank over 2 years	391	116	-	-	-	-	-	-	507
- Large new borrowers with credit history with the Bank less than 2 years	-	-	-	-	-	-	-	-	-
- Loans to medium size borrowers	1,082	-	-	-	-	25	144	201	1,452
- Loans to small borrowers	300	-	-	-	-	-	503	46	849
- Loans between UAH 1-100 million	-	15	289	-	-	-	-	1	305
- Loans less than UAH 1 million	-	14,875	661	11	951	374	-	90	16,962
Total neither past due nor impaired (gross)	1,773	15,006	950	11	951	399	647	338	20,075
Past due but not impaired									
- less than 30 days overdue	57	632	97	1	10	24	39	45	905
- 31 to 90 days overdue	51	277	56	-	3	23	17	18	445
Total past due but not impaired (gross)	108	909	153	1	13	47	56	63	1,350
Loans individually determined to be impaired (gross)									
- Not overdue	161,960	-	-	-	-	16	-	14,985	176,961
- less than 30 days overdue	4 939	-	-	-	-	-	-	1	4,940
- 31 to 90 days overdue	5 317	-	-	-	-	-	-	-	5,317
- 91 to 180 days overdue	650	202	71	-	1	36	24	5	989
- 181 to 360 days overdue	343	276	147	1	2	67	53	3	892
- over 361 days overdue	3 338	3,485	7,727	251	102	718	1,714	65	17,400
Total individually impaired loans (gross)	176,547	3,963	7,945	252	105	837	1,791	15,059	206,499
Allowance for impairment	(169,596)	(4,048)	(7,037)	(251)	(108)	(932)	(1,592)	(11,744)	(195,308)
Total loans and advances to customers (restated)	8,832	15,830	2,011	13	961	351	902	3,716	32,616

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). Mortgage loans are secured by underlying housing real estate. Auto loans are secured by the underlying cars. Loans to small and medium enterprises are secured by underlying commercial real estate, equipment or commercial cars. Finance lease receivables due from individuals and from corporate customers are secured by cars and real estate. The tables below exclude card loans, consumer and part of loans to small and medium enterprises in amount of UAH 1,343 million (31 December 2017: UAH 622 million; 31 December 2016: UAH 552 million), issue of which did not require any collateral.

8 Loans and Advances to Customers (Continued)

The effect of collateral at 31 December 2018:

In millions of Ukrainian hryvnias	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets, net	Expected cash flows from collateral realisation	Carrying value of the assets, net	Expected cash flows from collateral realisation
Loans and finance lease managed as a separate portfolio	2,026	2,680	1,316	1,060
Corporate loans	2,201	5,253	1,250	229
Loans to individuals – mortgage	1,268	5,390	370	34
Loans to individuals – auto	-	1	2	-
Loans to individuals – other	28	67	18	-
Loans to SME	364	1,279	2,216	2
Finance lease receivables	1,098	2,198	301	11

The effect of collateral at 31 December 2017:

In millions of Ukrainian hryvnias	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets, net	Expected cash flows from collateral realisation	Carrying value of the assets, net	Expected cash flows from collateral realisation
Corporate loans	2,167	4,256	1,524	13
Loans to individuals – mortgage	1,360	6,046	407	169
Loans to individuals – auto	-	1	9	-
Loans to individuals – other	31	186	93	4
Loans to SME	28	327	1,337	6
Finance lease receivables	1,609	2,402	567	238

The effect of collateral at 31 December 2016:

In millions of Ukrainian hryvnias	Over-collateralised assets (restated)		Under-collateralised assets (restated)	
	Carrying value of the assets	Expected cash flows from collateral realisation	Carrying value of the assets	Expected cash flows from collateral realisation
Corporate loans	5,834	8,153	2,998	55
Loans to individuals – mortgage	1,461	6,673	549	220
Loans to individuals – auto	-	2	13	-
Loans to individuals – other	41	224	310	15
Loans to SME	87	340	263	62
Finance lease receivables	1,405	2,298	2,311	875

Upon initial recognition of loans and advances to customers, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets, market prices, indexes of similar assets.

Refer to Note 29 for the estimated fair value of each class of loans and advances to customers. Geographical, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

9 Investment Securities

In millions of Ukrainian hryvnias	31 December 2018	31 December 2017
Investment securities at FVPL:		
Long-term government bonds with an embedded option	86,194	-
Middle-term government bonds denominated in foreign currency	50	-
Investment securities available-for-sale:		
Long-term government bonds with an embedded option	-	47,444
Long-term government bonds without an embedded option	-	31,163
Middle-term government bonds denominated in foreign currency	-	11,747
Investment securities at FVOCI:		
Long-term government bonds	52,586	-
Middle-term government bonds denominated in foreign currency	7,588	-
Middle-term government bonds	1,821	-
Short-term government bonds	12,441	-
Short-term government bonds denominated in foreign currency	4,770	-
Long-term bonds issued by the State Mortgage Institution	93	-
Investment securities held to maturity:		
Long-term government bonds without an embedded option	-	24,538
Long-term government bonds with an embedded option	-	7,604
Long-term bonds issued by the State Mortgage Institution	-	953
Short-term government bonds	-	3,227
Investment securities at AC:		
Middle-term government bonds denominated in foreign currency	13,666	-
Long-term bonds issued by the State Mortgage Institution	872	-
Total investment securities	180,081	126,676

As at 31 December 2018 the government bonds with embedded option at FVPL, with the carrying value of UAH 86,194 million with effective interest rate 9.33-10.24% per annum and mature in September 2028 to January 2032. The nominal value (principle) of these government bonds is indexed to an increase in exchange rate of UAH to USD between weighted average monthly exchange rate at the intergroup market for a month prior the issue and a month before the maturity date. Coupon is not subject to indexation. After 1 January 2018 due to the implementation of IFRS 9 the embedded derivative was accounted together with the host contract. Before 1 January 2018 embedded derivative of UAH 34,336 million was accounted separately from the host contract as at 31 December 2017.

As at 31 December 2018 the carrying value of middle-term government bonds at FVPL, denominated in USD, was UAH 50 million, with effective interest rate 5.48% per annum and maturity in July 2019.

As at 31 December 2018 long-term government bonds without an embedded option with the carrying value of UAH 52,586 million as FVOCI, with effective interest rate 8.91-11.13% per annum and maturity in October 2027 to December 2032.

As at 31 December 2018 the carrying value of middle-term government bonds at FVOCI, denominated in USD, was UAH 50 million, with effective interest rate 5.58-7.64% per annum and maturity in October 2019 to May 2020.

As at 31 December 2018 the carrying value of middle-term government bonds at FVOCI, denominated in EUR, was UAH 7,540 million, with effective interest rate 4.08-4.36% per annum and maturity in June - November 2019.

As at 31 December 2018 the carrying value of middle-term government debt bonds at FVOCI was UAH 1,821 million with effective interest rate 16.69-21.61% per annum and maturity in March 2019 to May 2023.

As at 31 December 2018 the carrying value of short-term government discount debt bonds at FVOCI was UAH 12,441 million with effective interest rate 17.95-22.13% per annum and maturity in January - September 2019.

As at 31 December 2018 the carrying value of currency short-term government debt bonds at FVOCI (discount bonds) was UAH 4,762 million with effective interest rate 5.97-7.06% per annum and maturity in January - June 2019.

9 Investment Securities (Continued)

As at 31 December 2018 the carrying value of middle-term government bonds at AC, denominated in USD, was UAH 9,659 million, with effective interest rate 3.89-5.48% per annum and maturity in April - October 2019.

As at 31 December 2018 the carrying value of middle-term government bonds at AC, denominated in EUR, was UAH 4,007 million, with effective interest rate 3.99-4.22% per annum and maturity in June - November 2019.

As at 31 December 2018 bonds, issued by the State Mortgage Institution at FVOCI, with effective interest rate 18.89% per annum and maturity in December 2019 and bonds, issued by the State Mortgage Institution at AC, with effective interest rate 18.95% per annum and maturity in December 2020 - December 2023 with the carrying value of UAH 93 million and UAH 872 million respectively.

As at 31 December 2017, the government bonds with embedded option with the carrying value of UAH 47,444 million with effective interest rate 9.33-10.24% per annum and maturity in September 2028 - October 2031, were accounted as available-for-sale.

As at 31 December 2017, the government bonds with embedded option with the carrying value of UAH 7,604 million with effective interest rate 9.33-10.24% per annum and maturity in January 2031 - January 2032, were accounted as held to maturity.

As at 31 December 2017 long-term government bonds with an embedded option with the carrying value of UAH 31,163 million, were accounted as available-for-sale, with effective interest rate 8.91-11.13% per annum and maturity in October 2027 - November 2031.

As at 31 December 2017 long-term government bonds without an embedded option with the carrying value of UAH 24,538 million, were accounted as held to maturity, with effective interest rate 8.91-11.13% per annum and maturity in March - December 2032.

As at 31 December 2017 the carrying value of middle-term government bonds, were accounted as available-for-sale, denominated in USD, was UAH 9,935 million, with effective interest rate 3.89-5.48% per annum and maturity in April - October 2019.

As at 31 December 2017 the carrying value of middle-term government bonds, were accounted as available-for-sale, denominated in EUR, was UAH 1,680 million, with effective interest rate 4.08-4.36% per annum and maturity in June 2019.

As at 31 December 2017 bonds issued by the State Mortgage Institution with the carrying value of UAH 953 million were carried as held to maturity with effective interest rate 10.86-10.90% per annum and maturity in November 2018. These bonds were repaid at maturity. The State Mortgage Institution is the only second-tier Ukrainian financial institution on the mortgage market dealing with the mortgage loans refinancing.

As at 31 December 2017, short-term government debt bonds, were accounted as held to maturity, included discount bonds with maturity in January-February 2018. These bonds were repaid at maturity.

10 Investment Properties

In millions of Ukrainian hryvnias	Investment properties
Carrying amount at 31 December 2016 (restated)	691
Transfer to investment property from repossessed collateral	2,681
Gain from revaluation	276
Carrying amount at 31 December 2017 (restated)	3,648
Transfer to investment property from repossessed collateral	271
Disposals	(36)
Loss on revaluation	(543)
Carrying amount at 31 December 2018	3,340

10 Investment Properties (Continued)

As at 31 December 2018, carrying value UAH 2,995 million of investment property (31 December 2017: UAH 3,507 million; 31 December 2016: UAH 1,189 million;) has been pledged as a collateral for the refinancing loan received from the NBU. Refer to Notes 14 and 28.

11 Premises, Leasehold Improvements, Equipment and Intangible Assets

In millions of Ukrainian hryvnias	Premises	Leasehold improvements	Computers	Motor vehicles	Furniture, equipment and other	Intangible assets	Total
Carrying amount at 1 January 2017 (restated)	1,806	37	977	52	416	121	3,409
Cost or valuation at 1 January 2017 (restated)	1,935	239	2,967	230	1,404	148	6,923
Accumulated depreciation and amortisation at 1 January 2017 (restated)	(129)	(202)	(1,990)	(178)	(988)	(27)	(3,514)
Additions	6	10	208	17	150	240	631
Disposals	(25)	-	(4)	(16)	(34)	(3)	(82)
Depreciation and amortisation charge	(44)	(18)	(322)	(17)	(89)	(25)	(515)
Impairment charge to profit or loss	(117)	-	-	-	-	-	(117)
Reclassification	(46)	-	(61)	-	115	(8)	-
Carrying amount at 31 December 2017 (restated)	1,580	29	798	36	558	325	3,326
Cost or valuation at 31 December 2017 (restated)	2,129	247	3,118	228	1,579	377	7,678
Accumulated depreciation and amortisation at 31 December 2017 (restated)	(549)	(218)	(2,320)	(192)	(1,021)	(52)	(4,352)
Additions	8	6	692	295	224	136	1,361
Disposals	(93)	-	(4)	(176)	(25)	(1)	(299)
Depreciation and amortisation charge	(40)	(16)	(348)	(23)	(93)	(74)	(594)
Impairment charge to profit or loss	(4)	-	-	-	-	-	(4)
Revaluation recognized in other comprehensive income	2	-	-	-	-	-	2
Reclassification of categories	7	(4)	189	6	(257)	59	-
Carrying amount at 31 December 2018	1,460	15	1,327	139	407	445	3,793
Cost or valuation at 31 December 2018	1,478	60	3,334	294	1,183	569	6,918
Accumulated depreciation and amortisation at 31 December 2018	(18)	(45)	(2,007)	(155)	(776)	(124)	(3,125)
Carrying amount at 31 December 2018	1,460	15	1,327	139	407	445	3,793

As at 31 December 2018, intangible assets included internally generated intangible assets of UAH 110 million (31 December 2017: UAH 61 million; 31 December 2016: UAH 49 million).

In November-December 2018 premises were revalued at fair value. The valuation was carried out by external valuation companies that hold a suitable professional qualification and have recent experience in valuation of assets of similar location and category. The basis of valuation of premises was observable market prices.

As at 31 December 2018, included in carrying value of premises was UAH 1,057 million of revaluation surplus, on which a deferred tax liability of UAH 136 million was recognised (31 December 2017: UAH 1,059 million and UAH 149 million respectively; 31 December 2016: UAH 806 million and UAH 136 million respectively).

At 31 December 2018 the carrying amount of premises would have been UAH 893 million (31 December 2017: UAH 921 million; 31 December 2016: UAH 1,258 million) had the assets been carried at cost less depreciation.

As at 31 December 2018, the cost or revaluation of fully depreciated premises, leasehold improvements, equipment and intangible assets that were still in use was UAH 1,247 million (31 December 2017: UAH 408 million; 31 December 2016: UAH 251 million).

As at 31 December 2018, premises of UAH 1,087 million (31 December 2017: UAH 1 133 million; 31 December 2016: UAH 1,203 million) were pledged as a collateral under the refinancing loans received from the NBU. Refer to Note 14 and 28.

12 Other Financial Assets

In millions of Ukrainian hryvnias	31 December 2018	31 December 2017 (Restated)	31 December 2016 (Restated)
Guarantee deposits	2,384	2,450	2,410
Settlement with clients	830	855	641
Accrued income receivable	118	166	32
Other	35	6	36
Less: Allowance for expected credit losses/allowance for impairment	(624)	(537)	(480)
Total other financial assets	2,743	2,940	2,639

In 2018 according to IFRS 9, the Bank applied a simplified approach for estimation of expected credit losses on receivables.

13 Other Assets

In millions of Ukrainian hryvnias	31 December 2018	31 December 2017(Restated)	31 December 2016 (Restated)
Receivables on conversion of liabilities to equity	8,881	8,829	8,878
Inventory	441	305	239
Prepayments for services	61	126	2
Precious metals	35	34	1
Prepaid taxes other than income tax	21	18	8
Other	236	275	457
Less: Impairment	(776)	(772)	-
Total other assets	8,899	8,815	9,585

Receivables originated on conversion of liabilities to equity of UAH 8,881 million (31 December 2016: UAH 8,829 million) were recorded by the Bank as a result of conversion of customer accounts to equity at the nationalisation in 2016. Management of the Bank expects to recover this amount less allowance in full.

14 Due to the NBU

Balances due to the NBU are as follows:

In millions of Ukrainian hryvnias	31 December 2018	31 December 2017
Long-term borrowings from the NBU	9,817	10,886
Short-term borrowings from the NBU	-	1,508
Total due to the NBU	9,817	12,394

As at 31 December 2018 and 31 December 2017 long-term borrowings from the NBU bore interest rate at 14.25% to 16.00% per annum. The contractual maturity of the NBU refinancing loan tranches outstanding varied from May 2016 to February 2017. Included in the total amount due to the NBU was the past due amount of UAH 9,672 million (31 December 2017: UAH 10,689 million). Refer to Note 26. Repayment of debt will be carried out gradually, depending on the Bank's liquidity status in the national currency, as well as other factors that may affect the Bank's obligations to clients.

In December 2018, the Bank signed a framework loan agreement and a framework repo loan agreement with the NBU for a period of 10 years, which allows the Bank to receive refinancing loans, overnight, repo loans with government securities as security if needed.

The interest rate on overnight loans and short-term refinancing loans is determined by the NBU regulations on the interest rate policy and is not subject to change during loans term.

14 Due to the NBU (Continued)

The interest rate on long-term refinancing loans is set at a level not lower than the NBU discount rate plus two percentage points and changes over the term of the loan when the NBU discount rate changes.

The interest rate on repo loans is set at a level not lower than the NBU discount rate plus two percentage points.

For the purposes of the statement of cash flow long-term borrowings from the NBU are classified as cash flows from financial activities, and short-term borrowings as cash flows from operating activities.

Assets pledged under the NBU long-term refinancing loans are as follows:

In millions of Ukrainian hryvnias	Note	31 December 2018	31 December 2017
Cash balances with the NBU	7	1,294	1,294
Premises	11	1,087	1,133
Investment properties	10	2,995	3,505
Repossessed collateral		13	5
Total		5,389	5,937

Refer to Note 29 for the disclosure of the fair value of amounts due to the NBU. Geographical, maturity and interest rate analysis is disclosed in Note 26.

15 Due to Banks and Other Financial Institutions

Balances due to banks and other financial institutions are as follows:

In millions of Ukrainian hryvnias	31 December 2018	31 December 2017
Correspondent accounts and overnight placements of banks	135	184
Current placements of commercial banks	40	-
Term placements of commercial banks	19	30
Pledge deposits of banks	1	1
Term loans under the credit lines from other financial institutions	-	19
Total due to banks and other financial institutions	195	234

Term placements of commercial banks represent placements in USD and EUR with maturities from January 2019 - December 2019 (31 December 2017: placements in USD and EUR with maturities in January 2018 - December 2019).

Refer to Note 29 for the disclosure of the fair value of each class of amounts due to banks and other financial institutions. Geographical, maturity and interest rate analysis is disclosed in Note 26.

16 Customer Accounts

In millions of Ukrainian hryvnias	31 December 2018	31 December 2017 (Restated)	31 December 2016 (Restated)
Individuals			
- Term deposits	109,778	119,476	119,519
- Current/demand accounts	72,892	51,535	31,207
Legal entities			
- Term deposits	11,422	12,798	14,677
- Current/settlement accounts	36,785	28,318	15,253
Government organizations			
- Current/settlement accounts	178	40	-
Total customer accounts	231,055	212,167	180,656

Economic sector concentrations within customer accounts are as follows:

	31 December 2018		31 December 2017 (Restated)		31 December 2016 (Restated)	
In millions of Ukrainian hryvnias	Amount	%	Amount	%	Amount	%
Individuals	182,670	80	171,011	81	150,726	84
Services	11,129	5	7,517	3	6,620	4
Trade	7,533	3	9,952	5	9,133	5
Manufacturing	3,303	1	2,571	1	2,203	1
Agriculture	1,105	1	1,365	1	1,612	1
Transport and communication	732	-	1,208	1	2,471	1
Government organizations	178	-	40	-	-	-
Machinery	174	-	319	-	308	-
Other	24,231	10	18,184	8	7,583	4
Total customer accounts	231,055	100	212,167	100	180,656	100

At 31 December 2018 included in customer accounts were deposits of UAH 670 million (31 December 2017: UAH 788 million; 31 December 2016: UAH 3,864 million) held as collateral for loans and advances to customers exposure of UAH 670 million (31 December 2017: UAH 788 million; 31 December 2016: UAH 3,864 million), issued by the Bank.

Fair value of each class of customer accounts is disclosed in Note 29. Geographical, maturity and interest rate analysis of customer accounts is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

17 Other Financial Liabilities

Other financial liabilities comprise the following:

In millions of Ukrainian hryvnias	31 December 2018	31 December 2017 (Restated)	31 December 2016 (Restated)
Settlements	735	608	924
Accounts payable	609	310	83
Provision for expected credit losses/provision for credit related commitments	320	181	247
Other	583	589	678
Total other financial liabilities	2,247	1,688	1,932

17 Other Financial Liabilities (Continued)

The table below shows change in the credit related commitments:

In millions of Ukrainian hryvnias	Amount at 31 December 2018	Transfer to category: With estimate of expected credit losses for 12-month ECL	Transfer to category: With estimate of expected credit losses for lifetime ECL	Transfer to category: Impaired	New recognized liabilities	Derecognition of liabilities	Other changes in liabilities for the reporting period	Exchange differences	Amount at 31 December 2018
With estimate of expected credit losses for 12-month ECL									
Guarantees issued	787	20	(6)	-	328	(252)	(2)	(5)	870
Avals granted	257	-	(250)	-	5	(60)	72	-	24
Unused credit lines	55,179	3,248	(658)	(90)	17,368	(11,233)	6,087	(3)	69,899
With estimate of expected credit losses for lifetime ECL									
Guarantees issued	38	(20)	6	-	26	(40)	4	-	14
Avals granted	1	-	250	-	2	(2)	(54)	-	197
Unused credit lines	2,517	(3,144)	693	(26)	984	(863)	213	-	372
Individually impaired									
Guarantees issued	158	-	-	-	-	(54)	(15)	(4)	85
Unused credit lines	364	(104)	(35)	116	150	(327)	(12)	(2)	149
Total credit related commitments, gross	59,301	-	-	-	18,863	(12,831)	6,293	(14)	71,610

17 Other Financial Liabilities (Continued)

The table below presents the analysis of changes in the provision for expected credit losses on credit related commitments:

		Transfer to category							
In millions of Ukrainian hryvnias	Amount at 31 December 2018	With estimate of expected credit losses for 12-month ECL	With estimate of expected credit losses for lifetime ECL	Impaired	New recognized liabilities	Derecognition of liabilities	Other changes in liabilities for the reporting period	Exchange differences	Amount at 31 December 2018
With estimate of expected credit losses for 12-month ECL									
Guarantees issued	18	3	-	-	9	(3)	11	-	38
Unused credit lines	182	14	(3)	(1)	77	(44)	(33)	-	192
With estimate of expected credit losses for lifetime ECL									
Guarantees issued	1	(3)	-	-	1	(1)	2	-	-
Unused credit lines	11	(14)	3	-	14	(8)	(1)	-	5
Individually impaired									
Guarantees issued	158	-	-	-	-	(54)	(15)	(4)	85
Unused credit lines	-	-	-	1	-	(1)	-	-	-
Total provision for expected credit losses on credit related commitments	370	-	-	-	101	(111)	(36)	(4)	320

Refer to Note 29 for the disclosure of the fair value of each class of other financial liabilities. Geographical, maturity and interest rate analyses of other financial liabilities are disclosed in Note 26.

18 Provisions and Non-financial Liabilities

Provisions and non-financial liabilities comprise the following:

In millions of Ukrainian hryvnias	31 December 2018	31 December 2017(Restated)	31 December 2016 (Restated)
Provision for legal cases	2,086	2,317	1,335
Payables for contributions to Deposit Guarantee Fund	415	380	386
Accrued expenses on vacation	270	230	204
Taxes other than income tax	188	217	260
Accrued salaries and bonuses	76	114	102
Provision for taxes other than on income	-	-	251
Other	97	34	7
Total provisions and other non-financial liabilities	3,132	3,292	2,545

19 Share Capital and Other Reserve Funds

Share Capital

The nominal registered amount of the Bank's issued share capital at 31 December 2018 was UAH 206,060 million (31 December 2017: UAH 206,060 million). The total authorised number of ordinary shares was 735.93 million shares (31 December 2017: 735.93 million shares) with a par value of UAH 280 per share (31 December 2017: UAH 280 per share). All issued ordinary shares are fully paid and registered. Each ordinary share carries one vote.

After the Bank was nationalized in December 2016, the Government of Ukraine represented by the Ministry of Finance of Ukraine was the sole shareholder of the Bank.

Result from transactions with the shareholder

On 31 December 2018 and 31 December 2017, the result from transactions with a shareholder was UAH 12,174 million and comprised of net gain on initial recognition of government loan bonds received from the Shareholder as contributions to the share capital in 2016–2017.

General reserves and other funds

General reserves and other funds are established in accordance with the requirements of the Ukrainian legislation, amounted to UAH 6,211 million as at 31 December 2018 (31 December 2017: UAH 6,211 million). The Bank is required to establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year is calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders of not less than 5% of current period profit until reserve capital will reach 25% of regulatory capital of the Bank.

Basic and adjusted earnings per share

During the reporting period, no financial instruments with a dilutive effect were outstanding. Therefore, basic earnings per share equal diluted earnings per share. Earnings per share amounts are calculated by dividing profit for the period attributable to shareholder of the Bank by the weighted average number of ordinary shares outstanding during the year.

	2018	2017
Profit/(loss) for the year attributable to shareholder of the Bank (in millions)	12,798	378
Weighted average number of ordinary shares in issue, in millions	735.93	420.85
Earnings per share, basic and diluted (expressed in UAH per share)	17.39	0.90

20 Interest Income and Expense

In millions of Ukrainian hryvnias	2018	2017
Interest income		
Interest income at effective interest rate		
Loans and advances to individuals	15,934	11,699
Investment securities - at FVOCI	6,398	-
Loans and advances to legal entities	1,576	2,839
Loans to small and medium enterprises (SME)	1,112	471
Investment securities - at AC	798	-
Due from banks	303	215
Cash and cash equivalents and mandatory reserves	77	-
Purchase/originated credit-impaired	6	-
Investment securities available-for-sale	-	6,223
Investment securities held to maturity	-	1,661
Other	-	1
Total interest income at effective interest rate	26,204	23,109
Other interest income		
Investment securities - at FVPL	4,167	-
Finance lease	383	1,376
Total interest income at effective interest rate	4,550	1,376
Total other interest income	30,754	24,485
Interest expense		
Term deposits of individuals	9,010	12,051
Current/settlement accounts	2,316	1,793
Due to the NBU	1,697	2,751
Term deposits of legal entities	866	1,617
Due to banks and other financial institutions	87	136
Subordinated debt	17	19
Other	9	7
Total interest expense	14,002	18,374
Net interest income	16,752	6,111

Information on interest income and expense from transactions with related parties is disclosed in Note 31.

21 Charge for Impairment

In millions of Ukrainian hryvnias	Note	2018	2017 (Restated)
Increase/decrease in charge for impairment:			
Cash and cash equivalents	7	(9)	-
Loans and advances to customers	8	6,061	7,379
Credit related commitments	17	(50)	-
Other financial assets	12	87	-
Total charge for impairment		6,089	7,379

Credit commitments and other financial assets for the 12 months of 2017 were disclosed in Note 23.

22 Fee and Commission Income and Expense

In millions of Ukrainian hryvnias	2018	2017
Fee and commission income		
Settlement transactions	8,554	5,834
Cash withdrawal	4,325	3,201
Acquiring transactions	3,514	2,365
International payment systems	1,165	1,262
Cash transactions	245	235
Other	1,787	314
Total fee and commission income	19,590	13,211
Fee and commission expense		
International payment systems	2,969	2,071
Settlement transactions	1,240	703
Cash transactions	192	186
Other	1	57
Total fee and commission expense	4,402	3,017
Net fee and commission income	15,188	10,194

Information on fee and commission income from transactions with related parties is disclosed in Note 31.

23 Administrative and Other Operating Expenses

In millions of Ukrainian hryvnias	2018	2017
Staff costs	5,729	4,559
Contributions to Deposit Guarantee Fund	1,669	1,471
Professional services	1,234	419
Provision for legal cases	1,033	1,024
Taxes other than on income	881	490
Rent	685	619
Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets	594	515
Utilities and household expenses	566	453
Maintenance of premises, leasehold improvements and equipment	468	472
Mail and telecommunication	423	428
Security	207	178
Advertising and marketing	125	60
Transportation	120	126
Insurance expenses	44	362
Provision for other assets	21	-
Provision for other financial assets	-	814
Changes in provision of credit related commitments	-	(66)
Other	189	270
Total administrative and other operating expenses	13,988	12,194

Included in staff costs was unified social contribution of UAH 935 million (31 December 2017: UAH 729 million). Social contributions are made into the State pension fund which is a defined contribution plan.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 31.

Provisions for other financial assets and other assets for the 12 months of 2018 are disclosed in Note 21.

During 2018, non-audit services provided by Ernst & Young Global Limited network firms comprised of agreed upon procedures on verification of customer information of Cyprus branch of the Bank. No other non-audit services were provided.

24 Income Taxes

In millions of Ukrainian hryvnias	2018	2017
Current tax	-	3
Deferred tax	(9)	16
Income tax expense/(credit) for the year	(9)	19

In 2018 the income tax rate applicable to the Bank's income was 18% (2017: 18%).

In millions of Ukrainian hryvnias	2018	2017 (restated)
Profit before tax	12,789	397
Theoretical expense at statutory rate (2018: 18%; 2017: 18%)	2,302	71
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income recognised for tax purposes only	82	81
- Non-deductible expenses	368	1,107
Unrecognised deferred tax assets	(2,761)	(1,240)
Income tax expense/(credit) for the year	(9)	19

Differences between IFRS and statutory taxation regulations in Ukraine and other countries give rise to certain temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

In millions of Ukrainian hryvnias	31 December 2017 (restated)	Impact of the transition to IFRS 9	1 January 2018	Credited to profit or loss	Credited directly to other compre-hensive income	31 December 2018
Tax effect of deductible temporary differences						
Provisions and impairments	24,172	240	24,412	(12,099)	-	12,313
Tax loss carried forward to the future periods	5,441	-	5,441	9,338	-	14,779
Gross deferred tax asset	29,613	240	29,853	(2,761)	-	27,092
Less unrecognised deferred tax assets	(29,613)	(240)	(29,853)	2,761	-	(27,092)
Recognised deferred tax asset	-	-	-	-	-	-
Tax effect of taxable temporary differences						
Subordinated debt	(1)	-	(1)	1	-	-
Premises, leasehold improvements and equipment	(149)	-	(149)	8	5	(136)
Net deferred tax liability	(150)	-	(150)	9	5	(136)

24 Income Taxes (Continued)

In millions of Ukrainian hryvnias	31 December 2016 (restated)	(Charged)/ credited to profit or loss	Credited directly to other compre-hensive income	31 December 2017 (restated)
Tax effect of deductible temporary differences				
Provision and impairments	23,529	643	-	24,172
Tax loss carried forward to the future periods	7,324	(1,883)	-	5,441
Gross deferred tax asset	30,853	(1,240)	-	29,613
Less unrecognised deferred tax assets	(30,853)	1,240	-	(29,613)
Recognised deferred tax asset	-	-	-	-
Tax effect of taxable temporary differences				
Subordinated debt	(2)	1	-	(1)
Premises, leasehold improvements and equipment	(136)	(17)	4	(149)
Net deferred tax liability	(138)	(16)	4	(150)

25 Segment Analysis

Operating segments are components that engage in business activities 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 the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Management Board of the Bank.

(a) Description of products and services from which each reportable segment derives its revenue

The Bank identifies the following main segments of banking activity starting the second quarter of 2018:

Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, derivative products.

Servicing small and medium businesses - this business segment includes the provision of banking services to private entrepreneurs or legal entities on direct debit of accounts, servicing current accounts, attracting deposits, providing credit lines in the form of overdraft, granting loans and other types of financing, and operations with foreign currency and derivative financial instruments;

Corporate banking - this business segment includes the provision of banking services to private entrepreneurs or legal entities on direct debit of accounts, maintenance of current accounts, attracting deposits, the provision of credit lines in the form of overdraft, the provision of loans and other types of financing, as well as foreign operations with foreign currency and derivative financial instruments. The difference from small and medium business clients is that at least one condition must be met for a client to enter the corporate business segment:

- annual sales of products not less than 50 million UAH;
- calculated overdraft limit of 2 million UAH;
- loans or other active operations in the amount of 10 million UAH;
- exports / imports of goods not less than the equivalent of 500 thousand dollars in a quarter, or the purchase / sale of foreign currency in Bank at least $ 300 thousand per quarter;
- the presence of 4 000 hectares of agricultural land.

25 Segment Analysis (Continued)

Treasury and Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice, sale of investment of legal entities and individuals, and representing interbank loans, deposits, foreign currency exchange operations, arrangement of funding in the international markets, asset and liabilities management, issue of senior bonds and assets backed securities, project financing, negotiation of limits for trade financing with financial institutions.

Trading enterprises banking - includes banking services to the population for providing the opportunity to make payments through the POS-terminal network, issuing quick loans in cooperation with trading networks.

Assets and liabilities managed as a separate portfolio - this segment includes operations related to the former owners of the bank and which today are recognized as problematic. This segment includes non-performing loans which were issued before

19 December 2016, which Management considers bear similar credit risk characteristics regardless of the classification by the industry and the commercial activity at the date of issuance of such loans.

Before the second quarter of 2018, the Bank identified the following segments of banking activity:

Retail banking – included private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, derivative products.

Corporate banking – included direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

Investment banking – included financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.

Treasury – included interbank loans, deposits, foreign currency exchange operations, arrangement of funding in the international markets, asset and liabilities management, issue of senior bonds and assets backed securities, project financing, negotiation of limits for trade financing with financial institutions.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but excluding taxation and head office overheads. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

(b) Factors that management used to identify the reportable segments

The Bank's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

Segment financial information reviewed by the CODM does not include information of the head office functional departments. Head office functional departments do not earn revenues or earn revenues that are only incidental to the activities of the Bank and is not considered by the CODM as an operating segment.

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

Funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances. For each business segment the CODM reviews interest income adjusted for intersegment result (net interest on transactions with other segments). Income taxes are not allocated to segments.

Starting from the second quarter of 2018, the CODM analyzes the information by segments disaggregated in accordance with the Bank's Strategy for 2018-2022 approved by the Bank's shareholder at the beginning of 2018 of and as a result of the changes introduced in the organizational structure of the Bank. Therefore, the segments' income and expenses for 2018 and assets and liabilities of segments as 31 December 2018 are presented by segments based on such information.

25 Segment Analysis (Continued)

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended at 31 December 2018 is set out below:

In millions of Ukrainian hryvnias	Retail banking	SME	Trading enterprises banking	Assets and liabilities managed as a separate portfolio	Treasury and Investment banking	Corporate banking	Total reportable segments
Cash and cash equivalents and mandatory reserves	13,565	-	-	-	13,795	-	27,360
Loans and advances to customers	34,792	4,092	3,869	3,299	1	4,087	50,140
Investment securities at FVPL	-	-	-	-	86,244	-	86,244
Investment securities at FVOCI	-	-	-	-	79,299	-	79,299
Investment securities at AC	-	-	-	-	14,538	-	14,538
Investments in subsidiaries	-	-	-	30	-	-	30
Current income tax prepayment	88	14	3	-	75	4	184
Investment properties	-	-	-	3,340	-	-	3,340
Premises, leasehold improvements, equipment and intangible assets	2,638	383	22	42	611	97	3,793
Other financial assets	1,600	7	7	1,100	26	3	2,743
Other assets	549	92	18	7,702	496	42	8,899
Repossessed collateral	7	10	-	1,334	-	10	1,361
Assets held for sale	-	-	-	117	-	-	117
Total reportable segment assets	53,239	4,598	3,919	16,964	195,085	4,243	278,048
Due to the NBU	-	-	-	-	9,817	-	9,817
Due to banks and other financial institutions	-	-	-	66	129	-	195
Customer accounts	181,680	32,748	-	9,333	-	7,294	231,055
Debt securities in issue	-	-	-	-	-	2	2
Deferred income tax liability	64	10	2	-	57	3	136
Other financial liabilities	1,293	88	4	99	685	78	2,247
Provisions and non-financial liabilities	1,138	85	39	114	1,707	49	3,132
Total reportable segment liabilities	184,175	32,931	45	9,612	12,395	7,426	246,584

25 Segment Analysis (Continued)

Capital expenditures are supplements to non-current assets that are different from financial instruments, deferred tax assets, retirement assets and rights arising from insurance contracts.

In millions of Ukrainian hryvnias	Retail banking	SME	Trading enterprises banking	Assets and liabilities managed as a separate portfolio	Treasury and Investment banking	Corporate banking	Total reportable segments
2018							
Total revenues comprise:							
- Interest income	14,503	1,198	1,408	891	12,167	587	30,754
- Fee and commission income	10,901	1,035	7,056	36	308	254	19,590
- Other income	1,068	250	39	39	33	28	1,457
Revenues from/(expenses on) other segments	29,285	5,223	(294)	(29,402)	(6,259)	1,447	-
Total revenues	55,757	7,706	8,209	(28,436)	6,249	2,316	51,801
Interest expense	(10,888)	(734)	-	(86)	(1,763)	(531)	(14,002)
Charge for impairment	(361)	(164)	(1)	(5,394)	17	(186)	(6,089)
Fee and commission expense	(20)	-	(4,116)	-	(266)	-	(4,402)
Gains less losses from trading in foreign currencies and swaps	1,273	-	-	26	98	586	1,983
Losses on the valuation of investment properties	(396)	(57)	(3)	10	(92)	(15)	(553)
Foreign exchange translation gains less losses	-	-	-	247	898	-	1,145
Gains less losses from investment securities sale	-	-	-	-	3	-	3
Losses less gains from investment securities revaluation	-	-	-	-	(3,085)	-	(3,085)
Impairment of repossessed collateral	(9)	(1)	-	-	(3)	-	(13)
Administrative and other operating expenses	(10,210)	(1,212)	(70)	(175)	(2,026)	(295)	(13,988)
Other losses	(1)	(1)	-	(9)	-	-	(11)
Segment result	35,145	5,537	4,019	(33,817)	30	1,875	12,789

25 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended at 31 December 2017 is set out below:

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Total reportable segments
Cash and cash equivalents and mandatory reserves	14,256	4,499	6,541	25,296
Due from banks	-	-	2,903	2,903
Loans and advances to customers	31,865	6,470	-	38,335
Embedded derivative assets	-	-	34,336	34,336
Investment securities available-for-sale	-	-	90,354	90,354
Investment securities held to maturity	-	-	36,322	36,322
Current income tax prepayment	134	22	28	184
Investments in subsidiaries and an associate	-	-	30	30
Investment properties	-	3,648	-	3,648
Premises, leasehold improvements, equipment and intangible assets	2,405	405	516	3,326
Other financial assets	441	867	1,632	2,940
Other assets	1,078	7,489	248	8,815
Repossessed collateral	-	7,069	-	7,069
Assets held for sale	117	-	-	117
Total reportable segment assets (as restated)	50,296	30,469	172,910	253,675
Due to the NBU	-	-	12,394	12,394
Due to banks and other financial institutions	-	-	234	234
Customer accounts	171,011	41,156	-	212,167
Debt securities in issue	-	-	2	2
Deferred income tax liability	121	13	16	150
Other financial liabilities	835	233	620	1,688
Provisions and non-financial liabilities	2,836	114	342	3,292
Subordinated debt	-	129	-	129
Total reportable segment liabilities (as restated)	174,803	41,645	13,608	230,056

25 Segment Analysis (Continued)

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Total reportable segments
2017				
Total revenues comprise:				
- Interest income	12,020	4,365	8,100	24,485
- Fee and commission income	8,089	2,951	2,171	13,211
- Other operating income	1,415	110	5	1,530
Revenues from/(expenses on) other segments	59,408	(54,961)	(4,447)	-
Total revenues (as restated)	80,932	(47,535)	5,829	39,226
Interest expense	(13,397)	(2,089)	(2,888)	(18,374)
Charge for impairment of loans and advances to customers	(917)	(6,462)	-	(7,379)
Fee and commission expense	(2,285)	(381)	(351)	(3,017)
Gains less losses from embedded derivative financial instruments	-	-	3,491	3,491
Gains less losses from trading in foreign currencies and swaps	103	995	(14)	1,084
Foreign exchange translation (losses less gains)/gains less losses	(4,068)	508	1,059	(2,501)
Impairment of investments in an associate	-	-	(99)	(99)
Losses on premises and investment property	-	-	247	247
Intangible assets write off	-	(1)	-	(1)
Impairment of repossessed collateral	-	(71)	-	(71)
Administrative and other operating expenses	(8,775)	(1,284)	(2,135)	(12,194)
Other losses	-	-	(15)	(15)
Segment result (as restated)	51,593	(56,320)	5,124	397

25 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended and at 31 December 2016 is set out below:

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments
Cash and cash equivalents and mandatory reserves	12,101	10,909	-	7,149	30,159
Due from banks	-	-	-	-	-
Loans and advances to customers	19,700	12,641	-	275	32,616
Embedded derivative assets	-	-	27,044	-	27,044
Investment securities available-for-sale	-	-	64,409	-	64,409
Current income tax prepayment	125	26	1	29	181
Investments in subsidiaries and associate	-	-	246	-	246
Investment properties	-	691	-	-	691
Premises, leasehold improvements, equipment and intangible assets	2,356	492	14	547	3,409
Other financial assets	168	-	5	2,466	2,639
Other assets	1,154	8,262	3	166	9,585
Repossessed collateral	-	8,782	-	-	8,782
Total reportable segment assets (as restated)	35,604	41,803	91,722	10,632	179,761
Due to the NBU	-	-	-	18,047	18,047
Due to banks and other financial institutions	-	-	-	2,667	2,667
Customer accounts	150,726	29,930	-	-	180,656
Debt securities in issue	-	-	-	2	2
Deferred income tax liability	16	-	-	122	138
Other financial liabilities	1,416	230	1	284	1,932
Provisions and non-financial liabilities	1,867	303	2	373	2,545
Subordinated debt	-	122	-	-	122
Total reportable segment liabilities (as restated)	154,025	30,585	3	21,495	206,109

The Bank did not analyse the capital expenditure, current and deferred income tax in segment reporting.

(e) Analysis of revenues by products and services

The Bank's revenues are analysed by products and services in Notes 20 (interest income), Note 22 (fee and commission income).

(f) Geographical information

Revenues for each individual country for which the revenues are material are reported separately as follows for the year ended 31 December 2018:

In millions of Ukrainian hryvnias	2018	2017
Ukraine	51,394	38,589
Other	407	637
Total revenues	51,801	39,226

26 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

During reporting period, changes were introduced to the organizational structure of risk management, in particular, the Risk Committee of the Supervisory Board was established, direct subordination of the member of the Management Board (on risk management issues) to the Supervisory Board was provided, the risk assessment functions were transferred directly to the Group of Risk Management Division subordinated to the member of the Management Board (responsible for risk management matters). Thus, the independence of the risk assessment function was established.

Risk Management Bodies

Risk management system is created and acting in the Bank for the purpose of efficient risk management; it provides distribution of rights and obligations, responsibilities between governing bodies and business divisions of the Bank, separation of risk identification and assessment processes, processes of efficiency evaluation of risk management system from risk acceptance processes.
The Bank's risk management system bodies includes:

- Supervisory Board;
- Audit Committee of the Supervisory Board;
- Risk Committee of the Supervisory Board;
- Management Board of the Bank;
- Risk Committee of the Management Board
- Credit Committee;
- Asset and Liability Management Committee;
- Internal Audit;
- Block of Risk Management Units;
- Compliance Direction;
- Treasury Department;
- Assets, Liabilities and Investments Analysis Department;
- Other support divisions(Back and Middle Office);
- Business divisions that directly accept risks.

Supervisory Board. The Supervisory Board is responsible for managing the risks to which the Bank is exposed in its activities and accordingly:

- ensure the establishment and functioning of the effective risk management system, approve internal risk management documents and monitor their compliance/implementation/updating;
- approve a list of limits (restrictions) for each type of risk and procedures for escalating risk limits violations;
- approve the Business Recovery Plan and ensure the fulfilment of functions related to restoration of the Bank's activities by other bodies of the risk management system;
- approve the appointment and dismissal of the heads of the risk management unit and the compliance control unit;
- ensure the functioning of the internal control system and supervising its efficiency;
- review managerial risk reports and make decisions on the application of appropriate risk management measures;
- take measures to prevent conflict of interest within the Bank, promote their resolution and inform the National Bank of Ukraine of conflict of interest arising within the Bank.

The Audit Committee of the Supervisory Board is a permanent collegial body that serves as a supplementary and supporting of the Supervisory Board for its functions, in particular:

- verify the efficiency of the risk management system;
- control the independence, objectivity, competence of the Head of Internal Audit, the efficiency of the performance of internal audit;
- advise the Supervisory Board on the selection, appointment, dismissal of the Head of Internal Audit.

26 Financial Risk Management (Continued)

The Risk Committee of the Supervisory Board a permanent collegial body established and functioning to assist the Supervisory Board in its role of ensuring the functioning of the risk management system in the Bank. The Risk Committee of the Supervisory Board performs the following main functions:

- provides supervision over adequacy and efficiency of risk management system operation in the Bank;
- ensures the availability and updating of the Bank's internal documents regulating the risk management process;
- monitor and analyze the current portfolio and the level of risks accepted by the Bank;
- exercises control over the compliance with the risk limits established by the Supervisory Board;
- carries out a preliminary review of draft risk management strategies and policies, documents on the risk appetite exposure, procedures for carrying out transactions with the Bank's related parties and other documents on risk management issues submitted for consideration and/or approval by the Supervisory Board;
- regularly reviews the exposure of the Bank to significant risks;
- participates in determining the organizational structure of risk management in order to ensure sound risk management;
- participates in the development/revision of internal risk management policies and procedures to be approved by the Supervisory Board;
- controls and advises the Supervisory Board on the Bank's capital adequacy and liquidity;
- reviews and advises the Supervisory Board on the going concern and business recovery plans.

Internal Audit is a component of the Bank's internal control system and performs the following main functions:

- identify and assess the main areas of the Bank's risk, including the availability and efficiency of the risk management system, the compliance of such system with the types and volumes of conducted operations, and the internal control system, the ability of these systems to respond to new and increasing risks, justification of the risk level that the Bank is ready to accept;
- ensure providing the Supervisory Board, the Audit Committee of the Supervisory Board, the Management Board of the Bank with an independent supported assessment of the efficiency of actions, measures and inspections regarding risks to which the Bank is exposed;
- develop and give the recommendations on elimination of deficiencies, improvement of efficiency of the Bank's risk management and internal control systems, monitoring of the measures taken to eliminate deficiencies and consideration of recommendations.

The Management Board of the Bank is responsible for the implementation of the risk management strategies and policies, risk management culture, risk management and internal control systems, procedures, methods and other measures for efficient risk management approved by the Supervisory Board and, respectively:

- ensure the development, develop, approve or adopt (depending on the type of a document) internal risk documents;
- ensure the preparation and submission of the managerial reports to the Supervisory Board on the all types of risks to which the Bank is exposed, including new types of products or significant changes;
- develop measures for the prompt elimination of deficiencies in the risk management system functioning, implementation of recommendations and observations based on the results of the assessment of the internal control system, internal audit department inspections, external auditors and supervisory bodies.

The Risk Management Committee of the Management Board is a permanent collegial body of the Management Board, established and functioning to ensure the integrity and efficiency of risk management processes. The Risk Management Committee of the Management Board performs the following main functions::

- determine the main objectives and principles of risk management that arise in all areas of the Bank's activities;
- set mandatory minimum requirements for the risk management system organization according to the Bank's activities;
- aggregate risk data, assess the Bank's activity taking into account risk appetite and the potential impact of risks on the Bank's capital, ensure submission of an aggregated risk report to the Bank's Board and Supervisory Board;
- carry out continuous risk analysis, examine risk reports, aggregate results of stress testing, and prepare recommendations to the Bank's Board regarding capital adequacy to cover possible losses in case of the stress scenario;
- prepare proposals for risk appetite;
- formulates proposals to mitigate the effects of risks.

26 Financial Risk Management (Continued)

Credit Committee

The Credit Committee makes decisions on active operations of the Bank within the authority limits established by the Management Board of the Bank, approves limits for counterparty banks, securities purchases, monitors the repayment of loans and quality of the Bank's loan portfolio, oversees significant loan projects. The Credit Committee also coordinates loan products, provides for the development and approval of methodologies, instructions, procedures, forms, models and other regulatory or procedural documents for identifying, measuring, monitoring, controlling, reporting and mitigating credit risks at all organizational levels. The Credit Committee meets at least once a week.

Assets and Liabilities Management Committee

The main purpose of the Assets and Liabilities Management Committee's is establishment and functioning is to ensure the efficiency and continuity of the Bank's assets and liabilities management process, monitoring of liquidity risk, currency, interest and price risks (for transactions on the liabilities side) and take appropriate measures aimed at minimizing these risks and maximizing the financial result of the Bank. The Assets and Liabilities Management Committee meets once a week.

Treasury Department

Treasury Department is responsible for day-to-day liquidity management and day-to-day management of foreign currency position of the Bank.

Assets, Liabilities and Investments Analysis Department

Assets, Liabilities and Investments Analysis Department performs daily calculation and control of compliance with regulatory liquidity ratios established by NBU, as well as internal liquidity risk indicators, prepares reports on the current liquidity status of the Bank.

The Block of Risk Management Units is independent from business departments and does not take part in the Bank's income generation. The Block of Risk Management Units is governed by a member of the Management Board on Risk Management Matters (CRO). A member of the Management Board on Risk Management Matters is subordinated and controlled by the Supervisory Board, and has right to turn directly to the Supervisory Board and/or to the Risk Committee of the Supervisory Board. A member of the Management Board on Risk Management Matters has right to veto resolutions of collegial bodies of the Management Board.

The Block of Risk Management Units performs the following main functions:

- ensure the functioning of the credit risk, operational risk, market, interest rate risk in the banking book and liquidity risk systems through the timely identification, measurement, monitoring, control, reporting on each type of risk;
- develop/participate in the development, and keep (depend on the type of a document) the internal banking regulations (procedures, methodologies, regulations, etc.) on risk management updated;
- prepare conclusions on credit applications l both for new credits and change of conditions under active/current credits;
- prepare and submit risk reports to the Bank's Supervisory Board at least once a quarter, the Risk Committee of the Supervisory Board, the Risk Management Committee of the Board and the Management Board of the Bank, as well as to the Committees of the Management Board of the Bank, at least once a month, and in case of the situations requiring the Board of the Bank to be urgently informed – immediately;
- perform stress-testing of risks;
- develop and implement procedures for automated data management and processing;
- monitor the compliance with the limits of risk;
- develop and implement system of early identification of risky borrowers , financing of which can lead to higher credit risk;
- provide for execution and control provisions calculation procedures in accordance with IFRS and credit risk assessment in accordance with requirements of the National Bank of Ukraine;
- develop, implement and keep risk assessment methods and models updated.

26 Financial Risk Management (Continued)

Compliance Direction is governed and controlled by the Supervisory Board of the Bank, independent from business divisions, does not take part in the Bank's income generation and performs the following functions:

- ensure control over consideration of the legislative rules, regulatory environment, rules, internal banking documents and relevant standards of professional associations, which are applicable to the Bank;
- ensure monitoring of changes in the legislation and regulatory environment, rules, internal banking documents and relevant standards of professional associations, applicable to the Bank, and evaluate the impact of such changes on the processes and procedures implemented in the Bank, as well as ensure control over making the relevant amendments in the Bank's documents;
- ensure control over the activities of the Bank in order to prevent the Bank's deliberate participation in illegal transactions that allow the customers to evade tax liabilities and involvement of the Bank in other illegal transactions;
- ensure the management of the risks associated with a conflict of interests that may arise at all levels of the Bank's organisation;
- prepare conclusions on compliance risk that is inherent in new products and significant changes in the activities of the Bank, before their implementation in order to timely take adequate managerial decisions;
- prepare and submit reports on the assessment of compliance risk to the Bank's Supervisory Board, to the Risk Management Committee and to the Management Board at least once a quarter.

Credit risk. The Bank faces credit risk defined as risk of financial losses incurred by one party of a transaction with financial instrument to the other party of this transaction due to failure to perform obligations under an agreement. Credit risk rises in result of credit and other transactions of the Bank with its counterparties leading to creation of financial assets.

Credit policy of the Bank defines uniform basis for credit procedures and credit risk management, establishes uniform approach to credit risk acceptance, principles and standards of credit activity, establishes powers and responsibility of governing bodies, employees and structural divisions of the Bank at each stage of credit process, provides comprehensive approach to credit risk management.

Credit risk management is performed on basis of regular assessment of borrower’s and potential borrower’s capacity to perform their obligations of loan repayment and interest payment, regular analysis of loan portfolio quality with goal of credit risk monitoring, by the way of change, if necessary, of credit limits via obtaining collateral, assessment and re-evaluation of the collateral with established regularity, by obtaining of corporate and personal warranties and other means of risk mitigation.

Main information on credit risk level is regularly revised and provided for assessment in reports of credit portfolio status.

The Credit Committee approves credit transactions in accordance with groups of risk, makes corrections and approves credit risk assessment and estimates assessment of expected credit losses (loans and advances to clients, credit related commitments, other financial assets at amortized cost or as fair value through comprehensive income).

To limit risks faced by the Bank as a result credit transactions the Bank has the following system of authorities to approve credit transactions:

- individual authorities: delegated to the Block of Risk Management Units for risky transactions to approve credit decisions in respect of retail and small business clients under in standard product terms;
- dual authorities (shared signing authorities under) : delegated to managers of risk management divisions along with the managers of the appropriate business divisions under standard product terms. In case of positive resolution by all managers a transaction is approved;
- collective authorities: authorities delegated by the Bank’s Management Board to the Credit Committee, with consideration of conclusions, comments or recommendations of the Legal Division, Security Division, and conclusion of Risk Management divisions including recommendations on specific risks and mitigation actions related to potential credit application being approved as negative. The decision is taken by the majority of votes of Credit Committee members.

26 Financial Risk Management (Continued)

Monitoring of loans

Information System allow the management to perform timely and regular monitoring of loans.

The Bank regularly monitors risk on loan to loan basis. For this goal the Bank performs: (i) review of financial position of a borrower and his position at the market, and (ii) assessment of loan collateral adequacy. The borrower's financial position and his position at the market is regularly analysed and the internal credit rating of borrower is reviewed based on the results of this assessment. This assessment is based on the data on cash inflows to client's account, recent financial reports and other commercial information of the borrower provided to the Bank or received by the Bank by any other way.

The Bank performs regular monitoring of market value of the collateral to assess its sufficiency for loan coverage. Assessment of collateral is performed by independent appraisers, certified by the Bank or qualified as internal appraisers. Regularity of these assessments depends on type of collateral.

The Bank keeps records of credit histories of clients. It allows the Bank to control the level of credit risk by working with borrowers with a positive credit history.

Repayment of problem loans

For the purpose of efficient management of non-performing assets the Bank performs the following :

- prevention of occurrence and timely detection of non-performing loans, efficient recovery of loans potentially to be classified as non-performing debts;
- reduction of non-performing indebtness amount and share in the Bank's portfolio (gross and net of provisions, as a whole and by portfolios), by developing and implementing measures for the recovery of such debts, in particular, restructuring, pre-trial settlement, enforcement on collateral including its forecasted sale, etc.;
- establishment of complex and efficient system of non-performing loans management.

The Bank implemented a segregation of duties as to recovery of non-performing loans at different stages of their identification and settlement depending on type, amount, availability and condition of collateral, capacity and/or intention of a borrower to repay loan and accrued interest.

The stages of non-performing loans management includes:

1. The Pre-Collection stage - a set of activities aimed at identifying potentially non-performing debts and alerting the client to be out of the payment schedule.

2. The Soft collection - a range of activities dedicated on repayment of overdue payments with a delay of 1-90 days, in particular, by communicating with clients remotely (telephone, SMS, IVR, letters, etc.)

3. Hard Collection - a set of measures aimed at the recovery of overdue payments with a delay of 90 to 180 days by voluntarily settling of debt.

4. Legal Collection stage - preparation of the legal collection process begins simultaneously with the stage of the Hard Collection. Legal collection includes a set of measures for the legal collection of debts by way of claim - litigation work.

Non-performing loans management measures includes:

1. Sending of non-voice communications which is generated on a daily basis according to certain criteria.

2. The SkipTracing process which is designed to find customer contact information from additional external sources based on the contacts cross-searching model.

3. Debt Collect system of automatic funds withdrawal from accounts.

26 Financial Risk Management (Continued)

4. Restructuring. The main purpose of the restructuring process is to restore the solvency of a borrower for non-performing loans.

The Bank uses the following restructuring scenarios:

- restructuring of unsecured retail loans – renegotiation of debt by a partial recalculation of the debt fines, commissions, interest, changes in the schedule of debt repayment;
- loan restructuring of the direction of "Consumer lending"- renegotiation of debt by a partial recalculation of debt penalties and fines, forgiveness of part of the debt, changes in the schedule of debt repayment, conversion of foreign currency loans into hryvnia, etc.;
- restructuring of bad assets of clients of SMEs – renegotiation of debt by partial recalculation of debt penalties, commissions, interest, changes in the schedule of debt repayment, except for court fees and fines (court costs and fines should be paid by the client as a precondition of restructuring).

5. Writing off debts from the Bank's balance sheet.

6. Outsourcing.

7. Factoring.

8. Foreclosure of collateral.

Granting loans to related parties

The Bank performs transactions with related parties under market terms. Each loan application received from a related party is considered by the same way as an application from not related party.

Market risk. Market risk is a probability of occurrence of losses or additional expenses or a shortfall in the planned income as a result of unfavourable changes in the foreign exchange rates, interest rates, cost of financial instruments (market quotes, indexes, etc.). The Bank's policy strategic task in area of market risk management is minimization and prevention of possible losses that can arise in case of market conditions change.

Currency risk. Currency risk is the risk that the value of financial instruments owned by the Bank will fluctuate due to changes in foreign exchange rates. The Bank's major currency positions are in Ukrainian hryvnia, U.S. dollars and Euros. The Bank's policy in respect of open currency positions complies with the Ukrainian legislation establishing regulatory limits for these positions. Assets, Liabilities and Investments Analysis Department and Treasury Department performs daily control of compliance with regulatory limits and currency exchange positions by means of appropriate reports preparation. Refer to Note 8 and 9.

The table below summarises the Bank's exposure to currency risk at the end of the reporting period and position in Ukrainian hryvnias:

	31 December 2018				31 December 2017 (restated)			
In millions of Ukrainian hryvnias	Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance and off-balance sheet position	Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance and off-balance sheet position
Ukrainian hryvnias	222,041	154,331	-	67,710	202,149	130,595	-	71,554
US Dollars	21,617	73,065	-	(51,448)	19,824	78,288	67	(58,397)
Euros	16,163	15,594	-	569	7,900	17,422	(67)	(9,589)
Other	499	326	-	173	609	309	-	300
Total	260,320	243,316	-	17,004	230,482	226,614	-	3,868

26 Financial Risk Management (Continued)

In millions of Ukrainian hryvnias	31 December 2016 (restated) Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance and off-balance sheet position
Ukrainian hryvnias	133,124	100,328	-	32,796
US Dollars	16,563	84,899	-	(68,336)
Euros	6,550	17,933	-	(11,383)
Other	630	266	-	364
Total	156,867	203,426	-	(46,559)

Fair value of embedded derivatives was included in the table above together with host instruments into UAH denominated financial assets.

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Bank's gross exposure.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Bank entities, with all other variables held constant:

	31 December 2018		31 December 2017		31 December 2016 (restated)	
In millions of Ukrainian hryvnias	Impact on profit or loss (before tax)	Impact on equity	Impact on profit or loss (before tax)	Impact on equity	Impact on profit or loss (before tax)	Impact on equity
US Dollar strengthening by 20% (2017: strengthening by 20%; 2016: strengthening by 10%)	(10,642)	(10,642)	(11,106)	(11,106)	(6,599)	(6,599)
US Dollar weakening by 5% (2017: weakening by 5%; 2016: weakening by 5%)	2,661	2,661	2,777	2,777	3,288	3,288
Euro strengthening by 10% (2017: strengthening by 10%; 2016: strengthening by 10%)	57	57	(959)	(959)	(1,138)	(1,138)
Euro weakening by 5% (2017: weakening by 5%; 2016: weakening by 5%)	(28)	(28)	479	479	569	569
Other strengthening by 5% (2017: strengthening by 5%; 2016: strengthening by 5%)	9	9	15	15	18	18
Other weakening by 5% (2017: weakening by 5%; 2016: weakening by 5%)	(9)	(9)	(15)	(15)	(18)	(18)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Bank. Sensitivity of US Dollar exchange rate in the above table takes into account effect of recognition of fair value of derivative embedded in investment securities available-for-sale and in investment securities held to maturity.

Interest rate risk. Interest rate risk in the banking book is a probability of occurrence of losses or additional expenses, or a shortfall in the planned revenues due to the effect of unfavourable changes in the interest rates. Interest rate risk shall impact on economic value of the Bank capital and net interest profit of the Bank.

26 Financial Risk Management (Continued)

The Bank's policy strategic task in area of interest rate risk management is minimization and prevention of possible losses that can arise in case of market conditions change. The Bank faces financial losses risk due to interest rates changes for ssets and liabilities, mainly as a result of fixed interest rate loans granting for terms and in amounts different from terms and amounts of liabilities with fixed interest rate.

The collegial body that ensures the day-to-day implementation of the Bank's interest rate policy is the Assets and Liabilities Committee. The responsibilities of the Assets and Liabilities Management Committee in this area include an overview of the financial market price policy, credit and deposit interest rates according to the programs of the competitive banks, consideration of the proposals of the Business and the directions of the Head Office to improve the efficiency of the Bank's credit and deposit policy, the assessment the cost of liabilities and profitability of assets, policies of interest margins, approval of interest rates.

Changes in interest rates can be made in the event of significant fluctuations in market rates, changes in the discount rate of the regulator, depending on the state of the Bank's resource position. Market Risk Management Division that belongs to the Group of Risk Management Divisions, performs monitoring and control of interest rate risk based on GAP-analysis, according to which assets and liabilities sensitive to interest rate change are grouped by remaining maturities.

Fixed interest rate assets and liabilities are grouped by remaining maturities, while assets and liabilities with a variable interest rate are grouped by the earliest repricing dates. The net sensitivity gap between assets and liabilities in a given time band represents the exposure sensitive to changes of market interest rates. The product of this difference and the presumed change of interest rates represents the approximate changes of net interest income. The Bank conducts stress testing to determine under which conditions the Bank is exposed to possible losses, as well as to determine the amount of these losses and the impact on the Bank's interest income. Stress testing is performed by sensitivity analysis, based on the assumption that rates increase or decrease for a certain number of percentage points. The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earliest of contractual interest repricing or maturity dates.

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Non-monetary	Total
31 December 2018						
Total financial assets	35,405	12,931	38,054	173,930	4	260,324
Total financial liabilities	153,503	35,748	53,075	990	-	243,316
Net interest sensitivity gap at 31 December 2018	(118,098)	(22,817)	(15,021)	172,940	4	17,008
31 December 2017						
Total financial assets	31,809	6,463	9,981	182,229	4	230,486
Total financial liabilities	126,777	36,299	60,421	3,117	-	226,614
Net interest sensitivity gap at 31 December 2017(Restated)	(94,968)	(29,836)	(50,440)	179,112	4	3,872
31 December 2016						
Total financial assets	33,360	2,611	6,540	114,356	-	156,867
Total financial liabilities	90,717	32,747	77,293	2,669	-	203,426
Net interest sensitivity gap at 31 December 2016 (Restated)	(57,357)	(30,136)	(70,753)	111,687	-	(46,559)

26 Financial Risk Management (Continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	31 December 2018				31 December 2017				31 December 2016			
In % p.a.	USD	UAH	Euro	Other	USD	UAH	Euro	Other	USD	UAH	Euro	Other
Assets												
Due from banks	-	-	-	-	-	16	-	-	-	-	-	-
Loans and advances to legal entities	6	12	3	5	6	11	3	5	4	11	3	5
Loans and advances to individuals	17	46	18	43	15	43	16	43	15	41	15	-
Investment securities at fair value through profit or loss	5	6	-	-	-	-	-	-	-	-	-	-
Investment securities available-for-sale	-	-	-	-	5	10	2	-	-	10	-	-
Investment securities at fair value through other comprehensive income	7	12	4	-	-	-	-	-	-	-	-	-
Investment securities held to maturity	-	-	-	-	-	10	-	-	-	-	-	-
Investment securities at amortized cost	5	-	4	-	-	-	-	-	-	-	-	-
Liabilities												
Due to the NBU	-	16	-	-	-	16	-	-	-	21	-	-
Correspondent accounts and overnight deposits of banks	-	-	-	-	1	5	-	-	10	5	6	-
Current placements of commercial banks	-	17	2	-	-	-	-	-	-	-	-	-
Long-term loans under the credit lines from financial institutions	-	-	-	-	-	-	-	-	10	-	-	-
Term placements of banks	-	-	-	-	9	-	2	-	3	-	2	-
Customer accounts												
- current accounts of customers	0	5	0	-	-	3	-	-	-	5	-	-
- term deposits of legal entities	0	12	1	-	1	12	4	-	11	18	5	-
- term deposits of individuals	3	14	2	4	4	15	3	4	8	18	7	4
Debt securities in issue	-	15	-	-	-	15	-	-	-	15	-	-
Subordinated debt	-	-	-	-	-	9	-	-	-	9	-	-

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

The Bank is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Bank's current period profit and equity at the end of the reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

26 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2018 is set out below:

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	21,951	3,547	1,862	27,360
Loans and advances to customers	48,887	1	1,252	50,140
Investment securities on FVPL	86,244	-	-	86,244
Investment securities on FVOCI	79,298	1	-	79,299
Investment securities on AC	14,538	-	-	14,538
Other financial assets	136	2,601	6	2,743
Total financial assets	251,054	6,150	3,120	260,324
Non-financial assets	9,439	118	8,167	17,724
Total assets	260,493	6,268	11,287	278,048
Liabilities				
Due to the NBU	9,817	-	-	9,817
Due to banks and other financial institutions	133	59	3	195
Customer accounts	221,476	7,860	1,719	231,055
Debt securities in issue	2	-	-	2
Other financial liabilities	1,586	532	129	2,247
Total financial liabilities	233,014	8,451	1,851	243,316
Non-financial liabilities	3,262	-	6	3,268
Total liabilities	236,276	8,451	1,857	246,584
Net position	24,217	(2,183)	9,430	31,464
Credit related commitments (Note 17)	71,540	19	51	71,610

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand, precious metals and premises and equipment have been allocated based on the country in which they are physically held.

26 Financial Risk Management (Continued)

The geographical concentration of the Bank's assets and liabilities at 31 December 2017 is set out below:

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	18,998	4,461	1,837	25,296
Due from banks	2,903	-	-	2,903
Loans and advances to customers	37,199	4	1,132	38,335
Embedded derivative assets	34,336	-	-	34,336
Investment securities available-for-sale	90,353	1	-	90,354
Investment securities held to maturity	36,322	-	-	36,322
Other financial assets	316	1,784	840	2,940
Total financial assets	220,427	6,250	3,809	230,486
Non-financial assets	10,169	117	12,903	23,189
Total assets	230,596	6,367	16,712	253,675
Liabilities				
Due to the NBU	12,394	-	-	12,394
Due to banks and other financial institutions	52	180	2	234
Customer accounts	201,905	8,063	2,199	212,167
Debt securities in issue	2	-	-	2
Other financial liabilities	1,019	501	168	1,688
Subordinated debt	129	-	-	129
Total financial liabilities	215,501	8,744	2,369	226,614
Non-financial liabilities	3,436	-	6	3,442
Total liabilities	218,937	8,744	2,375	230,056
Net position (as restated)	11,659	(2,377)	14,337	23,619
Credit related commitments (Note 28)	59,213	34	54	59,301

26 Financial Risk Management (Continued)

The geographical concentration of the Bank's assets and liabilities at 31 December 2016 is set out below:

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	18,078	10,484	1,597	30,159
Loans and advances to customers	28,434	280	3,902	32,616
Embedded derivative assets	27,044	-	-	27,044
Investment securities available-for-sale	64,409	-	-	64,409
Other financial assets	46	2,528	65	2,639
Total financial assets	138,011	13,292	5,564	156,867
Non-financial assets	8,855	456	13,583	22,894
Total assets	146,866	13,748	19,147	179,761
Liabilities				
Due to the NBU	18,047	-	-	18,047
Due to banks and other financial institutions	44	2,605	18	2,667
Customer accounts	167,576	9,666	3,414	180,656
Debt securities in issue	2	-	-	2
Other financial liabilities	1,144	685	103	1,932
Subordinated debt	122	-	-	122
Total financial liabilities	186,935	12,956	3,535	203,426
Non-financial liabilities	2,679	-	4	2,683
Total liabilities	189,614	12,956	3,539	206,109
Net position (as restated)	(42,748)	792	15,608	(26,348)
Credit related commitments (Note 28)	22,097	105	62	22,264

Liquidity risk. Liquidity risk is a probability of losses or additional expenses, or a shortfall in the planned revenues as a result of the Bank's inability to finance the growth of its assets and/or fulfil its obligations in due time.

Strategic tasks of the Bank policy in area of liquidity risk management shall be: liquidity indicators keeping at level higher the regulatory level, minimization of liquidity risk by keeping of sufficient amount of high quality liquid assets as possible source of pledge for case of stressing situations implementation, limits of borrowed funds concentration by formation of diversifying resources base, etc.

The Bank strives to support stable form of financing, develop sources of funds, in first turn, funds of individuals and legal entities.

For monitoring of current liquidity status Treasury Department shall manage liquidity within working day by organization of payment calendar of the Bank. Assets, Liabilities and Investments Analysis Department shall perform daily calculation of liquidity indicators in accordance with NBU requirements. Assets, Liabilities and Investments Analysis Department shall deliver report on liquidity risk to ALCO members not less than once a month and to the Risk Committee of Supervisory Board by Market risk management unit not less than once a month. The report shall include information about liquidity breaches by GAP-analysis method (comparison of assets amount and liabilities by terms till maturity) in essential currencies and in equivalent of national currency, available scope of high quality liquid assets, concentration of funding sources, compliance with NBU's ratios and amount of mandatory reserves, etc.

26 Financial Risk Management (Continued)

Liquidity risk control shall be implemented via compliance with regulatory liquidities ratios (immediate, current and short-term), including LCR ratio, and limits and requirements by liquidity GAPs, amount of high quality liquid assets, funding sources concentrations.

The Bank shall calculate regulatory liquidity ratios established by the National Bank of Ukraine on a daily basis. These obligatory limits shall include:

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 43,46% at 31 December 2018 (31 December 2017: 32,47%) with the minimum required limit of 30% for saving banks (31 December 2017: 30% for savings banks).
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 141,98% at 31 December 2018 (31 December 2017: 155,54%) with the minimum required limit of 40% (31 December 2017: 40%).
- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 97,74% at 31 December 2018 (31 December 2017: 99,76%) with the minimum required limit of 60% (31 December 2017: 60%).
- liquidity coverage ratio (LCR) in multy currencies (LCRBB) and in foreign currency (LCRIB). LCR a value is 263.61% in multicurrencies (LCRBB) and 102,03% in foreign currency (LCRIB) as at 31 December 2018 with regulatory value established by NBU not less than 80% in multy currencies (LCRBB) and 50% in foreign currency (LCRIB).

Reports on actual values of liquidity ratios shall be used by Treasury for daily liquidity management.

The Bank Treasury shall manage current liquidity, analyse schedules of payments, manage liquidity position within working day by placing and borrowing of short-term funds at interbank market, purchase or sale of securities, or by other available financial instruments. Treasury also shall analyse possible consequences of outflows of essential amounts of funds to reduce to the maximum level probability of unexpected changes of resources volumes. Treasury shall ensure compliance with requirements of mandatory reserve and regulatory liquidity ratios.

Contingency Funding Plan was developed to manage liquidity in crisis periods. It contains a list of possible reasons leading to crisis, signs of crisis and list of measures on crisis events localization and liquidation. The Plan establishes responsible bodies for certain measures and procedure of their interaction. The Bank also shall provide stress-testing of liquidity by scenarios that include possible unfavourable conditions.

The table below shows liabilities at 31 December 2018 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including and gross loan commitments. Such undiscounted cash flows differ from the amount included in the separate statement of financial position because amounts disclosed in separate statement of financial position are based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2018 is as follows:

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to the NBU	9,817	-	-	-	-	9,817
Due to banks and other financial institutions	162	11	23	-	1	197
Customer accounts	141,973	36,693	54,064	1,152	1	233,883
Debt securities in issue	-	-	-	2	-	2
Other financial liabilities	2,243	2	2	-	-	2,247
Total contractual future payments for financial obligations (as restated)	154,195	36,706	54,089	1,154	2	246,146
Credit related commitments (Note 17)	70,597	313	210	490	-	71,610

26 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2017 is as follows:

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to the NBU	12,396	-	-	-	-	12,396
Due to banks and other financial institutions	184	-	16	38	-	238
Customer accounts	113,323	37,448	61,682	3,504	1	215,958
Debt securities in issue	-	-	-	-	3	3
Subordinated debt	2	2	135	-	-	139
Other financial liabilities	1,684	2	2	-	-	1,688
Total contractual future payments for financial obligations (as restated)	127,589	37,452	61,835	3,542	4	230,422
Credit related commitments and financial guarantees, gross (Note 28)	59,301	-	-	-	-	59,301

The maturity analysis of financial liabilities at 31 December 2016 is as follows:

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to the NBU	14,589	1,319	2,689	-	-	18,597
Due to banks and other financial institutions	137	90	2,375	252	-	2,854
Customer accounts	78,124	32,775	72,869	3,049	64	186,881
Debt securities in issue	-	-	-	-	3	3
Subordinated debt	2	2	8	132	-	144
Other financial liabilities	1,167	562	203	-	-	1,932
Total contractual future payments for financial obligations	94,019	34,748	78,144	3,433	67	210,411
Credit related commitments and financial guarantees, gross (Note 27)	22,264	-	-	-	-	22,264

Customer accounts are classified in the above analysis based on contractual maturities.

26 Financial Risk Management (Continued)

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2018:

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserves	27,360	-	-	-	-	27,360
Loans and advances to customers	21,964	10,714	11,816	5,646	-	50,140
Investment securities on FVPL	1	495	405	85,343	-	86,244
Investment securities on FVOCI	4,650	10,296	12,520	51,832	1	79,299
Investment securities on AC	90	-	13,576	872	-	14,538
Other financial assets	409	-	-	2,334	-	2,743
Total financial assets	54,474	21,505	38,317	146,027	1	260,324
Liabilities						
Due to the NBU	9,817	-	-	-	-	9,817
Due to banks and other financial institutions	162	11	22	-	-	195
Customer accounts	86,228	61,060	82,780	987	-	231,055
Debt securities in issue	-	-	-	2	-	2
Other financial liabilities	1,679	2	2	564	-	2,247
Total financial liabilities	97,886	61,073	82,804	1,553	-	243,316
Net liquidity gap at 31 December 2018	(43,412)	(39,568)	(44,487)	144,474	1	17,008
Cumulative liquidity gap at 31 December 2018	(43,412)	(82,980)	(127,467)	17,007	17,008	
Credit related commitments (Note 17)	70,597	313	210	490	-	71,610

The Bank had a liquidity gap between financial assets and financial liabilities at maturity of "one year" as at 31 December 2018. The Bank's management consider that the existing liquidity gap is controlled and does not threaten the Bank's ability to repay its liabilities in a full and a timely manner. The Bank has a sufficient amount of liquid assets in securities with a maturity of more than one year. The Bank regularly monitors liquidity position, performs stress testing of liquidity indicators under adverse scenarios, pursues a strategy aimed to ensure the stability of current and other customer accounts. In addition, the Bank signed a framework loan agreement with the NBU for a period of 10 years, which allows the Bank to receive refinancing loans, overnight, repo loans with government securities as collateral if needed. Refer to Note 14.

In accordance with effective legislation, the Bank is obliged to repay term deposits of individuals on demand of a depositor if early repayment option is set contractually, but in this case a depositor's right to accrued interest is forfeited. The Bank expects that customers will not request term deposits early, thus these balances are included in disclosures above in accordance with their contractual maturities. Current accounts are included on their historical stability assessed on a quarterly average basis, which the Bank expects to continue with no significant changes.

As at 31 December 2018, on demand and less than in one month amounts due to the NBU included a past due amount of refinancing loans of UAH 9,689 million (2017: UAH 10,689 million). The NBU did not demand these refinancing loans for immediate repayment at the date of these separate financial statements.

26 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2017:

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserves	25,296	-	-	-	-	25,296
Due from banks	1,290	870	743	-	-	2,903
Loans and advances to customers	15,365	8,316	10,000	4,654	-	38,335
Embedded derivative assets	-	-	-	34,336	-	34,336
Investment securities available-for-sale	109	423	574	89,245	3	90,354
Investment securities held to maturity	304	3,399	1,046	31,573	-	36,322
Other financial assets	488	-	-	2,452	-	2,940
Total financial assets	42,852	13,008	12,363	162,260	3	230,486
Liabilities						
Due to the NBU	12,394	-	-	-	-	12,394
Due to banks and other financial institutions	185	-	15	34	-	234
Customer accounts	71,481	55,172	82,419	3,095	-	212,167
Debt securities in issue	-	-	-	2	-	2
Other financial liabilities	1,112	2	2	572	-	1,688
Subordinated debt	1	-	128	-	-	129
Total financial liabilities	85,173	55,174	82,564	3,703	0	226,614
Net liquidity gap at 31 December 2017	(42,321)	(42,166)	(70,201)	158,557	3	3,872
Cumulative liquidity gap at 31 December 2017 (as restated)	(42,321)	(84,487)	(154,688)	3,869	3,872	
Credit related commitments and financial guarantees (Note 28)	59,301	-	-	-	-	59,301

26 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2016:

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserves	30,159	-	-	-	-	30,159
Due from banks	-	-	-	-	-	-
Loans and advances to customers	10,954	6,222	7,415	8,025	-	32,616
Embedded derivative assets	-	-	-	27,044	-	27,044
Investment securities available-for-sale	1	12	38	64,358	-	64,409
Other financial assets	785	1,080	769	5	-	2,639
Total financial assets	41,899	7,314	8,222	99,432	-	156,867
Liabilities						
Due to the NBU	14,266	1,210	2,571	-	-	18,047
Due to banks and other financial institutions	136	55	2,235	241	-	2,667
Customer accounts	51,803	41,572	84,754	2,527	-	180,656
Debt securities in issue	-	-	-	2	-	2
Other financial liabilities	1,167	8	203	554	-	1,932
Subordinated debt	1	-	-	121	-	122
Total financial liabilities	67,373	42,845	89,763	3,445	-	203,426
Net liquidity gap at 31 December 2016	(25,474)	(35,531)	(81,541)	95,987	-	(46,559)
Cumulative liquidity gap at 31 December 2016 (as restated)	(25,474)	(61,005)	(142,546)	(46,559)	(46,559)	
Credit related commitments and financial guarantees (Note 28)	22,264	-	-	-	-	22,264

27 Management of Capital

Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation, which are reviewed and signed by the Chairman of the Board and the Chief Accountant. Other objectives of capital management are evaluated annually. Under the current capital requirements set by the National Bank of Ukraine have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level.

27 Management of Capital (Continued)

a) The Bank also manages its capital, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Bank's capital calculated in accordance with Basel Accord is as follows:

In millions of Ukrainian hryvnias	31 December 2018	31 December 2017 (restated)	31 December 2016 (restated)
Tier 1 capital	33,635	23,004	(27,795)
Tier 2 capital (a portion not exceeding 100% of Tier 1)	(2,763)	169	-
Total capital	30,872	23,173	(27,795)
Risk Weighted Assets			
Banking book	216,444	109,431	82,440
Trading book	51,483	68,021	79,754
Risk Weighted Assets	267,927	177,452	162,194
Tier 1 capital ratio	12.55%	12.96%	(17.14%)
Capital adequacy ratio (%)	11.52%	13.06%	(17.14%)

b) As at 31 December 2018, the National Bank of Ukraine required banks to maintain a capital adequacy ratio at least 10% of risk weighted assets calculated in accordance with the regulations of the National Bank of Ukraine (31 December 2017: at least 10%).

Regulatory capital in accordance with the NBU's regulations comprises:

In millions of Ukrainian hryvnias	31 December 2018	31 December 2017 (restated)	31 December 2016 (restated)
Adjusted net assets	19,703	17,975	3,515
Add: Subordinated debt	-	27	54
Less: Investments in subsidiary and associate	(147)	(433)	(433)
Total regulatory capital	19,556	17,569	3,136
Tier 1 capital	9,851	17,888	2,913
Tier 2 capital (a portion not exceeding 100% of Tier 1)	9,851	114	656
Deduction	(146)	(433)	(433)
Risk weighted assets	77,990	79,938	126,246
Open foreign currency position	34,025	30,137	23,154
Uncovered credit risk	-	(8,854)	(61)
Capital adequacy ratio (N2)	17.46%	17.36%	2.10%

Information included in the table above is calculated according to the Regulation No. 368 of the Board of the National Bank of Ukraine dated 28 August 2001 (as amended) "On the Regulation of the Banks and Banking Activity in Ukraine", including assessment of credit risk in accordance with Regulation No. 351 of the Board of the National Bank of Ukraine dated 30 June 2016 "On Calculation of the Loan Loss Provision by Ukrainian banks".

28 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. As at 31 December 2018, provision of UAH 2,086 million has been recorded (31 December 2017: UAH 2,317 million). Refer to Note 18.

Also, at the nationalisation of the Bank, in December 2016 (refer to Note 19) liabilities of the Bank, including UAH 10,934 million of amounts due to customers, UAH 10,721 million of Eurobonds issued and UAH 7,783 million of subordinated debt were converted into the Bank's share capital. At the date of these separate financial statements, UAH 21,819 million (31 December 2017: UAH 21,215 million) at exchange rate as at the date of these financial statements of claims were filed against the Bank in respect of some of these liabilities. The ultimate outcome cannot be determined, except for amounts already recognized in these separate financial statements. Consequently, the Bank did not recognise any additional provision for these claims.

As at 31 December 2018 the Bank had a contingent liability of UAH 5,325 million (2017: UAH 5,558 million) relating to cessation of its operations in Crimea, being the outstanding amount of customer accounts in Crimea at discontinuance of operations (i.e. as of November 2014) less amount claimed and provisioned. Refer to Note 4. It is not probable that outflow of resources will be required to settle these obligations originated in Crimea and the amount of such obligations cannot be measured reliably by the Bank.

Tax legislation. Ukrainian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

The Ukrainian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities and it is possible that transactions and activities that have not been challenged in the past may be challenged.

Ukrainian tax legislation does not provide definitive guidance in certain areas. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. As noted above, such tax positions may come under heightened scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Bank.

Management further believes that ascertained risks of possible outflow of resources arising from tax and other regulatory compliance matters in the periods preceding 31 December 2018 do not exceed UAH 2,174 million (31 December 2017: UAH 2,174 million).

Capital expenditure commitments. At 31 December 2018, the Bank had contractual capital expenditure commitments in respect of construction of premises and acquisition of computers and furniture and equipment totalling UAH 85 million (31 December 2017: UAH 116 million). The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Compliance with covenants. The Bank is also subject to certain covenants related to refinancing loans obtained from the NBU. As at 31 December 2018, the Bank was not in compliance with long open currency position ratio as well as other non-financial restrictions prescribed by the loan agreements with the NBU. As at the date of this reporting, the NBU applied no sanctions to the Bank.

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

28 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

In millions of Ukrainian hryvnias	31 December 2017 (restated)	31 December 2016 (restated)
Unused credit lines	58,042	20,264
Guarantees issued	983	1,706
Irrevocable commitments to extend credit	18	294
Aval	258	-
Less: Provision for credit related commitments	(181)	(247)
Less: Cash covered guarantees issued	(84)	(102)
Total credit related commitments and financial guarantees	59,036	21,915

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments as at 2017 was insignificant.

Credit related commitments are denominated in currencies as follows:

In millions of Ukrainian hryvnias	31 December 2017 (restated)	31 December 2016 (restated)
Ukrainian Hryvnias	58,744	21,376
US Dollars	75	215
Euro	18	139
Other currencies	199	185
Total	59036	21915

Credit related commitments as at 31 December 2018 are disclosed in Note 17.

Assets pledged. The Bank had assets pledged as collateral with the following carrying value:

	Note	31 December 2018		31 December 2017 (restated)	
In millions of Ukrainian hryvnias		Asset pledged	Related liability/ commitment	Asset pledged	Related liability/ commitment
Cash balances with the NBU, premises, investment properties and repossessed collateral	7,10,11,14	5,389	9,817	5,937	12,394
Investment securities held to maturity under the cash consignment contract with the NBU	9	11,987	-	1,565	-

	31 December 2016 (restated)	
In millions of Ukrainian hryvnias	Asset pledged	Related liability/ commitment
Cash balances with the NBU, premises, investment properties, loans and advances to customers and repossessed collateral	21,351	18,047

29 Fair Value of Financial Instruments

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

(a) Recurring fair value measurements.

Recurring fair value measurements are those that the accounting standards require or permit in the separate statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

	31 December 2018				31 December 2017			
In millions of Ukrainian hryvnias	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE								
Investment securities at FVPL								
Long-term government bonds with an embedded option	-	-	86,194	86,194	-	-	-	-
Middle-term government bonds denominated in foreign currency	-	-	50	50	-	-	-	-
Investment securities at FVOCI								
Long-term government bonds	-	-	52,586	52,586	-	-	-	-
Middle-term government bonds denominated in foreign currency	-	-	7,588	7,588	-	-	-	-
Middle-term government bonds	-	-	1,821	1,821	-	-	-	-
Short-term government bonds	-	-	12,441	12,441	-	-	-	-
Short-term government bonds denominated in foreign currency	-	-	4,770	4,770	-	-	-	-
Long-term bonds issued by the State Mortgage Institution	-	-	93	93	-	-	-	-
Investment securities available-for-sale								
Unquoted shares	-	-	-	-	-	1	-	1
Long-term government debt securities with an embedded option	-	-	-	-	-	-	47,444	47,444
Long-term government debt securities without an embedded option	-	-	-	-	-	-	31,163	31,163
Long-term government debt securities denominated in foreign currency	-	-	-	-	-	-	11,747	11,747
Embedded derivative assets	-	-	-	-	-	-	34,336	34,336
NON-FINANCIAL ASSETS								
Investments in associates	-	-	30	30	-	-	-	-
Premises	-	-	1,460	1,460	-	-	1,580	1,580
Repossessed collateral	-	-	1,361	1,361	-	-	7,069	7,069
Investment properties	-	-	3,340	3,340	-	-	3,648	3,648
Assets held for sale	-	-	117	117	-	-	117	117
TOTAL ASSETS RECCURING FAIR VALUE MEASUREMENT	-	-	171,851	171,851	-	1	137,104	137,105

29 Fair Value of Financial Instruments (Continued)

	31 December 2016 (Restated)			
In millions of Ukrainian hryvnias	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE				
Investment securities available-for-sale				
Unquoted shares	-	1	-	1
Long-term government debt securities with an embedded option	-	-	47,046	47,046
Long-term government debt securities without an embedded option	-	-	17,363	17,363
Embedded derivative assets	-	-	27,044	27,044
NON-FINANCIAL ASSETS				
Premises	-	-	1,806	1,806
Repossessed collateral	-	-	8,782	8,782
Investment properties	-	-	691	691
TOTAL ASSETS RECCURING FAIR VALUE MEASUREMENT	-	1	102,732	102,733

Valuation technique used for level 2 measurements is linked to market prices of similar financial instruments quoted on active market.

Valuation technique used for level 3 measurements included discounted cash flows and other appropriate valuation techniques (models). Embedded derivative assets and investment securities available-for-sale are classified into level 3 instruments because these instruments require management to make assumptions for certain adjustments which had significant impact on fair values - exchange rates volatility, discount rates and/ or a credit risk of the counterparties which are not fully supportable by observable market data.

29 Fair Value of Financial Instruments (Continued)

Movements in level 3 financial instruments measured at fair value

A reconciliation of movements in Level 3 of the fair value hierarchy of the embedded derivative assets and investment securities available-for-sale for the years ended 31 December 2018 and 2017 is as follows:

In millions of Ukrainian hryvnias	Embedded derivative assets	Investment securities available-for-sale	Investment securities at FVPL	Investment securities at FVOCI
Fair value at 1 January 2017	27,044	64,409	-	-
			-	-
Investment securities available-for-sale received as a contribution to the share capital	-	16,065	-	-
Purchased long-term government debt securities denominated in foreign currency	-	11,478	-	-
			-	-
Total gains (losses) recorded in :			-	-
Initial recognition - directly in equity	3,893	(895)	-	-
Revaluation of investment securities available-for-sale - in other comprehensive income	-	(1,000)	-	-
Interest income accrued on investment securities available-for-sale	-	6,223	-	-
Gains less losses from embedded derivatives	3,491	-	-	-
			-	-
Settlements:			-	-
Cash received	-	(5,927)	-	-
Other changes	(92)	-	-	-
Fair value as at 31 December 2017 (IAS 39)	34,336	90,354	-	-
Balance at 1 January 2018 (IFRS 9)			89,411	54,587
Purchased/sales of investment securities	-	-	(86)	32,217
Total gains/(losses) recorded in:				
Revaluation of investment securities in other comprehensive income	-	-	-	(1,878)
Interest income accrued	-	-	4,444	6,046
Revaluation of investment securities in profit or loss	-	-	(3,085)	-
Settlements:				
Cash received	-	-	(4,434)	(11,761)
Other settlements	-	-	(6)	88
Fair value as at 31 December 2018	-	-	86,244	79,299

29 Fair Value of Financial Instruments (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:

	31 December 2018				31 December 2017			
In millions of Ukrainian hryvnias	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS								
Due from banks								
Deposit certificates of the National Bank of Ukraine	-	-	-	-	-	2,853	-	2,853
Other	-	-	-	-	-	-	50	50
Loans and advances to customers								
Loans and finance lease managed as a separate portfolio	-	-	3,436	3,342				
Corporate loans	-	-	3,621	3,451	-	-	2,654	3,691
Loans to individuals - cards	-	-	32,431	32,431	-	-	25,567	25,567
Loans to individuals - mortgage	-	-	1,660	1,619	-	-	1,756	1,767
Loans to individuals - auto	-	-	2	2	-	-	9	9
Loans to individuals - consumer	-	-	3,905	3,908	-	-	3,014	3,014
Loans to individuals - other	-	-	46	46	-	-	127	124
Loans to small and medium enterprises (SME)	-	-	3,866	3,923	-	-	2,057	1,987
Purchase/originated credit-impaired - corporate customers	-	-	19	19				
Finance lease receivables	-	-	1,407	1,399	-	-	2,176	2,176
Investment securities at AC								
Middle-term government bonds denominated in foreign currency	-	-	13,583	13,666	-	-	-	-
Long-term bonds issued by the State Mortgage Institution	-	-	872	872	-	-	-	-
Investment securities held to maturity								
Long-term government debt securities without an embedded option	-	-	-	-	-	-	24,421	24,538
Long-term government debt securities with an embedded option	-	-	-	-	-	-	6,318	7,604
Short-term bonds issued by the State Mortgage Institution	-	-	-	-	-	-	953	953
Short-term government debt securities	-	-	-	-	-	-	3,185	3,227
Other financial assets								
Receivables from operations with customers	-	-	118	118	-	-	318	318
Other	-	-	2,625	2,625	-	-	2,622	2,622
TOTAL	-	-	67,591	67,421	-	2,853	75,227	80,500

29 Fair Value of Financial Instruments (Continued)

In millions of Ukrainian hryvnias	31 December 2016 (Restated) Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS				
Loans and advances to customers				
Corporate loans	-	-	8,826	8,832
Loans to individuals - cards	-	-	15,830	15,830
Loans to individuals - mortgage	-	-	1,944	2,011
Loans to individuals - auto	-	-	16	13
Loans to individuals - consumer	-	-	961	961
Loans to individuals - other	-	-	361	351
Loans to small and medium enterprises (SME)	-	-	868	902
Finance lease receivables	-	-	3,716	3,716
Other financial assets				
Receivables from operations with customers	-	-	161	161
Other	-	-	2,478	2,478
TOTAL	-	-	35,161	35,255

Fair value of cash and cash equivalents approximates their carrying value.

29 Fair Value of Financial Instruments (Continued)

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

	31 December 2018				31 December 2017			
In millions of Ukrainian hryvnias	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL LIABILITIES								
Due to the NBU								
Due to the NBU	-	9,817	-	9,817	-	12,394	-	12,394
Due to banks and other financial institutions								
Term placements of banks	-	-	19	19	-	-	30	30
Current placements of commercial banks	-	-	40	40	-	-	-	-
Long-term loans under the credit lines from other financial institutions	-	-	-	-	-	-	19	19
Correspondent accounts and overnight placements of banks	-	135	-	135	-	184	-	184
Pledge deposits of banks	-	-	1	1	-	-	1	1
Customer accounts								
Term deposits of individuals	-	-	109,957	109,778	-	-	119,674	119,476
Current/demand accounts of individuals	-	72,892	-	72,892	-	51,535	-	51,535
Current/settlement accounts of government organizations	-	178	-	178	-	40	-	40
Current/settlement accounts of legal entities	-	36,785	-	36,785	-	28,318	-	28,318
Term deposits of legal entities	-	-	11,426	11,422	-	-	12,837	12,798
Debt securities in issue	-	-	-	2	-	-	-	2
Other financial liabilities								
Funds in the course of settlement	-	-	735	735	-	-	608	608
Accounts payable	-	-	609	609	-	-	310	310
Other	-	-	903	903	-	-	770	770
Subordinated debt								
Subordinated debt	-	-	-	-	-	-	129	129
TOTAL	-	119,807	123,690	243,316	-	92,471	134,378	226,614

29 Fair Value of Financial Instruments (Continued)

In millions of Ukrainian hryvnias	31 December 2016 (Restated) Level 1	Level 2	Level 3	Carrying value
FINANCIAL LIABILITIES				
Due to the NBU				
Due to the NBU	-	18,047	-	18,047
Due to banks and other financial institutions				
Term placements of banks	-	-	565	565
Long-term loans under the credit lines from other financial institutions	-	-	2,040	2,040
Correspondent accounts and overnight placements of banks	-	61	-	61
Pledge deposits of banks	-	-	1	1
Customer accounts				
Term deposits of individuals	-	-	119,749	119,519
Current/demand accounts of individuals	-	31,207	-	31,207
Current/settlement accounts of legal entities	-	15,253	-	15,253
Term deposits of legal entities	-	-	14,867	14,677
Debt securities in issue	-	-	-	2
Other financial liabilities				
Funds in the course of settlement	-	-	447	447
Accounts payable	-	-	83	83
Other	-	-	925	925
Subordinated debt				
Subordinated debt	-	-	122	122
TOTAL	-	64,568	138,799	203,367

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique and market prices of quoted notes on non-active market. 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 interest rates for new instruments with similar credit risk and remaining maturity.

For assets, the Bank used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Bank'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 Bank.

The Bank's liabilities to its customers are subject to state deposit insurance plan as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

30 Presentation of Financial Instruments by Measurement Category

As at 31 December 2018 for the purposes of measurement, IFRS 9 «*Financial Instruments*» classifies financial instruments: (a) financial assets at fair value through profit or loss; (b) financial assets at fair value through other comprehensive income; (c) financial assets at amortized cost; (d) financial liabilities at fair value through profit or loss; (e) financial liabilities at amortized cost.

30 Presentation of Financial Instruments by Measurement Category (Continued)

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

In millions of Ukrainian hryvnias	Assets at AC	Assets at FVPL	Assets at FVOCI	Finance lease receivables	Total
ASSETS					
Cash and cash equivalents and mandatory reserves	27,360	-	-	-	27,360
Due from banks					
Loans and advances to customers					
Loans and finance lease managed as a separate portfolio	3,342	-	-	-	3,342
Corporate loans	3,451	-	-	-	3,451
Loans to individuals – cards	32,431	-	-	-	32,431
Loans to individuals – mortgage	1,619	-	-	-	1,619
Loans to individuals – auto	2	-	-	-	2
Loans to individuals – consumer	3,908	-	-	-	3,908
Loans to individuals – other	46	-	-	-	46
Loans to small and medium enterprises (SME)	3,923	-	-	-	3,923
Purchase/originated credit-impaired - corporate customers	19	-	-	-	19
Finance lease receivables	-	-	-	1,399	1,399
Investment securities at AC					
Middle-term government bonds denominated in foreign currency	13,666	-	-	-	13,666
Long-term bonds issued by the State Mortgage Institution	872	-	-	-	872
Investment securities at FVPL					
Long-term government bonds with an embedded option	-	86,194	-	-	86,194
Middle-term government bonds denominated in foreign currency	-	50	-	-	50
Investment securities at FVOCI					
Long-term government bonds without an embedded option	-	-	52,586	-	52,586
Middle-term government bonds denominated in foreign currency	-	-	7,588	-	7,588
Middle-term government bonds	-	-	1,821	-	1,821
Short-term government bonds	-	-	12,441	-	12,441
Short-term government bonds denominated in foreign currency	-	-	4,770	-	4,770
Long-term bonds issued by the State Mortgage Institution	-	-	93	-	93
Other financial assets					
Receivables from operations with customers	118	-	-	-	118
Other	2,625	-	-	-	2,625
TOTAL FINANCIAL ASSETS	93,382	86,244	79,299	1,399	260,324
NON-FINANCIAL ASSETS					17,724
TOTAL ASSETS					278,048

As at 31 December 2018 and 2017 all of the Bank's financial liabilities were carried at amortised cost.

As at 31 December 2017 for the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classified financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category.

30 Presentation of Financial Instruments by Measurement Category (Continued)

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

In millions of Ukrainian hryvnias	Loans and receivables	Available-for-sale assets	Assets at FVTPL held for trading	Held to maturity	Finance lease receivables	Total
ASSETS						
Cash and cash equivalents and mandatory reserves	25,296	-	-	-	-	25,296
Due from banks						
Deposit certificates of the National Bank of Ukraine	2,853	-	-	-	-	2,853
Guarantee deposits with banks	-	-	-	-	-	-
Other	50	-	-	-	-	50
Loans and advances to customers						
Corporate loans	3,691	-	-	-	-	3,691
Loans to individuals – cards	25,567	-	-	-	-	25,567
Loans to individuals – mortgage	1,767	-	-	-	-	1,767
Loans to individuals – auto	9	-	-	-	-	9
Loans to individuals – consumer	3,014	-	-	-	-	3,014
Loans to individuals – other	124	-	-	-	-	124
Loans to small and medium enterprises (SME)	1,987	-	-	-	-	1,987
Finance lease receivables	-	-	-	-	2,176	2,176
Embedded derivative assets	-	-	34,336	-	-	34,336
Investment securities available-for-sale						
Long-term government debt securities with an embedded option	-	47,444	-	-	-	47,444
Long-term government debt securities without an embedded option	-	31,163	-	-	-	31,163
Long-term government debt securities denominated in foreign currency	-	11,747	-	-	-	11,747
Investment securities held-to-maturity						
Long-term government debt securities without an embedded option	-	-	-	24,538	-	24,538
Long-term government debt securities with an embedded option	-	-	-	7,604	-	7,604
Short-term bonds issued by the State Mortgage Institution	-	-	-	953	-	953
Short-term government debt securities	-	-	-	3,227	-	3,227
Other financial assets						
Receivables from operations with customers	318	-	-	-	-	318
Other	2,622	-	-	-	-	2,622
TOTAL FINANCIAL ASSETS	67,298	90,354	34,336	36,322	2,176	230,486
NON-FINANCIAL ASSETS						23,189
TOTAL ASSETS (as restated)						253,675

30 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2016:

In millions of Ukrainian hryvnias	Loans and receivables	Available-for-sale assets	Assets at FVTPL held for trading	Held to maturity	Finance lease receivables	Total
ASSETS						
Cash and cash equivalents and mandatory reserves	30,159	-	-	-	-	30,159
Due from banks						
Guarantee deposits with banks	-	-	-	-	-	-
Loans and advances to customers						
Corporate loans	8,832	-	-	-	-	8,832
Loans to individuals – cards	15,830	-	-	-	-	15,830
Loans to individuals – mortgage	2,011	-	-	-	-	2,011
Loans to individuals – auto	13	-	-	-	-	13
Loans to individuals – consumer	961	-	-	-	-	961
Loans to individuals – other	351	-	-	-	-	351
Loans to small and medium enterprises (SME)	902	-	-	-	-	902
Finance lease receivables	-	-	-	-	3,716	3,716
Embedded derivative assets	-	-	27,044	-	-	27,044
Investment securities available-for-sale						
Government bonds	-	64,408	-	-	-	64,408
Unquoted shares	-	1	-	-	-	1
Other financial assets						
Receivables from operations with customers	161	-	-	-	-	161
Other	2,478	-	-	-	-	2,478
TOTAL FINANCIAL ASSETS	61,698	64,409	27,044	-	3,716	156,867
NON-FINANCIAL ASSETS						22,894
TOTAL ASSETS (as restated)						179,761

31 Related Party Transactions

In accordance with IAS 24 "Related Party Disclosures", parties are generally considered to be related if the parties are under common control, joint 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. The note only discloses significant amounts.

As at 31 December 2017 and 2016 the Bank was 100% owned by the Government represented by the Ministry of Finance of Ukraine, which became the sole shareholder of the Bank. Transactions and balances with related parties after nationalisation mainly consist of transactions with Ukrainian companies related to the State (both directly and indirectly under the control and significant influence of the State) and the shareholder.

31 Related Party Transactions (Continued)

At 31 December 2018 and 31 December 2017, the outstanding balances with related parties are as follows:

	31 December 2018				31 December 2017			
In millions of Ukrainian hryvnias	Shareholder	Management	Associated companies and subsidiaries	Entities under common control	Shareholder	Management	Associated companies and subsidiaries	Entities under common control
Cash and cash equivalents and mandatory reserves	-	-	1	6,407	-	-	34	5,408
Due from banks	-	-	-	-	-	-	-	2,903
Loans and advances to customers, gross (contractual interest rate: 2018 – UAH – 17%, USD – 7%; 2017 – UAH – 14%, USD – 11%)	-	-	-	669	-	-	-	362
Less: Allowance for expected credit losses/allowance for loan impairment	-	-	-	(255)	-	-	-	(324)
Investment securities at fair value through profit or loss	86,244	-	-	-	-	-	-	-
Investment securities available-for-sale	-	-	-	-	90,353	-	-	1
Investment securities at fair value through other comprehensive income	79,205	-	-	93	-	-	-	-
Investment securities held to maturity	-	-	-	-	35,369	-	-	953
Investment securities at amortized cost	13,666	-	-	872	-	-	-	-
Embedded derivative assets	-	-	-	-	34,336	-	-	-
Investment in associates	-	-	30	-	-	-	149	-
Other financial assets	-	-	53	38	-	-	53	19
Assets held for sale	-	-	117	-	-	-	117	-
Due to the NBU	-	-	-	9,817	-	-	-	12,394
Due to banks and other financial institutions	-	-	44	-	-	-	149	-
Customer accounts (contractual interest rate: 2018 UAH – 3%, USD – 1%, EUR – 1%; 2017 UAH – 5%, USD – 2%, EUR – 3%)	-	22	59	2,414	-	13	36	455
Other financial liabilities	-	-	-	497	-	-	-	502

31 Related Party Transactions (Continued)

At 31 December 2016 the outstanding balances with related parties are as follows:

In millions of Ukrainian hryvnias	31 December 2016 (restated) Shareholder	Management	Associated companies and subsidiaries	Entities under common control
Cash and cash equivalents and mandatory reserves	-	-	170	6,008
Due from banks	-	-	2	-
Loans and advances to customers, gross (contractual interest rate: 2016 – UAH – 15%, USD – 12%)	-	-	2	365
Less: Allowance for loan impairment	-	-	-	(340)
Embedded derivative assets	27,044	-	-	-
Investment securities available-for-sale	64,409	-	-	-
Investment in associates	-	-	433	-
Other financial assets	-	-	-	2
Other assets	-	-	53	-
Due to the NBU	-	-	-	18,047
Due to banks and other financial institutions	-	-	14	-
Customer accounts (contractual interest rate: 2016 UAH – 3%, USD – 11%, EUR – 9%)	-	75	5	11
Other financial liabilities	-	-	485	-

The income and expense items with related parties during the period for 12 months 2018 and the period 12 months 2017 are as follows:

In millions of Ukrainian hryvnias	12 months 2018 Shareholder	Management	Associated companies and subsidiaries	Entities under common control	12 months 2017 Shareholder	Management	Associated companies and subsidiaries	Entities under common control
Interest income	11,218	-	-	404	7,872	-	7	231
Interest expense	-	-	(6)	(2,040)	-	-	-	(2,806)
Charge for impairment	-	-	1	66	-	-	-	-
Fee and commission income	-	-	-	68	-	-	-	9
Gains less losses from trading in foreign currencies and swaps	-	-	2	-				
Losses less gains from investment securities revaluation	(3,085)	-	-	-	3,399	-	1	-
Foreign exchange translation (losses less gains)/gains less losses	(175)	-	(19)	18	689	-	(21)	(7)
Impairment of investments in an associate	-	-	-	-	-	-	(286)	-
Other operating income	-	-	3	5	-	-	-	-
Administrative and other operating expenses, excluding management remuneration	-	(2)	(4)	(24)	-	-	(15)	(8)

31 Related Party Transactions (Continued)

Aggregate amounts lent to and repaid by related parties during the period for 12 months 2018 and the period 12 months 2017 are as follows:

	12 months 2018				12 months 2017			
In millions of Ukrainian hryvnias	Share-holder	Management	Associated companies and subsidiaries	Entities under common control	Share-holder	Management	Associated companies and subsidiaries	Entities under common control
Amounts lent to related parties during the period	-	7	-	77,251	-	1	-	105,890
Amounts repaid by related parties during the period	-	6	4	83,234	-	1	272	103,836
Loans repaid to related parties during the period	-	-	63	34,287	-	-	-	17,689
Loans lent by related parties during the period	-	1	33	43,542	-	-	-	25,568
Amounts granted by investment securities at FVPL	24	-	-	-	-	-	-	-
Amounts received under investment securities at FVPL	4,434	-	-	-	-	-	-	-
Amounts granted by investment securities for sale by investment securities available-for-sale	-	-	-	-	26,853	-	-	-
Amounts received under investment securities for sale by investment securities available-for-sale	-	-	-	-	4,521	-	-	1,406
Amounts granted by investment securities at FVOCI	32,834	-	-	92	-	-	-	-
Amounts received under investment securities at FVOCI	11,761	-	-	1	-	-	-	-
Amounts granted by investment trading securities by investment securities held to maturity	-	-	-	-	35,739	-	-	985
Amounts received under investment trading securities by investment securities held to maturity	-	-	-	-	1,263	-	-	45
Amounts granted by investment securities at AC	2,614	-	-	905	-	-	-	-
Amounts received under investment securities at AC	3,944	-	-	1,132	-	-	-	-

For 12 months 2018 the remuneration of the members of the Management Board comprised of salaries, pension contributions and other short-term benefits totalling UAH 123 million (for 12 months 2017: UAH 44 million).

Regulatory criteria for related party identification

Related party identification criteria of IAS 24 differs from the criteria set forth by the National Bank of Ukraine Regulation "On determination of related parties for banks" #315 dated 12 May 2015 (as amended) (Regulation #315).

The loan portfolio, presented as 'Loans managed as a separate portfolio' of UAH 212,795 milion (31 December 2017: UAH 185,575 milion), as disclosed in Note 8, is classified as related with previous shareholders according to the Regulation #315.

32 Changes in Liabilities Arising from Financial Activities

In millions of Ukrainian hryvnias	Due to the NBU – long-term borrowings	Subordinated debt	Total
Carrying value as at 1 January 2017	18,047	122	18,169
Repayment of the refinancing loan to the NBU	(22,876)	-	(22,876)
Proceeds from the refinancing loan of the NBU	15,701	-	15,701
Other	14	7	21
Carrying value as at 31 December 2017	10,886	129	11,015
Repayment of the refinancing loan to the NBU	(1,000)	-	(1,000)
Repayment of debt securities issued and other borrowed funds	-	(134)	(134)
Other	(69)	5	(64)
Carrying value as at 31 December 2018	9,817	-	9,817

The "Other" line includes the effect of accrued but not yet paid interest on due to the NBU and others. The Bank classifies interest paid as cash flows from operating activities.