JOINT STOCK COMPANY COMMERCIAL BANK "PRIVATBANK"

ANNUAL REPORT

31 December 2019

Translation from Ukrainian original

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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 2019, the Bank has 30 departments and 1898 operating branches in Ukraine and the Cyprus branch.

External environment

The Bank carries out the main part of its activities in Ukraine. According to a NBU report[1], the banking sector of Ukraine operated in favorable macroeconomic conditions in 2019: the growth rate of deposits is sufficient to support lending, and the growth of banking services demand from business and individuals provides high profits. However, at the same time, 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 September 2019, the international rating agency Fitch Ratings raised the long-term and short-term credit rating of Ukraine in foreign and national currencies from B- to B, and improved its outlook from stable to positive. The agency notes that Ukraine has demonstrated its ability to gain access to external budget financing on time, improving macroeconomic stability and reducing state debt, while reducing the election period has reduced political uncertainty.

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.

As a result of 2019, economic activity remained at a rather high level - GDP growth is estimated at 3.3%, which is almost the same as in 2018. At the same time, the drivers of this growth have changed. Thus, the growth of the aggregate index of production of goods and services by major economic activities decelerated substantially - to 1.6% in total for 2019, and in the last months of the year it even has declined. First of all, it was the result of the manufacturing sphere. Also, despite the cereal crop record in 2019, agriculture slowed down. Instead, high domestic demand generated strong performance in the construction, trade and a number of service industries.

NBU reduced its discount rate 5 times in 2019: from 18.0% to 13.5%. In January 2020, the NBU continued the cycle of monetary policy easing, reducing the key policy rate by 250 bp to 11.0%. The deeper key policy rate cuts were made possible by a substantial drop in inflationary pressure over the policy horizon due to, among other things, the hryvnia's strengthening in late 2019 and lower energy prices. Movements in the UIIR closely correlated with earlier key policy rate cuts. At the same time, the UIIR stayed close to the lower bound of the NBU's rate corridor for standing facilities due to a significant surplus in the banking system's liquidity. In particular, the yields of hryvnia Treasury bonds and bills continued to decline across all maturities. Hryvnia rates for bank customers continued to decrease in December, reacting to the overall downtrend in the cost of market resources.

Since January 2019, the trend of strengthening the national currency, hryvnia, has occurred. The official hryvnia exchange rate against the US dollar grew by 14% from 31 December 2018 to 31 December 2019.

Consumer inflation slowed from 9.8% in 2018 to 4.1% in 2019 yoy. The hryvnia's strengthening against the currencies of Ukraine's MTPs was the main factor behind the inflation slowdown. This was primarily reflected in the easing of underlying inflationary pressures: core inflation decelerated to 3.9% yoy despite persistent pressure from the rapid growth in consumer demand and wages. Apart from the direct effect of the hryvnia appreciation against the currencies of Ukraine's MTPs, core inflation was also driven by an uptick in inflation expectations. Other factors behind the disinflation were a drop in global energy prices and lower pressures from the supply of raw food products. Producer prices continued to decline (to 7.4% yoy in December), driven by lower global prices and cheaper inputs amid a strong hryvnia.

Banking sector profitability is driven by high margins in the retail segment and high commission income. Banking sector profit in 2019 was 2.7 times higher than in 2018, and was in amount of UAH 59,6 billion. The return on equity in the sector reached 34%. This was made possible both by the rapid increase in operating income and the low contribution to asset provisions.

[1] https://bank.gov.ua/admin_uploads/article/%D0%9C%D0%9C_2020-01.pdf?v=4
https://bank.gov.ua/admin_uploads/article/Banking_Sector_Review_2020-02.pdf?v=4
http://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=2befa25a-f3c8-4fc8-bff1-cc2bb8bba5c9&title=OgliadEkonomichnoiAktivnosti-2019-Rik-

In general, in 2019 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.

Management and organizational structure

Structure of corporate governance

To ensure a balance between management and control the Bank implements a transparent and clear corporate governance structure of the Bank.

The Bank's governing bodies are:

- Shareholder or Supreme governance Body

The Bank protects the rights and legitimate interests of the shareholder;

- The Bank's Supervisory Board

The Supervisory Board provides strategic management of the Bank's activities, control over the activities of the Bank's Management Board and protection of the shareholder's rights. Effective management involves the reporting system of the Supervisory Board to the Supreme governance Body;

- The Board of the Bank

The Board manages the day-to-day operations of the Bank and reports to the Supervisory Board and the Supreme governance Body.

Shareholder (Supreme governance Body)

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

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." From April 30, 2019, the owner of the Bank is the State represented by the Cabinet of Ministers.

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 2019, 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 shareholder, stipulated by the Charter, the Regulations on the General Meeting and the current legislation of Ukraine.

The Supreme governance Body manages the corporate rights of the State.

The Supreme governance Body does not participate in the day-to-day management of the Bank.

The Supreme governance Body determines the main (strategic) directions of the Bank's activity and approves reports on their implementation.

The rights, duties and responsibilities of the Supreme governance Body are determined by the current legislation of Ukraine and the Bank's Charter.

The Supreme governance Body have the right to receive any information on the financial and economic activity of the Bank necessary for the exercise of its powers, taking into account the provisions of the Law of Ukraine "On Banks and Banking" regarding banking secrecy.

The decision-making powers that fall within the exclusive competence of the Supreme governance Body cannot be delegated to other governing bodies of the Bank.

The Supervisory Board

The Bank's Supervisory Board is a collegial governing body of the Bank, which, within its competence, ensures the strategic management of the Bank, as well as monitors and regulates the activities of the Management Board in order to implement the Bank's Development Strategy. The Bank's Supervisory Board, acting in the interests of the Bank in accordance with the Law of Ukraine "On Banks and Banking", protects the rights of depositors, creditors and the state as a shareholder.

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 Chairman of the Bank's Supervisory Board heads and organizes the work of the Supervisory Board and is responsible for its effective work. The Chairman of the Supervisory Board ensures a clear division of responsibilities between the members of the Supervisory Board and efficient exchange of information between them.

Members of the Supervisory Board perform their duties in good faith, honestly and solely in the interests of the Bank, undertake not to disclose banking secrecy, confidential information that they have become aware in the performance of the functions as a member of the Supervisory Board, and do not use it to their advantage or in the interests of third parties.

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.

The main functions of the Supervisory Board include:

- approval of the Bank's strategy, main action plans, risk management strategies and policies, approval of the annual budget, business plans of the Bank and control over their implementation;
- ensuring a transparent procedure for nomination and election of members of the Management Board, approval of the terms of contracts concluded with the Chairman and members of the Management Board, determination of the amount of their remuneration, define the forms of control over the activity of the Management Board;
- control over the financial and economic activity of the Bank;
- determination of the procedure and plans of the internal audit and control over its activity;
- control over the effectiveness of the Bank's management;
- control over the prevention, detection and resolution of conflicts of interest in the Bank and facilitating their settlement;
- other functions defined by the current legislation of Ukraine, the Statute and the Regulations on the Supervisory Board of the Bank.

The Supervisory Board monitors the activities of the Management Board, the divisions that are directly subordinate to the Supervisory Board, and ensures the protection of the shareholder's rights.

The procedure for convening and holding meetings of the Supervisory Board is determined by the Bank's Charter and the Regulations on the Supervisory Board.

The Supervisory Board annually evaluates the effectiveness of its own activities as a whole, its committees and each member of the Supervisory Board. The results of the evaluation of the activities of the Supervisory Board, its members and the committees of the Supervisory Board, that has carried out by the Supervisory Board or with the involvement of independent experts, are presented by the Chairman of the Supervisory Board at a meeting of the Supervisory Board for discussion and approval. The results of the evaluation are presented in the form of an evaluation report on the activities of the Supervisory Board and a plan of measures to improve the activities of the Supervisory Board.

The Supervisory Board is responsible for:

- security and financial sustainability of the Bank;
- compliance of the Bank's activities with the laws, standards of professional associations, the effect of which extends to the Bank;
- implementation of the Bank's development strategy in accordance with the main activities defined by the Supreme governance Body and the Bank's business development plan;
- ensuring effective organization of corporate governance;
- functioning and control of the effectiveness of the internal control system, risk management system and compliance of the Bank;
- appointment of the Chairman and members of the Management Board, as well as the heads of the Risk Management, Compliance and Internal Audit divisions.

The Supervisory Board consists of nine members, of which six are independent and three are State representatives.

At the end of the year, the Supervisory Board reports to the Supreme governance Body on its activities.

Committees of the Supervisory Board

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 standing committees of the Supervisory Board are:

- Audit Committee;
- Risk Committee;
- Corporate Governance, Remuneration and Nomination Committee;
- Technology, Data and Innovation Committe;
- Transformation Committee.

The procedure for the formation and activities of the Supervisory Board committees, the requirements for their members, and the list of issues to be considered by the Supervisory Board committees defined by the Bank's Charter, the Regulations on the Supervisory Board, and the Regulations on the relevant committees of the Bank's Supervisory Board.

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 Supreme governance Body and the Supervisory Board and shall ensure the implementation of their resolutions.

The Management Board is responsible to all matters in connection with the management of current operations of the bank, except for matters referred to the exclusive competence of the Supreme governance Body and the Supervisory Board. The Management Board acts on behalf of the Bank within the law, the Bank's Charter and the Regulations on the Management 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.

In order to increase the efficiency of the Board's work, the permanent collegial bodies (committees) are formed within the Bank, the activities of which are regulated by the Bank's internal regulations.

The Board ensures that the internal control units are independent by not interfering with their work processes.

The Management Board, in the manner and within the terms set by the Supervisory Board, shall submit to it a report on its activities.

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 ensure the efficient operation of the Board, the following committees are established:

- Budget Committee,
- Compliance and Financial Security Committee,
- Assets and Liabilities Management Committee,
- Change Management Committee,
- Committee on Problem Asset Portfolio Management,
- Operational Risk and Information Security Committee,
- Credit Committee,
- Marketing and PR Committee,
- Project Committee,
- Products and Tariffs Committee,
- Tender Committee,
- Technology Committee.

The Board may establish other committees based on the size of the assets, the features of the Bank's activities, the nature and extent of banking and other financial services, the Bank's risk profile, the systemic importance of the Bank, and the activities of the Banking Group that includes the Bank.

The competence, structure, procedure, rights, duties and responsibilities of committees are determined by the Regulations on the relevant committee, which are approved by the Bank's Management Board.

At the end of the year, the Bank's Management Board included:

- Krumhanzl P., Chairman of the Board
- Samarina G.Yu., Deputy Chairman of the Management Board (Finance)
- Pachachuk G.D., Deputy Chairman of the Management Board (Bad Assets Management)
- Hrytseniuk A.V., Board Member (Information Technology)
- Lebedynets I.A., Board Member (Compliance, Anti Money Laundering and Legal Issues)
- 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)
- Kachmarek M. Member of the Board (Operations)

Corporate secretary

The Corporate Secretary shall ensure the functioning of the Supervisory Board, together with the Corporate Secretary's office, as well as the Bank's structural unit, which may be established to provide technical support to the Supervisory Board’s activities, its individual members and the Corporate Secretary.

The Corporate Secretary is an official of the Bank and may not be a member of any governing body of the Bank. The Corporate Secretary reports to the Supervisory Board at least once a quarter about his work.

The legal status, procedure for election and activities of the Corporate Secretary are determined by the Bank's Charter, the Bank's Supervisory Board Regulations and the Corporate Secretary's Regulations.

The Corporate Secretary ensures the provision of information on the Bank's activities to the Supreme governance Body.

Audit

The Bank establishes a permanent internal audit unit that is part of the internal control system.

The Internal Audit Division submits to the Supervisory Board of the Bank and reports to it. The Supervisory Board monitors and verifies the effectiveness of the Internal Audit Service at the Bank.

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;
- perform other functions related to the supervision over the Bank's activities.

The Internal Audit Division, based on the results of the inspections, prepares and submits to the Supervisory Board the reports and proposals for the elimination of the revealed violations.

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 conducted in accordance with the Law of Ukraine "On Audit", in the part of auditors who are entitled to carry out statutory audits of companies of public interest.

Changes in organizational structure

In 2019, the improvement of the organizational structure of the bank was continued in accordance with the approved Development Strategy and transformation of the bank. The organizational structure of some divisions has been changed (Financial Monitoring Direction, Marketing Direction, etc.).

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

2019 has become a year of continuing transformation processes at the Bank. 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.

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). The Bank's efforts in this area are aimed the new products development and improvement of services for customers availability. During 2019, the Bank has fundamentally updated the mobile bank Privat24, most popular in Ukraine (10 million customers), launch FacePay (one of the first in Eastern Europe). 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 an employer in the Ukrainian labor market. The Bank provides its employees with competitive employment conditions, provides a full social package and additional benefits in the form of preferential lending for mortgage and cars, providing advice on legal issues, ensuring the safety of employees and their family members.

Also, the Bank, as a socially responsible institution, support clients with disabilities, adapting branches for their services, and promotes their employment - the share of employed people with disabilities is about 4% of the total number of Bank's employees.

In addition, the Bank aims to increase the financial literacy of its clients. The Bank implemented educational programs for schoolchildren (Junior Bank), Top Managers of the Bank conduct business seminars for entrepreneurs and share their experience, educational videos with financial consumer advice are transmitted on the plasma screens in the branches.

The charity activity of the Bank includes a number of programs, in particular the program "For the Life", the charity fund "To Help is Simple", providing help to the army and the wounded in the ATO, and targeted assistance to the severely diseased. In the service channels of the Bank (cashier, ATM or Internet-bank Privat24) there are set up links, can be used by all interested persons, to make a charitable contribution for any amount.

The Bank implements a number of programs in the sphere of environmental protection, the first among which is paper-less customer service. Also, the Bank uses the ecological collection technology, on which 99.05% of the documents signed electronically.

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 2019, 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, 2020 the Bank employs more than 22 thousand employees, with a monthly recruitment of over 400 candidates. Bank has been recognized as the best employer of Ukraine among young people and students for 6 years running.

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. In 2019, a new voluntary health insurance program for employees and their families was implemented and launched.

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. 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 as well as non-financial risks (operational, legal, compliance risks and reputation risks). Financial risks comprise market risk (including currency risk), credit risk, interest rate risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits and monitor them to avoid exceedance

For the purposes of efficient risk management, the Bank has developed and operates the risk management system, that anticipates the segregation of rights, duties and responsibilities among governance bodies and structural units of the Bank, the separation of the processes of identifying and assessing risks and assessing the efficiency of risk management system from the process of risk acceptance.

The bodies of risk management system in the Bank include:

- Supervisory Board;
- Audit Committee of the Supervisory Board;
- Risk Committee of the Supervisory Board;
- Management Board;
- Credit Committee;
- Asset and Liability Management Committee;
- Internal Audit;
- Risk Management Function;
- Compliance Department;
- Treasury Department;
- Asset, Liability and Investment Analysis Department;
- Other support divisions (Back and Middle Office);
- Business divisions that directly accept risks.

At the beginning of June 2019, the Risk Management Committee of the Management Board was reorganized into the Operational Risk Management and Information Security Committee with a corresponding change in its tasks and functions. From that moment, this committee has not been engaged in financial risk management.

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

Credit risk. The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by defaulting on a contracted liability. Credit risk arises as a result of the Bank's lending and other transactions with counterparties generating financial assets.

The Bank's credit policy defines the general principles for implementing the credit process and credit risk management, establishes a general approach to the acceptance of credit risks, principles and standards of credit activity, defines the authorities and responsibilities of the Bank governance bodies, employees and structural subdivisions at each stage of the credit process, provides for the comprehensive approach to credit risk management.

Credit risk management is carried out on the basis of the regular analysis of the capacity of borrowers and potential borrowers to honor their liabilities on repaying loan principal and paying interest, the regular analysis of loan portfolio qualify in order to monitor the rate of credit risk by changing lending limits as necessary, by obtaining collateral, making its examination and appraisal at established frequency, and by applying other instruments of credit risk mitigation.

Basic information on credit risk rate is systematically updated and provided for analysis in the form of loan portfolio status reports.

The Credit Committee approves the classification of credit transactions by risk groups, reviews, corrects and approves the credit risk assessment in line with regulatory requirements and the estimated amount of loan losses in compliance with IFRS (loans and advances to clients, loan commitments and other financial assets).

To limit the risks to which the Bank is exposed as a result of its lending transactions, the Bank has system of decision-making authority for lending transactions.

The Bank IT systems allow the management to exercise on-line monitoring of loan performance. The Bank regularly monitors risk on each loan. To that end, the Bank (i) reviews the financial and market position of a borrower and (ii) assesses the sufficiency of collateral. The financial and market position of a borrower undergoes regular review and, as a follow up, the internal credit rating of the borrower may be revised. The review is based on the cash inflows to the customer's accounts, its most recent financial statements and other business and financial information submitted by the borrower or otherwise obtained by the Bank.

The Bank regularly monitors current market value of collateral to assess its sufficiency to secure a specific loan. The appraisal of collateral is carried out by independent appraisal companies accredited by the Bank or by qualified internal appraisers. The frequency of such appraisals depends on the type of collateral.

The Bank maintains client credit history records. This allows the Bank to control the credit risk rate by targeting borrowers, who have a good credit history. For the purpose of efficient management of non-performing assets, the Bank performs the following :- prevention and timely detection of non-performing loans, efficient handling of potentially non-performing debts; - reduction of the value and share of non-performing debts in the Bank portfolio 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 the comprehensive and efficient system of non-performing loans management.

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

The Bank conducts its business with related parties on commercial terms. Each loan requested from a related party is subject to the same credit approval procedures that apply to any loan application from a nonrelated 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 unfavorable movements in foreign exchange rates, interest rates, cost of financial instruments (market quotes, indexes, etc.). The strategic objective of the bank risk management policy is to minimize and prevent possible losses that can arise in case the 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 is restricted under Ukrainian law to regulatory limits.

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 income due to the effect of unfavorable changes in the interest rates. Interest rate risk affects the economic value of the bank capital and net interest income of the Bank.

The strategic objective of the Bank's interest rate management policy is to minimize and prevent possible losses that can arise in case the market conditions change. The Bank faces the risk of financial losses due to movement of interest rates on assets and liabilities, mainly as a result of granting fixed interest rate loans for the terms and in amounts different from the terms and amounts of liabilities with fixed interest rate.

The Bank conducts stress testing to determine the conditions under which 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 analyzing the sensitivity of net interest income to movements in interest rates assuming that the rates increase or decrease for a certain number of percentage points.

Liquidity risk. Liquidity risk is the probability of a loss or additional loss, or underperformance on projected revenues due to the Bank's inability to finance the growth of its assets and fulfill its liabilities in due time.

Strategic objectives of the bank liquidity risk management policy are: maintain liquidity ratios at a level above the regulatory standard rate, minimize liquidity risk by maintaining a sufficient amount of high quality liquid assets for stress situations, limit concentration of funds by forming a diversified resource base, etc.

The Bank strives to maintain a stable funding base, develop sources of resources, primarily at the expense of legal entities and individuals.

Liquidity risk control is implemented through compliance with regulatory required prudential ratios for short-term liquidity, LCR, limits on and requirements to liquidity gaps, value of high quality liquid assets, and concentration of sources of funding.

In order to manage liquidity during crisis, the Bank developed Liquidity Contingency Funding Plan, which includes a list of possible causes of a crisis, signs of a crisis, as well as a list of measures for the containment and remediation of a crisis. The plan sets departments responsible for specific activities and their interaction procedure. The Bank also conducts liquidity stress testing under scenarios covering possible unfavorable conditions.

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

The main areas of internal control within the Bank include:

- control over the achievement of the Bank's objectives;
- control over ensuring the efficiency of the Bank's financial and economic activities in conducting banking and other operations;
- control over the effectiveness of asset and liability management;
- control over the preservation of the Bank's assets;
- monitoring the effectiveness of the risk management system;
- control over compliance with the requirements of legislation, regulatory acts of the National Bank, internal documents of the Bank;
- control over the accuracy, completeness, objectivity and timeliness of accounting, preparation and disclosure of financial and other reports for external and internal users;
- managing information flows, including receiving and providing information, ensuring the operation of the information security management system.

In 2019, the Bank introduced a three-lines internal control system based on the segregation of responsibilities between the Bank's divisions, except the functions that are within the exclusive competence of the Bank's Supervisory Board / Management Board / Committees in accordance with the legislation of the National Bank of Ukraine:

1) first line of defense - business units and support units that initiate, carry out or record operations, accept risks in the course of their activities and are responsible for the day-to-day management of these risks, carry out control procedures;
2) second line of defense - a blocks of Risk management and Compliance Divisions, which assure the Bank's management that the first line of defense controls and risk management measures have been developed and are functioning properly;
3) third line of defense - Internal Audit Division, which performs an independent assessment of the effectiveness of the first and second lines of defense and an overall assessment of the effectiveness of the internal control system.

The subjects of the organizational structure of the Bank's internal control system are:

- Supervisory Board;
- Risk Management Committee;
- Audit Committee;
- Management Board;
- Committee of Management Board on Operational Risk and Information Security;
- Committee of Management Board on Compliance and Financial Security;
- Internal Audit;
- Block of Risk management units;
- Compliance control units;
- Accounting service;
- Other structural units (branches, outlets) of the Bank.

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.

Corporate Ethics Code

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

Corporate behavior in Bank is based on the principles of legality, transparency, competence, observance of the rights and interests of clients, business partners, shareholders and employees, and is aimed at improving the Bank's efficiency, support its financial stability and profitability.

The Code defines:

- Bank's relationship with clients;
- The order of relations between managers and subordinates;
- Business Ethics;
- Equal opportunities for all Bank staff;
- Conflict of interest; - Preservation of the Bank's property;
- Gifts and rewards;
- Relations with the media.

Corporate values of the Bank are:

Relations with Clients: The Bank's goal is to reach the highest standards of client services, protects interests of each client.

The Bank develops new transactions, products and directions confessing principles of reasonable conservatism. The Bank is oriented to transparency in relations with clients and provisions them with reliable information on its services.

The Bank is interested in establishment of long-termed relations with its clients.

Relations with Shareholders: In its relations with shareholders the Bank has intentions to conduct transparent policy and strictly observe these principles of Corporate Management: to respect and implement rights of shareholder, to protect his/her interest steadily, to disclose information in a timely manner, to implement active communication policy, to increase visibility and accessibility of information by way of reporting and accounting quality improvement.

Relations with Personnel: The Bank's Personnel is a key to its successful activity. The Bank actively and consistently attracts to its ranks and distinguishes the best employees without connection to age, race, gender, faith, beliefs or nationality and rewards them for their achievements. The Bank values its employees, creates conditions under which everyone working in it can fully realize their abilities, cares about their veterans. The Bank respects human dignity and personality and believes in importance of environment of trust and cooperation.

Relations with Governmental Agencies: The Bank keeps a principle of neutrality related to business groups, politic parties and associations, and performs its activity in interests of investors, clients and shareholders. Employees of the Bank should deal with state bodies and authorities without personal interest, without resorting to unlawful means of influencing the adoption of administrative decisions.

Business Ethics

Bank managers are keen to develop a sense of belonging to the Bank to achieve high results, creating a team of like-minded people, aimed at achieving the set strategic goals.

The supervisor should pay heed to the requests of the Bank's employees.

Leaders are obliged to respect the personal dignity of the subordinate.

Employees of the Bank should take measures to immediately eliminate the causes and conditions that complicate or impede the normal performance of work and immediately notify such cases to the administration of the Bank and, if necessary, the unit compliant, as well as not to carry out actions that cause damage to the Bank, its property and finance.

Employees are required to plan their work and must coordinate their plans and actions with their colleagues and related units.

Conflict of interests

The management of the conflict of interest in the Bank is regulated by the Policy of Prevention of Conflicts of Interest, the Anti-Corruption Program, the Code of Conduct (Ethics), the Charter of the Bank, as well as the rules of the current legislation of Ukraine.

The Bank's managers should fully disclose their conflicts of interest and should not use their own position for personal purposes at the expense of the Bank. Conflicts of interest are the existing and potential conflicts between personal interests and the official or professional responsibilities of a person, which may affect the conscientious performance of his / her powers, objectivity and impartiality of decision making. Related party transactions which are included in agreements with third parties, except those that conducted on the basis of the non-interest principle on a standard basis, are regarded as conflicts of interest. The Bank has internal regulations governing the processes of identifying related parties of the Bank, conducting transactions with them, as well as the procedure of such operations control.

The Management Board and members of the Bank's bodies should fully disclose all relevant information about the identified existing interests or conflicts of interest to the Supervisory Board.

The Bank's managers shall ensure that conflicts of interest are avoided when exercising their powers. However, if a conflict of interest persists, the Bank's manager must disclose it and refrain from participating in the relevant decision-making process.

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, p. 10.3.14; 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 2019, 30 communications were received through existing communication channels regarding possible violation of the "Anticorruption Program". According to the results of the reviews / internal investigations, information on 6 cases was confirmed. The ways of elimination of the causes and consequences of the detected violations have been identified, and measures have been taken to prevent such actions in the future. Obtained complaints that are not related to corruption offenses and are not within the competence of the Commissioner for implementation of the anti-corruption program, have been forwarded to the relevant structural units for further consideration.

A assessment of corruption risks in the activity of JSC CB "PRIVATBANK" was carried out during 2019. 185 conclusions were drawn on the absence of corruption risks when providing charitable assistance to the bank. Anti-corruption audit of 11 242 business partners of the bank was conducted. These measures minimize the risks of a bank's business relationship with counterparties that may be involved in corruption

Results of activity and further development

The Bank, along with other state-owned banks, occupied a significant position on the market in 2019: the aggregate share of state-owned banks amounted to 55.2% and 61.4%, respectively, for net assets and deposits of the individuals. One of the main factor of the growth of banking system net assets in 2019 was an increase of highly liquid assets (+82 bln UAH) and investments in securities (+58 bln UAH). Loan portfolio of the banking system have decreased by -7,6%, first of all due to decrease of the loan portfolio of legal entities to -97 bln UAH (10,6%). The loan portfolio of individuals has increased on 10 bln UAH (5%).

The growth of the Bank's loan portfolio (net, without provision) was +9 billion UAH (19%), which is the result of lending development: a) legal entities (+2.5 billion UAH net loan portfolio) due to the traditional products (credit lines, investments) and innovative products development (CUB); b) individuals (+7.5 billion UAH net loan portfolio) due to the card products (card "universal") and mortgage lending and leasing products.

Despite such a significant increase in the loan portfolio, its quality has improved significantly due to the risk management processes: the NPL level for the year 2019 was 27.1% (-700 pp from the 2018 indicator). Credit risk in 2019 was also lower than in 2018, - 1.3% (-70 pp to 2018).

At the same time, the banking system of Ukraine is characterized by a significant increase in clients' funds (+15%) during 2019, incl. funds of legal entities increased by UAH +92 billion. (+22.5%), individuals' funds - by UAH +44 billion. (+8.7%). The same trend is also observed in the Bank - in 2019 the assets of legal entities increased by UAH +2.2 billion. (+5%), individuals' funds - by UAH +7.3 billion. (+4%).

The Bank continues the quantitative and qualitative development of services, which contributes to the growth of the number of active cards, operations in TCOs and ATMs.

According to the results of 2019, the Bank remains the leader of the Ukrainian banking sector by most positions:

- 1-st place at the individuals clients funds portfolio and 3 place at the legal entities clients funds portfolio.
- the Bank strengthened its leadership in the number of active clients, both individuals (+18%) and small and medium-sized businesses (+22.5%).
- significantly increase the loan portfolio - by 19% (+ UAH 9 billion). At the same time, the Bank retains leading positions in the retail lending market.

According to the results of 2019, the Bank has a sufficient level of capital. The Bank's regulatory capital at the end of 2019 is UAH 19.2 billion, and the regulatory capital adequacy ratio is 14.15% (at the rate of> 10%). According to the results of the stress testing of banks conducted by the NBU in 2019, even in the most negative scenario, the level of capital adequacy will not be lower than the regulatory one.

Asset Liquidity: All regulatory norms of the Bank exceed the norms set by the NBU. The short-term liquidity ratio (H6) was 100.41% as of December 31, 2019 (December 31, 2018: 97.74%), with the NBU value set at not less than 60%. The liquidity coverage ratio (LCR) was 268.26% for all currencies and 307.71% in foreign currency as of December 31, 2019 with the NBU standard setting at least 100%.

During 2019, the Bank significantly increased the level of profitability of operations and achieved UAH 32.6 billion. net profit (12.8 for 2018). The main drivers of profit growth in 2019 are: business growth, improving the quality of the loan portfolio, the impact of market factors (FX UAH/USD rate and the fair value of the Bank's assets trends).

Achieving such high rates was made possible by the continued work to increase the interest margin on banking products. At the same time, thanks to the Bank's leadership in non-cash and cash settlements, the Bank increased its net commission income by 20% to UAH 18.2 billion. Commissions form a significant part of the Bank's profits and are an important factor in the sustainability of the business model.

According to the NBU's forecast for 2020, the growth rates of individuals clients funds will remain at the level of the previous year, despite a significant decrease in interest rates on deposits. The growth rates of retail loans will only slow slightly - demand for them remains high due to rising household incomes and high consumer confidence. The growth of corporate loans will continue to be limited by the low transparency of companies' finances. In 2019, interest rates on foreign currency loans were the lowest in the history of the banking sector, but this did not lead to an increase in banks' foreign currency loan portfolio. The NBU expects that UAH interest rates, including mortgages, to be historically the lowest in 2020. Due to low inflation and macro-financial stability, high resource costs will no longer be a problem for credit recovery.

The task of the Bank for the next year is to achieve profitability indicators in accordance with the goals of the Bank's business strategy while maintaining the leading position in the Ukrainian banking market. The main priorities of the Bank in the short term are:

- Further increase of the quality credit portfolio, in which the retail segment will continue to dominate;
- Maintaining an optimal and sufficient level of resource base and further cost reduction policy;
- 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;
- According to the results of 2020, the Bank plans to receive UAH 17.5 billion. profit.

Profitability Indicators

The Bank's net profit for the year 2019 reached UAH 32.6 billion, which is more than half of the profit of the whole banking sector of Ukraine for the year 2019. The net interest income amounted to UAH 19.7 billion, net commission income - UAH 18.2 billion, trade income and revaluations, including foreign exchange revaluation, government bonds and property revaluation - UAH 7.5 billion, operating expenses – 14.8 billion UAH.

The main drivers of profit growth in 2019 are: business growth, improving the quality of the loan portfolio, the impact of market factors (FX UAH/USD rate and the fair value of the Bank's assets trends).

Based on a prudent interest rate policy, the Bank significantly improved its interest margin and achieved an increase in interest income by UAH 2.9 billion during the year. (17.4%).

The increase in the number of active clients and the increase in the volume of transactions, both in branches and on-line channels, led to an increase of net commission income by UAH 3 billion. (19.8%).

At the same time, operating expenses remained at a controlled level (+ 6% to the level of 2018). Costs / Revenues for 2019 was 33%, which is one of the best among competitors.

The Bank ended the year with a profit of UAH 32.6 billion, which is the highest in the history of the Bank and led to record profits of the banking system of Ukraine.

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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 75 of Section II of the Bank's Annual Report 2019 and comprise the separate statement of financial position as at 31 December 2019, 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 on the corresponding figures 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 financial position of the Bank as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements for the preparation of financial statements established by Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

Basis for Qualified Opinion

1. As described in Note 6 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. Our audit opinion on the separate financial statements for 2018 was modified accordingly. Our opinion on the current period's separate financial statements is also modified because of the possible effect of this matter on the comparability of the current period's separate financial statements and the corresponding figures.

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 (Note 16). 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 2019 and 2018 (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 2019 and 2018. 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 2019 and 2018 as well as interest expense and foreign exchange gains and losses for 2019 and 2018 has not been determined. Our audit opinion on the separate financial statements for 2018 was modified accordingly.

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 (including International Independence Standards) (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.

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Key audit matter	How our audit addressed the key audit matter
Assessment of expected credit loss on loans and advances to customers	
Assessment of expected credit losses in accordance with IFRS 9 "Financial instruments" is complex and inherently subjective process that requires application of judgements and making assumptions by Management. The use of different techniques and assumptions made on how to incorporate historical and forecast macroeconomic information, in the assessments of such indicators as historical losses, recoveries, macroeconomic indicators, could produce significantly different estimates of expected credit loss on loans and advances to customers. 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 separate 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 in respect of expected credit loss on loans and advances to customers and the Bank's risk management policies.	Our audit procedures included assessment of the methodology, techniques and assumptions used by the Bank to incorporate historical and macroeconomic information in the assessment of expected credit losses on loans and advances to customers. We obtained an understanding, evaluated the design, and tested operating effectiveness of the controls related to the expected credit loss calculations and input data. We also tested information used in calculation of expected credit loss including but not limited to historical losses and recoveries, macroeconomic indicators and other inputs. For individually assessed loans secured with collateral, we assessed the methodology of collateral valuation, assumptions used to estimate its fair value and expected cash flows under a range of scenarios. We analysed disclosures on expected credit losses on loans and advances to customers included in the notes to the separate financial statements.
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.	Our audit procedures included obtaining understanding of the process of fair value assessments, key sources of inputs and assumptions.

Key audit matter	How our audit addressed the key audit matter
Also, the carrying value of UAH 86,680 million is significant to the separate financial statements. Therefore, we considered this matter to be a key audit matter. Information and judgments on the investment securities at fair value through profit or loss is presented in the Notes 4, 9 and 29 to the separate financial statements.	We evaluated, with the assistance of our internal valuation specialists, the model, assumptions and judgements applied by the Bank's management, including those applied in the determination of period for volatility of exchange rates and other factors in modeling long-term forecast of exchange rates. Also, we tested inputs applied by Bank's management in development of their assumptions, such as historical exchange rates, terms of financial instruments and discount rates.

Other information included in the Bank's Annual report and the Bank's Annual Information of the Issuer of Securities for 2019

Other information consists of the Bank's Annual report (including 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.

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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.

- 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 and the Audit Committee 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 and the Audit Committee 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 and the Audit Committee 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.

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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 separate 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 separate financial statements. We have nothing to report in this regard.

Report on other legal and regulatory requirements

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

Appointment of the auditor and period of engagement

We were first appointed as independent auditors to perform a statutory audit of the Bank's 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 four years.

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

We confirm that our independent auditor's report is consistent with the additional report to the Audit Committee and the Supervisory Board of the Bank, which we issued on 27 April 2020 in accordance with Article 35 of Law No. 2258-VIII.

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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

29 April 2020

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 2019	31 December 2018
ASSETS			
Cash and cash equivalents and mandatory reserves	6	45,894	27,360
Due from banks	7	27,118	-
Loans and advances to customers	8	59,544	50,140
Investment securities:			
- at fair value through profit or loss	9	84,680	86,244
- at fair value through other comprehensive income	9	66,602	79,299
- at amortized cost	9	875	14,538
Current tax assets		2,257	184
Investments in subsidiaries and an associate/Investments in subsidiaries		155	30
Investment properties		3,379	3,340
Right-of-use assets	10	1,716	-
Fixed assets and intangible assets	11	4,764	3,793
Other financial assets	12	2,210	2,743
Other assets	13	9,285	8,899
Repossessed collateral		1,244	1,361
Assets held for sale	14	-	117
TOTAL ASSETS		**309,723**	**278,048**
LIABILITIES			
Due to the NBU	15	7,721	9,817
Due to banks and other financial institutions		201	195
Customer accounts	16	240,621	231,055
Lease liabilities		1,748	-
Deferred income tax liability	24	121	136
Other financial liabilities	17	1,522	2,249
Provisions and non-financial liabilities	18	3,260	3,132
TOTAL LIABILITIES		**255,194**	**246,584**
EQUITY			
Share capital	19	206,060	206,060
Share premium	19	23	23
Revaluation reserve of premises	11	614	687
Unrealised losses on investment securities		(1,274)	(3,303)
Result from transactions with the shareholder		12,174	12,174
General reserves and other funds	19	6,850	6,211
Accumulated deficit		(169,918)	(190,388)
TOTAL EQUITY		**54,529**	**31,464**
TOTAL LIABILITIES AND EQUITY		**309,723**	**278,048**

Approved for issue and signed on 29 April 2020.

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	2019	2018
Interest income	20	33,841	30,754
Interest expense	20	(14,174)	(14,002)
Net interest income		**19,667**	**16,752**
Charge for impairment	21	(4)	(6,089)
Net interest income after charge for impairment		**19,663**	**10,663**
Fee and commission income	22	24,575	19,590
Fee and commission expense	22	(6,386)	(4,402)
Gains less losses from trading in foreign currencies and swaps		2,589	1,983
Foreign exchange translation gains less losses		6,510	1,145
Gains less losses from sale of investment securities at fair value through other comprehensive income		8	3
Losses less gains on revaluation of investment securities at fair value through profit or loss		(1,526)	(3,085)
Gains/(losses) on the valuation of premises and investment property		4	(553)
Impairment of repossessed collateral		(134)	(13)
Reversal of impairment on investment in an associate		8	-
Administrative and other operating expenses	23	(14,815)	(13,988)
Other income, net		2,113	1,446
Profit before tax		**32,609**	**12,789**
Income tax credit	24	-	9
Net profit for the year		**32,609**	**12,798**
Other comprehensive income/(loss):			
Items that will be reclassified subsequently to profit or loss:			
Financial assets on fair value through other comprehensive income:			
- Unrealised gains/(losses) on revaluation		2,037	(1,872)
- Gains reclassified to profit or loss		(8)	(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		(70)	2
- Income tax effect		15	(1)
Other comprehensive income/(loss)		**1,974**	**(1,874)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**34,583**	**10,924**
Earnings per share for income attributable to the shareholder of the Bank, basic and diluted (expressed in UAH per share)	19	**44.31**	**17.39**

Approved for issue and signed on 29 April 2020.

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	Share capital	Share premium	Revaluation reserve of premises	Unrealised losses on investment securities	Result from transactions with the shareholder	General reserves and other funds	Accumulated deficit	Total equity
Balance at 1 January 2018		**206,060**	**23**	**769**	**(1,428)**	**12,174**	**6,211**	**(203,269)**	**20,540**
Profit for the year		-	-	-	-	-	-	12,798	12,798
Other comprehensive income/(losses) for the year		-	-	1	(1,875)	-	-	-	(1,874)
Total other comprehensive income/(losses) for the year		-	-	1	(1,875)	-	-	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**	**687**	**(3,303)**	**12,174**	**6,211**	**(190,388)**	**31,464**
Balance at 1 January 2019		**206,060**	**23**	**687**	**(3,303)**	**12,174**	**6,211**	**(190,388)**	**31,464**
Profit for the year		-	-	-	-	-	-	32,609	32,609
Other comprehensive income/(losses) for the year		-	-	(55)	2,029	-	-	-	1,974
Total other comprehensive income/(losses) for the year		-	-	(55)	2,029	-	-	32,609	34,583
The change in revaluation reserves for premises due to:									
- transfer (depreciation) of the reserve for revaluation of premises into retained earnings		-	-	(18)	-	-	-	18	-
Profit distribution:									
- payment of dividends	19	-	-	-	-	-	-	(11,518)	(11,518)
- transfer to the reserve fund	19	-	-	-	-	-	639	(639)	-
Balance at 31 December 2019		**206,060**	**23**	**614**	**(1,274)**	**12,174**	**6,850**	**(169,918)**	**54,529**

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Deputy Chairman of the Board
(finance)

Valentyna V. Yarmolenko
Chief Accountant

In millions of Ukrainian hryvnias	Note	2019	2018
Cash flows from operating activities			
Interest income received		35,573	29,791
Interest paid		(14,095)	(14,163)
Fee and commission received		24,575	19,590
Fee and commission paid		(6,386)	(4,402)
Income received on trading in foreign currencies and swaps		2,589	1,958
Staff costs paid		(7,311)	(5,727)
Administrative and other operating expenses paid, except for staff costs paid		(6,576)	(7,487)
Other income received		2,187	1,422
Income tax paid		(2,073)	-
Cash flow from operating activities before changes in operating assets and liabilities		**28,483**	**20,982**
Changes in operating assets and liabilities			
Net increase in mandatory reserve balances		(6)	(1)
Net (increase)/decrease in due from banks		(27,073)	2,911
Net increase in loans and advances to customers		(12,579)	(13,515)
Net decrease in other financial assets		270	55
Net increase in other assets		(601)	(188)
Net decrease in due to the NBU		-	(1,500)
Net decrease/(increase) in due to banks and other financial institutions		111	(24)
Net increase in customer accounts		21,979	20,911
Net increase in provisions, other financial and non-financial liabilities		25	512
Net cash from operating activities		**10,609**	**30,143**
Cash flows from investing activities			
Proceeds from sales of fixed assets		21	14
Acquisition of fixed assets and intangible assets		(1,923)	(1,368)
Proceeds from sale and redemption of investment securities on fair value through profit or loss		46	112
Purchases 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		37,910	7,074
Purchases of investment securities at fair value through other comprehensive income		(24,156)	(32,926)
Proceeds from redemption of investment securities at amortized cost		12,235	4,305
Purchases of investment securities at amortized cost		-	(3,519)
Net cash from/(used in) investing activities		**24,133**	**(26,332)**
Cash flows from financing activities			
Repayment of lease liabilities		(531)	-
Repayment of the NBU refinancing loans		(2,068)	(1,000)
Dividend payment		(11,518)	-
Repayment of the subordinated debt		-	(134)
Net cash from/(used in) financing activities	32	**(14,117)**	**(1,134)**
Effect of exchange rate changes on cash and cash equivalents		(1,815)	(506)
Effect of expected credit losses on cash and cash equivalents		-	(15)
Net decrease in cash and cash equivalents		**18,810**	**2,156**
Cash and cash equivalents at the beginning of the year		25,677	23,521
Cash and cash equivalents at the end of the year	6	**44,487**	**25,677**

Approved for issue and signed on 29 April 2020.

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 2019 the Government of Ukraine represented by the Cabinet of Ministers of Ukraine is the ultimate controlling party of the Bank (31 December 2018: represented by the Ministry of Finance of Ukraine).

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 2019 and 2018 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 2018: UAH 200 thousand) in case bank liquidation procedure is started.

As at 31 December 2019, the Bank has 30 branches and 1,898 operating outlets in Ukraine and a branch in Cyprus (31 December 2018: 30 branches and 1,991 operating outlets in Ukraine and a branch in Cyprus). Additionally, as at 31 December 2019 and 2018 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.

Since January 2019, the national currency, hryvnia, has been strengthening. The official hryvnia exchange rate against the US dollar grew by 14% from 31 December 2018 to 31 December 2019.

In September 2019, the international rating agency Fitch Ratings improved the long-term and short-term credit rating of Ukraine in foreign and national currencies from B- to B, and improved its outlook from stable to positive. The agency notes that Ukraine has demonstrated its ability to gain access to external budget financing on time, improving macroeconomic stability and reducing state debt, while reducing the election period has reduced political uncertainty.

In 2019 - 2018, 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 increased operating profitability, and loosen a debt leverage as a result. At the same time, criteria for assessing solvency of borrowers have become stricter.

Banking sector's profitability is driven by high margins for the retail segment and high commission income. Banking sector's profit in 2019 was UAH 59,6 billion and 2.7 times higher than in 2018. The return on equity for the sector reached 34%. This was possible both due to a rapid increase in operating income and a low level of charges for impairment on assets.

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.

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 2019 with the purpose to obtain a correct understanding of financial standing, financial performance results and cash flows of the Bank and its subsidiaries.

These separate financial statements have been prepared on the historical cost basis, with the exception of the initial recognition of financial instruments based on fair value, subsequent measurement of premises at revalued amounts and derivative financial instruments, financial assets at fair value through other comprehensive income and financial instruments at fair value through profit or loss are measured at fair value. The key accounting policies used in preparing these separate financial statements are set out below. These principles have been applied consistently to all periods presented, unless otherwise indicated.

Changes of accounting policy

IFRS 16 Leases (issued in January 2016 and applied to annual periods beginning on or after 1 January 2019). IFRS 16 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 recognises 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 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. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

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

The Bank applied a modified retrospective approach as at 1 January 2019 but did not adjust the balances of previous years. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase or prolongation option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

As at 1 January 2019, the Bank recognized right-of-use assets in the amount of UAH 1,674 million and lease obligations in the amount of UAH 1,664 million. The total assets and liabilities of the Bank at 1 January 2019 upon the first application of IFRS 16 increased by UAH 1,674 million and UAH 1,664 million, respectively. The difference between the amount of the recognized right-of-use asset and the amount of the lessee's leasing obligation as at 1 January 2019 was represented by an advance payment on guarantee rental contributions, and was UAH 10 million. As a result, there was no impact on the retained earnings of the Bank and the total amount of capital.

3 Summary of Significant Accounting Policies (Continued)

Nature of the effect of adoption of IFRS 16

The Bank has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Bank; otherwise it was classified as an operating lease. Finance leases were capitalised on the lease commencement date at the lower of the fair value of the leased property or at the present value of the minimum lease payments. Lease payments were apportioned between interest and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Bank.

Leases previously classified as finance leases

The Bank did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. At the date of initial application right-of-use assets were recognised based on the amount equal to lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The effect of the transition to IFRS 16 is as follows:

In millions of Ukrainian hryvnias	
Operating lease commitments at 31 December 2018	**949**
Less:	
Commitments related to short-term lease	(29)
Commitments related to leasing of low value assets and unidentified assets	(66)
VAT, that is not refundable and therefore not included in the right-of-use assets and financial obligations	(67)
Add:	
Payments in periods covered by extension options unrecognized at 31 December 2018	1,574
Undiscounted lease liabilities at 1 January 2019	**2,361**
Weighted average lessee's incremental borrowing rate at 1 January 2019	15.89%
Discounted lease liabilities at 1 January 2019	**1,664**

Summary of new accounting policies

Set out below are the new accounting policies of the Bank upon adoption of IFRS 16, which have been applied from the date of initial application:

3 Summary of Significant Accounting Policies (Continued)

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (value of less than UAH 50 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Application 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 2019. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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 IAS 19 Plan Amendment, Curtailment or Settlement (apply to annual periods beginning on or after 1 January 2019).
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (apply to 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).
- 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).
- 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).

3 Summary of Significant Accounting Policies (Continued)

- 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 (issued on December 2017; apply to annual periods beginning on or after 1 January 2019).

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.

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 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. 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 (EIR) 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. 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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. 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.

At the first stage 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. This 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.

3 Summary of Significant Accounting Policies (Continued)

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

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. The Bank also considers cash flows from the sale of held collateral or other credit enhancement mechanisms, which are an integral part 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.

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.

Upon initial recognition and prior to the date of a significant increase in credit risk, the Bank recognizes allowance for 12 month ECL or a period until repayment, if such a period is shorter than 12 months. Allowance for 12 month ECL is part of the allowance for lifetime ECL, reflecting expected credit losses due to the default of a financial instrument that may occur within 12 months after the reporting date.

Allowance for lifetime ECL are expected credit losses that result from all possible default events over the expected life of a financial instrument. Allowance for lifetime ECL of the financial instrument are recognized if the credit risk of the financial instrument has increased significantly since initial recognition.

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.

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 as a profit or loss from impairment in profit or loss. The Bank recognizes positive changes in expected credit losses as a profit from impairment, and negative changes as loss from impairment.

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

- overdue over 90 days as at reported date (for banks from 30 days);
- initiation or declaration of bankruptcy; initialization of liquidation of a legal entity;
- identification of fraud or confirmation of fraud indicators in respect financial transaction (for loans starting 1st day of overdue) and other.

3 Summary of Significant Accounting Policies (Continued)

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 indicators (average monthly wages, export of goods, imports of goods, gross domestic product, national payments balance and other indicators) with 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.

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 at the lower of the two values: 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) estimated allowance for expected credit losses.

Investment securities. The Bank determines the category of securities valuation in accordance with the business model and SPPI criteria:

1) Investment securities are measured at amortized cost ("AC") 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 ("FVOCI") 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 ("FVPL"), unless it is measured at amortized cost or at fair value through other comprehensive income. 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.

Investments in subsidiaries and associates. The Bank accounts for its investments in subsidiaries and associates at cost.

3 Summary of Significant Accounting Policies (Continued)

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.

Fixed assets. Fixed assets are stated at cost or revalued cost, 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 recognised in 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 fixed assets 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.

At the end of each reporting period management assesses whether there is any indication of impairment of fixed assets. 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 fixed assets 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 mostly as follows:

Premises	5-50 years
Computers	2-10 years
Office furniture and equipment	4-13 years
Motor vehicles	5-10 years
Intangible assets	2-10 years
Electronic systems	4-20 years
Other	4-12 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.

3 Summary of Significant Accounting Policies (Continued)

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 (before 1 January 2019). Where the Bank was a lessee in a lease which did not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments were 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.

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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".

3 Summary of Significant Accounting Policies (Continued)

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.

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 carrying value (amortized cost) and the effective interest rate.

Interest income on all financial measured at FVPL is recognized using the contractual interest rate within other interest income in the separate statement of profit or loss and other comprehensive income.

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.

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 statement presentation currency, is the national currency of Ukraine, Ukrainian hryvnia ("UAH"). Transactions in foreign currencies are recognised in the functional currency 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 2019, UAH	31 December 2018, UAH
1 US Dollar (USD)	23.686200	27.688264
1 Euro (EUR)	26.422000	31.714138

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.

3 Summary of Significant Accounting Policies (Continued)

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 2019, 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 113 million (2018: an increase or decrease in the allowance for expected credit losses of UAH 136 million).

As at 31 December 2019, 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 462 million or UAH 2,540 million, respectively (2018: in an increase or decrease of allowance for loan impairment of UAH 494 million or UAH 2,817 million, respectively).

As at 31 December 2019, 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 1,033 million or UAH 20,988 million, respectively (2018: in an increase or decrease of allowance for loan impairment of UAH 1,158 or UAH 21,200 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 440 million and decrease by UAH 200 million (2018: 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.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Significant judgement in determining the lease term of contracts with renewal options. The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has the option, under some of its leases to lease the assets for additional terms of three to five years. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

5 New or Revised Standards and Interpretations that are 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.

IFRS 17 Insurance Contracts (issued in May 2017; applies to annual periods beginning on or after 1 January 2023)

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

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

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

IFRS 17 is not applicable to the Bank, thus the Bank expects this standard will not have any impact on these separate financial statements.

Amendments to IFRS 3 Business Combinations (issued on October 2018; apply to annual periods beginning on or after 1 January 2020).

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

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

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (issued on October 2018; apply to annual periods beginning on or after 1 January 2020).

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

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

6 Cash and Cash Equivalents and Mandatory Reserves

In millions of Ukrainian hryvnias	31 December 2019	31 December 2018
Cash on hand	19,519	15,905
Cash balances with the NBU	8,525	6,061
Cash balances and mandatory reserves with the Central Bank of Cyprus	1,402	1,682
Correspondent accounts and overnight placements with banks		
- Ukraine	4	5
- OECD	16,393	3,549
- Other countries than OECD	66	173
Less: Allowance for 12 month ECL	(15)	(15)
Total cash and cash equivalents and mandatory reserves	**45,894**	**27,360**

As at 31 December 2019, the mandatory reserve balances of the Bank's branch in Cyprus kept with the Central Bank of Cyprus was UAH 81 million (31 December 2018: UAH 96 million) and in the Bank's correspondent accounts, funds in the amount of UAH 5 million were limited by a court decision. In addition, as at 31 December 2019 cash balances with the Central Bank of Cyprus of UAH 1,321 million (31 December 2018: UAH 1,586 million) were restricted in similar manner as a mandatory reserve balances and were not available for operating activities.

As the respective 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 1,407 million of such balances were excluded from cash and cash equivalents (31 December 2018: UAH 1,683 million).

In millions of Ukrainian hryvnias	31 December 2019	31 December 2018
Total cash and cash equivalents and mandatory reserves	45,894	27,360
Less mandatory reserves and other restricted balances	(1,407)	(1,683)
Cash and cash equivalents for the purposes of the separate statement of cash flows	**44,487**	**25,677**

As at 31 December 2019, UAH 1,294 million of mandatory reserve balances with the NBU (31 December 2018: UAH 1,294 million) has been pledged as a collateral for the refinancing loan received from the NBU. Refer to Notes 15 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.

6 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 2019 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	19,519	-	-	19,519
Cash balances with the Central Banks	-	9,927	-	9,927
Aa1 to Aa2 rated	-	-	10,172	10,172
A1 to A2 rated	-	-	4,738	4,738
Baa1-Baa3 rated	-	-	1,468	1,468
Ba1 to Ba3 rated	-	-	1	1
B3 rated	-	-	5	5
Caa1-Caa2 rated	-	-	58	58
Unrated	-	-	21	21
Total cash and cash equivalents and mandatory reserves, gross	**19,519**	**9,927**	**16,463**	**45,909**

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 to Baa3 rated	-	-	68	68
Ba2 to Ba3 rated	-	-	24	24
Caa1 to Caa2 rated	-	-	138	138
Unrated	-	-	43	43
Total cash and cash equivalents and mandatory reserves, gross	**15,905**	**7,743**	**3,727**	**27,375**

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.

7 Due from banks

In millions of Ukrainian hryvnias	31 December 2019	31 December 2018
Deposit certificates of the National Bank of Ukraine	27,043	-
Finance lease receivable	75	-
Total due from banks	**27,118**	**-**

7 Due from banks (Continued)

Analysis by credit quality of amounts due from banks outstanding at 31 December 2019 is as follows:

In millions of Ukrainian hryvnias	Deposit certificates of the National Bank of Ukraine	Finance lease	Total
- Deposit certificates of the National Bank of Ukraine	27,043	-	27,043
- B2 rated	-	75	75
Total due from banks	**27,043**	**75**	**27,118**

As at 31 December 2019 deposit certificates bore interest rate from 11.5% to 13.5% per annum.

The credit quality is based on Moody's ratings where available, or other rating agencies converted to the nearest equivalent on Moody's rating scale. The primary factor that the Bank considers in determining whether a balance is impaired is its overdue status.

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

8 Loans and Advances to Customers

In millions of Ukrainian hryvnias	31 December 2019	31 December 2018
Loans and finance lease managed as a separate portfolio	210,579	212,795
Corporate loans	6,250	5,648
Loans to individuals – cards	51,890	45,314
Loans to individuals – mortgage	11,467	12,923
Loans to individuals – consumer	4,148	4,193
Loans to individuals – auto	250	332
Loans to individuals – other	498	672
Loans to small and medium enterprises (SME)	8,555	8,251
Finance lease receivables – individuals	1,152	654
Finance lease receivables – corporate customers	742	710
Finance lease receivables – small and medium enterprises (SME)	418	248
Purchase/originated credit-impaired - corporate customers	94	196
Total loans and advances to customers, gross	**296,043**	**291,936**
Less: Allowance for expected credit losses	(236,499)	(241,796)
Total loans and advances to customers	**59,544**	**50,140**

As at 31 December 2019 and 2018, 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 2019 the Bank recognised UAH 207,851 million of allowance for expected credit losses under these loans (31 December 2018: UAH 209,453 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 2019:

In millions of Ukrainian hryvnias	**Gross carrying amount at 1 January 2019**	Transfer of loans to categories: With estimate of allowance for 12 month ECL	Transfer of loans to categories: With estimate of allowance for lifetime ECL	Transfer of loans to categories: Credit-impaired loans	Derecognition of financial instruments	New recognized financial assets	Other changes in gross carrying amount	Written off	Exchange differences	**Gross carrying amount at 31 December 2019**
With estimate of allowance for 12 month ECL	**45,765**	**3,439**	**(5,738)**	**(244)**	**(25,490)**	**46,071**	**(8,133)**	**-**	**(101)**	**55,569**
Loans and finance lease managed as a separate portfolio	-	-	-	-	(1)	1	-	-	-	**-**
Corporate loans	3,326	456	(949)	(10)	(3,251)	4,503	373	-	(91)	**4,357**
Loans to individuals – cards	32,452	2,156	(3,416)	(170)	(15,855)	22,099	1,339	-	-	**38,605**
Loans to individuals – mortgage	909	68	(36)	(40)	(87)	1,107	(209)	-	-	**1,712**
Loans to individuals – consumer	3,933	47	(112)	(6)	(2,498)	8,874	(6,321)	-	-	**3,917**
Loans to individuals – auto	1	-	-	-	-	-	(1)	-	-	**-**
Loans to individuals – other	39	-	-	-	(85)	94	(15)	-	-	**33**
Loans to small and medium enterprises (SME)	3,782	347	(780)	(14)	(3,594)	7,993	(2,639)	-	(10)	**5,085**
Finance lease receivables	1,323	365	(445)	(4)	(119)	1,400	(660)	-	-	**1,860**
With estimate of allowance for lifetime ECL	**1,556**	**(2,772)**	**5,912**	**(2,461)**	**(726)**	**389**	**(458)**	**(2)**	**(39)**	**1,399**
Loans and finance lease managed as a separate portfolio	10	-	3	(20)	(6)	10	5	-	(2)	**-**
Corporate loans	284	(454)	981	(64)	(458)	143	(180)	-	(1)	**251**
Loans to individuals – cards	596	(1,588)	3,467	(2,045)	(38)	9	110	-	-	**511**
Loans to individuals – mortgage	313	(23)	112	(49)	(26)	-	(57)	(1)	(36)	**233**
Loans to individuals – consumer	20	(37)	112	(52)	(8)	1	(26)	-	-	**10**
Loans to individuals – auto	1	-	-	-	-	-	-	-	-	**1**
Loans to small and medium enterprises (SME)	218	(323)	789	(206)	(184)	76	(247)	(1)	-	**122**
Finance lease receivables	114	(347)	448	(25)	(6)	150	(63)	-	-	**271**
Credit-impaired loans	**244,419**	**(667)**	**(174)**	**2,705**	**(652)**	**158**	**4,688**	**(3,095)**	**(8,401)**	**238,981**
Loans and finance lease managed as a separate portfolio	212,785	-	(3)	20	(68)	73	4,036	(3)	(6,261)	**210,579**
Corporate loans	2,038	(2)	(32)	74	(65)	7	19	(165)	(232)	**1,642**
Loans to individuals – cards	12,266	(568)	(50)	2,214	(270)	55	27	(897)	(3)	**12,774**
Loans to individuals – mortgage	11,701	(45)	(77)	89	(127)	4	491	(958)	(1,556)	**9,522**
Loans to individuals – consumer	240	(9)	-	58	(21)	4	(22)	(29)	-	**221**
Loans to individuals – auto	330	-	-	-	(4)	-	(1)	(44)	(32)	**249**
Loans to individuals – other	633	-	-	-	(17)	1	(42)	(105)	(5)	**465**
Loans to small and medium enterprises (SME)	4,251	(24)	(9)	220	(70)	14	171	(894)	(311)	**3,348**
Finance lease receivables	175	(19)	(3)	30	(10)	-	9	-	(1)	**181**
Purchase/originated credit-impaired	**196**				**-**	**16**	**-**	**(118)**	**-**	**94**
Total loans and advances to customers, gross	**291,936**	**-**	**-**	**-**	**(26,868)**	**46,634**	**(3,903)**	**(3,215)**	**(8,541)**	**296,043**

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:

In millions of Ukrainian hryvnias	**Gross carrying amount at 1 January 2018**	Transfer of loans to categories: With estimate of allowance for 12 month ECL	Transfer of loans to categories: With estimate of allowance for lifetime ECL	Transfer of loans to categories: 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 and finance lease 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 and finance lease 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 and finance lease 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 2019 is as follows:

In millions of Ukrainian hryvnias	**Allowance for expected credit losses of subject at 1 January 2019**	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 2019**
Allowance for 12 month ECL	**1,037**	**1,181**	**(643)**	**(7)**	**(425)**	**739**	**(1,002)**	**-**	**-**	**(2)**	**878**
Corporate loans	121	19	(24)	-	(44)	85	(81)	-	-	(2)	**74**
Loans to individuals – cards	722	1,014	(500)	(6)	(288)	370	(699)	-	-	-	**613**
Loans to individuals – mortgage	19	39	(3)	(1)	(3)	20	(40)	-	-	-	**31**
Loans to individuals – consumer	39	25	(20)	-	(16)	76	(67)	-	-	-	**37**
Loans to small and medium enterprises (SME)	88	51	(69)	-	(71)	147	(84)	-	-	-	**62**
Finance lease receivables	48	33	(27)	-	(3)	41	(31)	-	-	-	**61**
Allowance for lifetime ECL	**414**	**(719)**	**764**	**(1,236)**	**(75)**	**19**	**1,119**	**-**	**(2)**	**(6)**	**278**
Loans and finance lease managed as a separate portfolio	3	-	2	(2)	-	-	(3)	-	-	-	**-**
Corporate loans	88	(17)	44	(29)	(26)	3	(52)	-	-	-	**11**
Loans to individuals – cards	246	(631)	532	(1,041)	(12)	-	1,111	-	-	-	**205**
Loans to individuals – mortgage	39	(4)	60	(11)	(3)	-	(53)	-	(1)	(5)	**22**
Loans to individuals – consumer	10	(18)	20	(29)	(5)	-	26	-	-	-	**4**
Loans to small and medium enterprises (SME)	23	(31)	77	(122)	(29)	7	95	-	(1)	(1)	**18**
Finance lease receivables	5	(18)	29	(2)	-	9	(5)	-	-	-	**18**
Allowance for ECL on credit-impaired loans	**240,169**	**(462)**	**(121)**	**1,243**	**(609)**	**151**	**309**	**5,862**	**(3,095)**	**(8,184)**	**235,263**
Loans and finance lease managed as a separate portfolio	209,450	-	(2)	2	(67)	73	(271)	4,788	(3)	(6,119)	**207,851**
Corporate loans	1,988	(2)	(21)	30	(66)	7	(56)	110	(165)	(227)	**1,598**
Loans to individuals – cards	11,915	(382)	(32)	1,046	(248)	49	538	265	(897)	(4)	**12,250**
Loans to individuals – mortgage	11,246	(36)	(56)	12	(111)	4	38	463	(958)	(1,485)	**9,117**
Loans to individuals – consumer	236	(7)	-	29	(19)	4	(21)	22	(29)	-	**215**
Loans to individuals – auto	330	-	-	-	(4)	-	(3)	2	(44)	(32)	**249**
Loans to individuals – other	627	-	-	-	(17)	1	(45)	5	(105)	(5)	**461**
Loans to small and medium enterprises (SME)	4,217	(20)	(8)	122	(69)	13	88	207	(894)	(312)	**3,344**
Finance lease receivables	160	(15)	(2)	2	(8)	-	41	-	-	-	**178**
Allowance for ECL on purchased/originated credit-impaired loans	**176**	**-**	**-**	**-**	**3**	**16**	**(7)**	**10**	**(118)**	**-**	**80**
Total allowance for expected credit losses	**241,796**	**-**	**-**	**-**	**(1,106)**	**925**	**419**	**5,872**	**(3,215)**	**(8,192)**	**236,499**

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 and finance lease 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 and finance lease 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 and finance lease 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 2019 loans and advances to customers, which the Bank previously wrote off as not collectible were recovered in total amount of UAH 338 million (2018: UAH 360 million), including recoveries of UAH 233 million of credit cards (2018: UAH 249 million), UAH 100 million of corporate loans (2018: UAH 106 million) and UAH 5 million of small and medium-sized business loans (2018: UAH 5 million). The amount of recoveries was recognized directly in profit or loss as a charge for impairment on loans and advances to customers. Refer to Note 21.

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

	31 December 2019		31 December 2018	
In millions of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Loans and finance lease managed as a separate portfolio	210,579	71	212,795	73
Loans to individuals	69,499	23	64,284	22
Corporate loans				
Agriculture and food industry	1,942	1	2,298	1
Consumer	1,192	-	771	-
Other	3,858	1	3,289	1
Loans to small and medium enterprises (SME)				
Services	2,440	1	2,664	1
Agriculture and food industry	2,316	1	1,934	1
Consumer	1,651	1	1,240	-
Infrastructure	599	-	556	-
Other	1,967	1	2,105	1
Total loans and advances to customers, gross	**296,043**	**100**	**291,936**	**100**

As at 31 December 2019, the gross aggregate amount of loans to top 10 borrowers of the Bank, other than those managed as a separate portfolio, amounted to UAH 2,191 million (31 December 2018: UAH 2,164 million) or 3% of the gross amount of loans less managed as a separate portfolio (31 December 2018: 3%). Allowance for expected credit losses related to these borrowers was UAH 663 million (31 December 2018: UAH 1,290 million).

Finance lease receivables, including finance lease receivables that are managed as a separate portfolio, (gross investment in the leases) and their present values at 31 December 2019 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 2019	**8,661**	**6,607**	**316**	**15,584**
Unearned finance income	(831)	(1,300)	(25)	(2,156)
Present value of finance lease payments receivables as at 31 December 2019	**7,830**	**5,307**	**291**	**13,428**
Allowance for expected credit losses	(6,125)	(3,231)	(261)	(9,617)
Total finance lease receivables	**1,705**	**2,076**	**30**	**3,811**

8 Loans and Advances to Customers (Continued)

Finance lease receivables, including finance lease receivables that are managed as a separate portfolio, (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 finance 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**

8 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2019 is as follows:

In millions of Ukrainian hryvnias	Loans and finance lease 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	-	1,997	-	-	-	-	-	-	180	-	-	**2,177**
Loans to medium size borrowers	-	2,311	-	-	-	-	-	1,662	278	-	162	**4,413**
Loans to small borrowers	-	49	-	-	-	-	-	3,321	15	-	160	**3,545**
Loans between UAH 1-100 million	-	-	39	294	-	1	21	-	-	38	-	**393**
Loans less than UAH 1 million	-	-	37,787	1,407	-	3,900	15	-	-	1,007	-	**44,116**
Less than 30 days overdue	-	15	777	18	-	18	-	75	-	16	3	**922**
Total loans and advances to customers with estimate of allowance for 12 month ECL	**-**	**4,372**	**38,603**	**1,719**	**-**	**3,919**	**36**	**5,058**	**473**	**1,061**	**325**	**55,566**
With estimate of allowance for lifetime ECL												
not overdue	-	240	24	201	-	-	-	88	250	1	10	**814**
less than 30 days overdue	-	5	14	3	-	-	-	2	-	-	-	**24**
31 to 90 days overdue	10	7	472	12	-	9	-	28	1	4	5	**548**
over 90 days overdue	-	-	-	-	-	-	-	-	-	-	-	**-**
Total loans and advances to customers with estimate of allowance for lifetime ECL	**10**	**252**	**510**	**216**	**-**	**9**	**-**	**118**	**251**	**5**	**15**	**1,386**
Credit-impaired loans												
not overdue	11,929	4	37	28	-	2	-	20	1	2	1	**12,024**
less than 30 days overdue	-	-	13	6	-	-	-	4	-	-	-	**23**
31 to 90 days overdue	-	187	21	3	-	-	-	1	-	-	-	**212**
91 to 180 days overdue	3,740	2	505	14	-	6	-	30	-	3	-	**4,300**
181 to 360 days overdue	124	5	793	20	-	8	-	91	-	3	2	**1,046**
over 361 days overdue	194,776	1,428	11,408	9,461	250	204	462	3,233	17	78	75	**221,392**
Total impaired loans and advances to customers	**210,569**	**1,626**	**12,777**	**9,532**	**250**	**220**	**462**	**3,379**	**18**	**86**	**78**	**238,997**
Purchase/originated credit-impaired	**-**	**-**	**-**	**93**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**94**
Less: Allowance for 12 month ECL	-	(74)	(613)	(31)	-	(37)	-	(62)	(30)	(10)	(21)	**(878)**
Less: Allowance for lifetime ECL	-	(11)	(205)	(22)	-	(4)	-	(18)	(16)	(1)	(1)	**(278)**
Less: Allowance for ECL on credit-impaired loans	(207,851)	(1,598)	(12,250)	(9,117)	(249)	(215)	(461)	(3,344)	(18)	(83)	(77)	**(235,263)**
Less: Allowance for ECL on purchased/originated credit-impaired loans	-	-	-	(78)	(1)	-	-	(1)				**(80)**
Total loans and advances to customers	**2,728**	**4,567**	**38,822**	**2,312**	**1**	**3,892**	**37**	**5,130**	**678**	**1,058**	**319**	**59,544**

8 Loans and Advances to Customers (Continued)

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

			Loans to individuals									
In millions of Ukrainian hryvnias	Loans and finance lease managed as a separate portfolio	Corporate loans	Cards	Mortgage	Auto	Consumer	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)

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 1,572 million (31 December 2018: UAH 1,343 million), issue of which did not require any collateral.

The effect of collateral at 31 December 2019:

	Over-collateralised assets		**Under-collateralised assets**	
In millions of Ukrainian hryvnias	Carrying value of the assets, net	Fair value of collateral	Carrying value of the assets, net	Fair value of collateral
Loans and finance lease managed as a separate portfolio	2,633	3,465	95	-
Corporate loans	2,953	6,686	1,614	288
Loans to individuals – mortgage	2,093	5,976	219	18
Loans to individuals – auto	-	-	1	-
Loans to individuals – other	30	52	7	-
Loans to SME	928	2,415	2,630	6
Finance lease receivables	2,034	3,784	21	10

The effect of collateral at 31 December 2018:

	Over-collateralised assets		**Under-collateralised assets**	
In millions of Ukrainian hryvnias	Carrying value of the assets, net	Fair value of collateral	Carrying value of the assets, net	Fair value of collateral
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

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.

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 2019 Carrying value	Contractual rate, % per annum	Maturity	31 December 2018 Carrying value	Contractual rate, % per annum	Maturity
Investment securities at FVPL:						
Long-term government bonds with an embedded option	84,680	6.00	September 2028 - January 2032	86,194	6.00	September 2028 - January 2032
Medium-term government bonds denominated in foreign currency	-			50	5.34	July 2019
Total investment securities at FVPL	**84,680**			**86,244**		

In millions of Ukrainian hryvnias	Carrying value	EIR, % per annum	Maturity	Carrying value	EIR, % per annum	Maturity
Investment securities at FVOCI:						
Long-term government bonds	55,639	8,91 - 19,14	May 2020 - December 2032	52,586	8,91-11,13	October 2027 - December 2032
Medium-term government bonds denominated in foreign currency	2,133	3,43 - 7,65	January 2020 - December 2021	7,588	4,08 - 7,64	June 2019 - May 2020
Medium-term government bonds	585	11,34 - 16,84	February 2020 - November 2023	1,821	16,69-21,61	March 2019 - May 2023
Short-term government bonds	-	-	-	12,441	17,95-22,13	January - September 2019
Short-term government bonds denominated in foreign currency	8,245	2,22 - 6,47	June - July 2020	4,770	5,97-7,06	January - June 2019
Long-term bonds issued by the State Mortgage Institution	-	-	-	93	18.89	December 2019
Total investment securities at FVOCI	**66,602**			**79,299**		
Investment securities at AC:						
Medium-term government bonds denominated in foreign currency	-	-	-	13,666	3,89 - 5,48	April - November 2019
Long-term bonds issued by the State Mortgage Institution	930	18.95	December 2020 - December 2023	872	18.95	December 2020 - December 2023
Less: Allowance for expected credit losses	(55)			-		
Total investment securities at AC	**875**			**14,538**		

Long-term government bonds with an embedded option 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. The embedded derivative was accounted together with the host contract.

At 31 December 2019 long-term bonds issued by the State Mortgage Institution at AC in the amount of UAH 875 million, were classified as financial assets with estimate of allowance for lifetime ECL (31 December 2018: in the amount of UAH 872 million with estimate of allowance for 12 month ECL).

All other investment securities at FVOCI and AC were classified as financial assets with estimate of allowance for 12 month ECL as at 31 December 2019 and 2018.

10 Right-of-Use Assets

In millions of Ukrainian hryvnias	Right-of-use assets (premises)	Right-of-use assets (other)	Total right-of-use assets
Carrying amount at 1 January 2019	**1,663**	**6**	**1,669**
Cost at 1 January 2019	**1,663**	**6**	**1,669**
Accumulated depreciation at 1 January 2019	**-**	**-**	**-**
Additions	456	4	**460**
Disposals:			
- cost	(254)	(5)	**(259)**
- accumulated depreciation	(43)	-	**(43)**
Depreciation charge	(427)	(2)	**(429)**
Modification of assets:			
- cost	329	1	**330**
- accumulated depreciation	(12)	-	**(12)**
Carrying amount at 31 December 2019	**1,712**	**4**	**1,716**
Cost at 31 December 2019	**2,194**	**6**	**2,200**
Accumulated depreciation at 31 December 2019	**(482)**	**(2)**	**(484)**

Modification of an asset includes all types of contract modifications, except those resulting in recognition of a new asset.

11 Fixed Assets and Intangible Assets

In millions of Ukrainian hryvnias	Premises	Lend	Computers	Motor vehicles	Office furniture and equipment	Electronic systems	Other	Intangible assets	Total
Carrying amount at 1 January 2018	**1,567**	**12**	**987**	**42**	**176**	**125**	**136**	**281**	**3,326**
Cost or revalued cost at 1 January 2018	1,586	12	2,699	177	708	280	178	330	5,970
Accumulated depreciation and amortisation at 1 January 2018	(19)	-	(1,712)	(135)	(532)	(155)	(42)	(49)	(2,644)
Additions	7	-	686	295	172	37	31	136	1,364
Disposals of cost or revalued cost	(97)	(4)	(51)	(178)	(15)	(4)	(6)	2	(353)
Disposals of accumulated depreciation and amortisation	4	-	49	2	14	(18)	1	-	52
Depreciation and amortisation charge	(40)	-	(347)	(23)	(76)	(18)	(16)	(74)	(594)
Impairment charge to profit or loss	(4)	-	-	-	-	-	-	-	(4)
Revaluation recognized in other comprehensive income	2	-	-	-	-	-	-	-	2
Carrying amount at 31 December 2018	**1,439**	**8**	**1,324**	**138**	**271**	**122**	**146**	**345**	**3,793**
Cost or revalued cost at 31 December 2018	1,454	8	3,334	294	865	306	203	468	6,932
Accumulated depreciation and amortisation at 31 December 2018	(15)	-	(2,010)	(156)	(594)	(184)	(57)	(123)	(3,139)
Additions	14	-	1,154	142	126	18	31	437	1,922
Disposals of cost or revalued cost	(4)	-	(147)	(5)	(30)	(8)	(21)	(18)	(233)
Disposals of accumulated depreciation and amortisation	2	-	142	5	30	6	2	18	205
Depreciation and amortisation charge	(39)	-	(501)	(36)	(87)	(18)	(16)	(131)	(828)
Impairment charge to profit or loss	(25)	-	-	-	-	-	-	-	(25)
Revaluation recognized in other comprehensive income	(70)	-	-	-	-	-	-	-	(70)
Carrying amount at 31 December 2019	**1,317**	**8**	**1,972**	**244**	**310**	**120**	**142**	**651**	**4,764**
Cost or revalued cost at 31 December 2019	1,330	8	4,341	431	961	313	213	887	8,484
Accumulated depreciation and amortisation at 31 December 2019	(13)	-	(2,369)	(187)	(651)	(193)	(71)	(236)	(3,720)

As at 31 December 2019, intangible assets include internally generated intangible assets with the carrying amount of UAH 329 million (31 December 2018: UAH 110 million).

As at 31 December 2019, «other» includes leasehold improvements with the carrying amount of UAH 14 million (31 December 2018: UAH 17 million).

In November-December 2019 premises were revalued at fair value. The valuation was carried out by independent evaluators 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 2019, included in carrying value of premises was UAH 961 million of revaluation surplus, on which a deferred tax liability of UAH 121 million was recognised (31 December 2018: UAH 1,057 million and UAH 136 million respectively).

At 31 December 2019 the carrying amount of premises would have been UAH 890 million (31 December 2018: UAH 893 million) had the assets been carried at cost less depreciation.

As at 31 December 2019, the cost or revaluation of fully depreciated fixed assets and intangible assets that were still in use was UAH 1,354 million (31 December 2018: UAH 1,247 million).

As at 31 December 2019, fixed assets of UAH 961 million (31 December 2018: UAH 1,087 million) were pledged as a collateral under the refinancing loans received from the NBU. Refer to Note 15 and 28.

12 Other Financial Assets

In millions of Ukrainian hryvnias	31 December 2019	31 December 2018
Guarantee deposits	1,791	2,384
Settlement with clients	870	830
Accrued income receivable	152	118
Other	6	35
Less: Allowance for expected credit losses	(609)	(624)
Total other financial assets	**2,210**	**2,743**

In 2019 and 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 2019	31 December 2018
Receivables on conversion of liabilities to equity	8,881	8,881
Inventory	605	441
Prepayments for services	157	61
Precious metals	68	35
Prepaid taxes other than income tax	52	21
Other	295	236
Less: Allowance for other assets impairment	(773)	(776)
Total other assets	**9,285**	**8,899**

Receivables originated on conversion of liabilities to equity of UAH 8,881 million (31 December 2016: UAH 8,881 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 Assets Held for Sale

As at 31 December 2018, assets held for sale in the amount of UAH 117 million included the Bank's investment in Privatbank AS (Latvia). On 30 August 2019, the Bank's Supervisory Board approved the decision to cease the plan to sell the share of JSC CB "Privatbank" in Privatbank AS (Latvia). As a result of this decision, in accordance with IFRS, the classification as an asset held for sale was discontinued and investments were transferred to investments in an associate in the Bank's statement of financial position.

The Bank plans to return to the matter of sale the share in Privatbank AS (Latvia) in 2020, but a detailed plan has not been determined at the date of approval of these financial statements.

15 Due to the NBU

Balances due to the NBU are as follows:

In millions of Ukrainian hryvnias	31 December 2019	31 December 2018
Long-term borrowings from the NBU	7,721	9,817
Total due to the NBU	**7,721**	**9,817**

15 Due to the NBU (Continued)

As at 31 December 2019 and 2018 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 as at 31 December 2019 and 2018 varied from May 2016 to February 2017. Included in the total amount due to the NBU was the past due amount of UAH 7,621 million (31 December 2018: UAH 9,689 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 collateralised by government securities as 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.

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 2019	31 December 2018
Cash balances with the NBU	6	1,294	1,294
Premises	11	961	1,087
Investment properties		2,963	2,995
Repossessed collateral		14	13
Total		**5,232**	**5,389**

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.

16 Customer Accounts

In millions of Ukrainian hryvnias	31 December 2019	31 December 2018
Individuals		
- Term deposits	99,168	109,778
- Current/demand accounts	90,827	72,892
Legal entities		
- Term deposits	10,626	11,422
- Current/settlement accounts	39,822	36,785
Government organizations		
- Current/settlement accounts	178	178
Total customer accounts	**240,621**	**231,055**

16 Customer Accounts (Continued)

As at 31 December 2019 term deposits of legal entities and individuals included UAH 6,811 million and UAH 95 million, respectively (31 December 2018: UAH 7,963 million and UAH 111 million), and current accounts of legal entities and individuals included UAH 248 million and UAH 26 million, respectively (31 December 2018: UAH 291 million and UAH 31 million) of customer accounts of Cyprus Branch, that were subject to conversion of liabilities to equity at nationalisation in 2016 (Note 28). These funds were not transferred by the Cyprus branch due to the prohibition of the Central Bank of Cyprus on interbank settlements with the Bank and on-going litigations in respect of these amounts.

The Bank and its branch in Cyprus did not complete an analysis on whether these amounts should be derecognised and are currently evaluating probabilities of various scenarios of court decisions and their impact on the conversion of liabilities to equity. The result of this assessment was not determined at the date of approval of these separate financial statements.

Economic sector concentrations within customer accounts are as follows:

	31 December 2019		31 December 2018	
In millions of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	189,995	79	182,670	78
Services	20,285	8	19,824	9
Manufacturing	12,367	5	10,486	5
Trade	12,265	5	11,926	5
Agriculture	1,925	1	2,077	1
Transport and communication	1,777	1	1,668	1
Machinery	829	-	792	0
Government organizations	178	-	178	0
Other	1,000	1	1,434	1
Total customer accounts	**240,621**	**100**	**231,055**	**100**

In 2019 the approach to the allocation of customer accounts by industry sector was revised. Comparative information for 2018 was changed in accordance with the changed approach.

At 31 December 2019 included in customer accounts were deposits of UAH 892 million (31 December 2018: UAH 670 million) held as collateral for loans and advances to customers exposure of UAH 892 million (31 December 2018: UAH 670 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 2019**	**31 December 2018**
Accounts payable	663	609
Provision for expected credit losses on credit related commitments	290	320
Settlements	56	735
Other	513	585
Total other financial liabilities	**1,522**	**2,249**

17 Other Financial Liabilities (Continued)

The table below shows change in the credit related commitments as at 31 December 2019:

In millions of Ukrainian hryvnias	Amount at 1 January 2019	Transfer to category: With estimate of allowance for 12 month ECL	With estimate of allowance for lifetime ECL	Credit-impaired	New recognized liabilities	Derecognition of liabilities	Other changes in liabilities for the reporting period	Exchange differences	Amount at 31 December 2019
With estimate of allowance for 12 month ECL									
Guarantees issued	870	10	(317)	-	288	(288)	(48)	(31)	484
Avals granted	24	17	(19)	-	121	(8)	(119)	-	16
Undrawn loan commitments	69,899	800	(968)	(108)	25,183	(17,424)	18,987	(50)	96,319
With estimate of allowance for lifetime ECL									
Guarantees issued	14	(10)	317	-	13	(29)	38	-	343
Avals granted	197	(17)	19	-	-	(10)	(149)	-	40
Undrawn loan commitments	372	(753)	969	(11)	175	(579)	205	(2)	376
Credit-impaired									
Guarantees issued	85	-	-	-	-	-	(14)	(10)	61
Undrawn loan commitments	151	(47)	(1)	119	23	(130)	(18)	-	97
Total credit related commitments, gross	**71,612**	**-**	**-**	**-**	**25,803**	**(18,468)**	**18,882**	**(93)**	**97,736**

17 Other Financial Liabilities (Continued)

The table below shows change in the credit related commitments as at 31 December 2018:

In millions of Ukrainian hryvnias	Amount at 1 January 2018	Transfer to category: With estimate of allowance for 12 month ECL	Transfer to category: With estimate of allowance for lifetime ECL	Transfer to category: Credit-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 allowance for 12 month ECL									
Guarantees issued	787	20	(6)	-	328	(252)	(2)	(5)	870
Avals granted	257	-	(250)	-	5	(60)	72	-	24
Undrawn loan commitments	55,179	3,248	(658)	(90)	17,368	(11,233)	6,088	(3)	69,899
With estimate of allowance for lifetime ECL									
Guarantees issued	38	(20)	6	-	26	(40)	4	-	14
Avals granted	1	-	250	-	2	(2)	(54)	-	197
Undrawn loan commitments	2,517	(3,144)	693	(26)	984	(863)	211	-	372
Credit-impaired									
Guarantees issued	158	-	-	-	-	(54)	(15)	(4)	85
Undrawn loan commitments	364	(104)	(35)	116	150	(327)	(11)	(2)	151
Total credit related commitments, gross	**59,301**	**-**	**-**	**-**	**18,863**	**(12,831)**	**6,293**	**(14)**	**71,612**

17 Other Financial Liabilities (Continued)

The table below presents the analysis of changes in the provision for expected credit losses on credit related commitments as at 31 December 2019:

In millions of Ukrainian hryvnias	Amount at 1 January 2019	Transfer to category: With estimate of allowance for 12 month ECL	Transfer to category: With estimate of allowance for lifetime ECL	Transfer to category: Credit-impaired	New recognized liabilities	Derecognition of liabilities	Other changes in liabilities for the reporting period	Exchange differences	Amount at 31 December 2019
With estimate of allowance for 12 month ECL									
Guarantees issued	38	-	(19)	-	6	(5)	(11)	(1)	8
Undrawn loan commitments	192	6	(6)	-	217	(222)	(2)	-	185
With estimate of allowance for lifetime ECL									
Guarantees issued	-	-	19	-	-	(1)	13	-	31
Undrawn loan commitments	5	(6)	6	-	1	(4)	4	-	6
Credit-impaired									
Guarantees issued	85	-	-	-	-	-	(14)	(11)	60
Total provision for expected credit losses for credit related commitments	**320**	**-**	**-**	**-**	**224**	**(232)**	**(10)**	**(12)**	**290**

17 Other Financial Liabilities (Continued)

The table below presents the analysis of changes in the provision for expected credit losses on credit related commitments as at 31 December 2018:

In millions of Ukrainian hryvnias	Amount at 1 January 2018	Transfer to category: With estimate of allowance for 12 month ECL	Transfer to category: With estimate of allowance for lifetime ECL	Transfer to category: Credit-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 allowance for 12 month ECL									
Guarantees issued	18	3	-	-	9	(3)	11	-	38
Undrawn loan commitments	182	14	(3)	(1)	77	(44)	(33)	-	192
With estimate of allowance for lifetime ECL									
Guarantees issued	1	(3)	-	-	1	(1)	2	-	-
Undrawn loan commitments	11	(14)	3	-	14	(8)	(1)	-	5
Credit-impaired									
Guarantees issued	158	-	-	-	-	(54)	(15)	(4)	85
Undrawn loan commitments	-	-	-	1	-	(1)	-	-	-
Total provision for expected credit losses for 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 2019	31 December 2018
Provision associated with cessation of operations in Crimea	1,436	1,393
Provision for legal cases	639	693
Payables for contributions to Deposit Guarantee Fund	496	415
Accrued expenses on unused vacation days	328	270
Taxes other than income tax	259	188
Accrued salaries and bonuses	7	76
Other	95	97
Total provisions and other non-financial liabilities	**3,260**	**3,132**

19 Share Capital and Other Reserve Funds

Share Capital

The nominal registered amount of the Bank's issued share capital at 31 December 2019 was UAH 206,060 million (31 December 2018: UAH 206,060 million). The total authorised number of ordinary shares was 735.93 million shares (31 December 2018: 735.93 million shares) with a par value of UAH 280 per share (31 December 2018: UAH 280 per share). All issued ordinary shares are fully paid and registered. Each ordinary share carries one vote.

As at 31 December 2019 the Government of Ukraine represented by the Cabinet of Ministers of Ukraine is the ultimate controlling party of the Bank (31 December 2018: represented by the Ministry of Finance of Ukraine).

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 domestic government 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 6,850 million as at 31 December 2019 (31 December 2018: 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.

Dividends

In accordance with the decision of the Cabinet of Ministers of Ukraine on the mandatory distribution of 90% of the profits of state-owned organizations and the decision on the approval of the annual financial statements of JSC CB "PrivatBank" the Bank paid dividends in the amount of UAH 11,518 million and, according to the Tax Code of Ukraine, the Bank paid UAH 2,073 million of income tax advance payment.

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.

	2019	2018
Profit for the year attributable to shareholder of the Bank (in millions)	32,609	12,798
Weighted average number of ordinary shares in issue, in millions	735.93	735.93
Earnings per share, basic and diluted (expressed in UAH per share)	44.31	17.39

20 Interest Income and Expense

In millions of Ukrainian hryvnias	2019	2018
Interest income		
Interest income at effective interest rate		
Loans and advances to individuals	19,014	15,934
Investment securities at FVOCI	6,791	6,398
Loans to small and medium enterprises (SME)	1,256	1,112
Loans and advances to legal entities	833	1,576
Investment securities at AC	548	798
Due from banks	430	303
Cash and cash equivalents and mandatory reserves	88	77
Purchase/originated credit-impaired	-	6
Total interest income at effective interest rate	**28,960**	**26,204**
Other interest income		
Investment securities at FVPL	4,441	4,167
Finance lease	440	383
Total interest income at effective interest rate	**4,881**	**4,550**
Total other interest income	**33,841**	**30,754**
Interest expense		
Term deposits of individuals	8,633	9,010
Current/settlement accounts	3,151	2,316
Due to the NBU	1,687	1,697
Term deposits of legal entities	349	866
Lease liabilities	244	-
Due to banks and other financial institutions	102	87
Subordinated debt	-	17
Other	8	9
Total interest expense	**14,174**	**14,002**
Net interest income	**19,667**	**16,752**

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	2019	2018
(Increase)/decrease in charge for impairment:			
Cash and cash equivalents	6	-	(9)
Investment securities at AC	9	55	-
Loans and advances to customers	8	(100)	6,061
Credit related commitments	17	(18)	(50)
Other financial assets	12	67	87
Total charge for impairment		**4**	**6,089**

22 Fee and Commission Income and Expense

In millions of Ukrainian hryvnias	2019	2018
Fee and commission income		
Settlement transactions	7,187	6,253
Cash withdrawal	5,574	4,312
Acquiring transactions	4,876	3,514
International payment systems	4,638	3,479
Cash transactions	277	245
Other	2,023	1,787
Total fee and commission income	**24,575**	**19,590**
Fee and commission expense		
International payment systems	6,022	4,116
Settlement transactions	248	156
Cash transactions	116	129
Other	-	1
Total fee and commission expense	**6,386**	**4,402**
Net fee and commission income	**18,189**	**15,188**

In 2019, the Bank revised its approach to the classification of fee and commission income and expense, which affected the disclosure of the lines "Settlement transactions" and "International payment systems". As a result, comparative information of fee and commission income and expense of 2018 was reclassified to correspond to the presentation of 2019, which led to a decrease in the amount of "settlement transactions" and an increase of "international payment systems" by UAH 2,314 million (income) and to a decrease in the amount of "settlement transactions" and an increase of "international payment systems" by UAH 1,147 million (expense).

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	2019	2018
Staff costs	7,300	5,729
Contributions to Deposit Guarantee Fund	1,857	1,669
Professional services	1,230	1,234
Depreciation and amortisation of fixed assets and intangible assets	828	594
Maintenance of fixed assets	545	468
Taxes other than on income	526	881
Utilities and household expenses	504	566
Amortisation of right-of-use assets	429	-
Mail and telecommunication	391	423
Provision for legal cases	387	1,033
Security	234	207
Rent	216	685
Transportation	120	120
Advertising and marketing	110	125
Insurance expenses	18	44
Other	120	210
Total administrative and other operating expenses	**14,815**	**13,988**

Included in staff costs was unified social contribution of UAH 1,176 million (2018: UAH 935 million). Social contributions are made into the State pension fund which is a defined contribution plan.

Rent expenses includes expenses on unidentifiable assets in the amount of UAH 127 million, non-recoverable VAT (and therefore not included in the right-to-use assets and financial liabilities) in the amount of UAH 44 million and other variable rental expenses in the amount of UAH 45 million.

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

23 Administrative and Other Operating Expenses (Continued)

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 during 2018 and 2019 were provided.

24 Income Taxes

In millions of Ukrainian hryvnias	2019	2018
Current tax	-	-
Deferred tax	-	(9)
Income tax expense/(credit) for the year	**-**	**(9)**

In 2019 the income tax rate applicable to the Bank's income was 18% (2018: 18%).

In millions of Ukrainian hryvnias	2019	2018
Profit before tax	**32,609**	**12,789**
Theoretical expense at statutory rate (2019: 18%; 2018: 18%)	5,870	2,302
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income recognised for tax purposes only	78	82
- Non-deductible expenses	157	368
Change in unrecognised deferred tax assets	(6,480)	(2,761)
Changes in estimates of permanent and temporary differences	375	-
Income tax expense/(credit) for the year	**-**	**(9)**

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 2018	Credited to profit or loss	Credited directly to other compre-hensive income	31 December 2019
Tax effect of deductible temporary differences				
Allowance for expected credit losses	12,274	(12,222)	-	52
Tax loss carried forward	14,779	5,741	-	20,520
Fixed assets - other differences (depreciation method and historical cost)	39	1	-	40
Investment securities at FVOCI (revaluation)	595		(365)	229
Gross deferred tax asset	**27,687**	**(6,480)**	**(365)**	**20,841**
Less unrecognised deferred tax assets	(27,687)	6,480	365	(20,841)
Recognised deferred tax asset	-	-	-	-
Tax effect of taxable temporary differences				
Fixed assets (revaluation of premises)	(136)	-	15	(121)
Net deferred tax liability	**(136)**	**-**	**15**	**(121)**

24 Income Taxes (Continued)

In millions of Ukrainian hryvnias	1 January 2018	(Charged)/ credited to profit or loss	Credited directly to other comprehensive income	31 December 2018
Tax effect of deductible temporary differences				
Allowance for expected credit losses	24,374	(12,100)	-	12,274
Tax loss carried forward	5,441	9,338	-	14,779
Fixed assets - other differences (depreciation method and historical cost)	38	1	-	39
Investment securities at FVOCI (revaluation)	257	-	338	595
Gross deferred tax asset	**30,110**	**(2,761)**	**338**	**27,687**
Less unrecognised deferred tax assets	(30,110)	2,761	(338)	(27,687)
Recognised deferred tax asset	**-**	**-**	**-**	**-**
Tax effect of taxable temporary differences				
Subordinated debt	(1)	1	-	-
Fixed assets (revaluation of premises)	(149)	8	5	(136)
Net deferred tax liability	**(150)**	**9**	**5**	**(136)**

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:

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.

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.

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 2019 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	16,055	-	-	-	29,839	-	45,894
Due from banks	-	-	-	-	27,043	75	27,118
Loans and advances to customers	42,231	5,447	3,892	2,692	-	5,282	59,544
Investment securities at FVPL	-	-	-	-	84,680	-	84,680
Investment securities at FVOCI	-	-	-	-	66,602	-	66,602
Investment securities at AC	-	-	-	-	875	-	875
Investments in subsidiaries and an associate	-	-	-	155	-	-	155
Current tax assets	1,035	181	44	-	938	59	2,257
Investment properties	-	-	-	3,379	-	-	3,379
Right-of-use assets	786	138	34	-	713	45	1,716
Fixed assets and intangible assets	3,304	482	29	24	803	122	4,764
Other financial assets	420	8	1,531	234	10	7	2,210
Other assets	463	86	6	8,331	256	143	9,285
Repossessed collateral	-	-	-	1,244	-	-	1,244
Assets held for sale	-	-	-	-	-	-	-
Total reportable segment assets	**64,294**	**6,342**	**5,536**	**16,059**	**211,759**	**5,733**	**309,723**
Due to the NBU	-	-	-	-	7,721	-	7,721
Due to banks and other financial institutions	-	-	-	-	201	-	201
Customer accounts	189,285	36,415	-	7,595	-	7,326	240,621
Deferred income tax liability	56	10	2	-	50	3	121
Other financial liabilities	667	88	4	125	530	108	1,522
Lease liabilities	1,210	184	11	4	294	45	1,748
Provisions and non-financial liabilities	1,191	169	41	108	1,685	66	3,260
Total reportable segment liabilities	**192,409**	**36,866**	**58**	**7,832**	**10,481**	**7,548**	**255,194**

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
2019							
Total revenues comprise:							
- Interest income	17,404	1,325	1,609	347	12,298	858	33,841
- Fee and commission income	13,373	1,214	9,378	30	296	284	24,575
- Other income	1,435	180	26	392	62	18	2,113
Revenues from/(expenses on) other segments	31,623	5,709	34	(33,034)	(5,190)	858	-
Total revenues	**63,835**	**8,428**	**11,047**	**(32,265)**	**7,466**	**2,018**	**60,529**
Interest expense	(11,486)	(685)	(1)	(8)	(1,826)	(168)	(14,174)
Charge for impairment	(462)	(37)	19	220	(8)	264	(4)
Fee and commission expense	(70)	-	(6,022)	-	(294)	-	(6,386)
(Losses)/gains on the valuation of premises and investment property	-	-	-	4	-	-	4
Gains less losses from trading in foreign currencies and swaps	1,953	(2)	18	(46)	76	590	2,589
Foreign exchange translation gains less losses	-	-	-	2,645	3,865	-	6,510
Gains less losses from investment securities sale	-	-	-	-	8	-	8
Losses less gains from investment securities revaluation	-	-	-	-	(1,526)	-	(1,526)
Impairment of repossessed collateral	-	-	-	(134)	-	-	(134)
Reversal of impairment on investment in an associate	-	-	-	8	-	-	8
Administrative and other operating expenses	(10,047)	(1,171)	(75)	(1,181)	(2,051)	(290)	(14,815)
Segment result	**43,723**	**6,533**	**4,986**	**(30,757)**	**5,710**	**2,414**	**32,609**

25 Segment Analysis (Continued)

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 tax assets	88	14	3	-	75	4	184
Investment properties	-	-	-	3,340	-	-	3,340
Fixed assets 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**

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)

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 2019 and 31 December 2018:

In millions of Ukrainian hryvnias	2019	2018
Ukraine	60,429	51,383
Other	100	407
Total revenues	**60,529**	**51,790**

26 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks as well as non-financial risks (operational, legal, compliance risks and reputation risks). Financial risks comprise market risk (including currency risk), credit risk, interest rate risk and liquidity risk. The primary objectives of the financial risk management function are determination and monitoring of risk limits.

Risk Management Bodies

For the purposes of efficient risk management, the Bank has developed and operates the risk management system, which anticipates segregation of rights, duties and responsibilities among governance bodies and structural units of the Bank, segregation of the processes of identifying and assessing risks, assessing the efficiency of risk management system from the process of risk acceptance.

The bodies of risk management system in the Bank include:
- Supervisory Board;
- Audit Committee of the Supervisory Board;
- Risk Committee of the Supervisory Board;
- Management Board;
- Risk Committee of the Management Board (replaced since June 2019 by Operational Risk Management and Informational Security Committee);
- Credit Committee;
- Asset and Liability Management Committee;
- Internal Audit;
- Risk Management Function;
- Compliance Department;
- Treasury Department;
- Asset, Liability and Investment Analysis Department;
- Other support divisions (Back and Middle Office);
- Business divisions that directly accept risks.

At the beginning of June 2019, the Risk Management Committee of the Management Board was reorganized into the Operational Risk Management and Information Security Committee with a corresponding change in its tasks and functions. Since then this committee is not involved in financial risk management.

26 Financial Risk Management (Continued)

Supervisory Board is fully responsible for managing the risks to which the Bank is exposed in its activities and thus:

- ensures the establishment and functioning of the efficient risk management system;
- approves internal risk management documents and monitors compliance thereto, and implementation/updating thereof;
- approves a list of limits (restrictions) for each type of risk and procedures for escalating risk limit violations;
- approves the Bank Business Recovery Plan and ensures the fulfillment of functions related to recovering activities of the Bank by other bodies of the risk management system;
- approves the appointment and dismissal of the heads of risk management unit and compliance control unit;
- ensures the functioning of the internal control system and supervising its efficiency;
- ensures the functioning of the internal control system and supervising its efficiency;
- takes measures to prevent conflicts of interest within the Bank, promotes their resolution and informs the National Bank of Ukraine of conflict of interest arising within the Bank.

The Audit Committee of the Supervisory Board is collegial body that serves as a support of the Supervisory Board for its functions, specifically:

- verifies the efficiency of the risk management system;
- controls the independence, impartiality, competence of the Chief Internal Auditor, the efficiency of exercising internal audit;
- advise the Supervisory Board on the selection, appointment, dismissal of the Chief Internal Auditor.

The Risk Committee of the Supervisory Board is collegial body established and functioning to assist the Supervisory Board in ensuring operation of the Bank's risk management system. The Risk Committee of the Supervisory Board performs the following main functions:

- ensures supervision over adequacy and efficiency of the risk management system operation in the Bank;
- ensures the availability and updating of the Bank internal documents regulating the risk management process;
- monitors and analyzes the current portfolio and the rate of risks accepted by the Bank;
- controls the compliance with the risk thresholds established by the Supervisory Board;
- carries out preliminary review of draft risk management strategies and policies, documents on the risk appetite level, procedures for carrying out transactions with the Bank related parties and other documents on risk management submitted for consideration and/or approval by the Supervisory Board;
- regularly reviews the Bank's exposure 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 subject to approval 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 ensuring 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:

- identifies and assesses 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 values of conducted transactions, and the internal control system, the capacity of these systems to respond to new and increasing risks, justification of the risk rate that the Bank is ready to accept;
- ensures providing the Supervisory Board, the Supervisory Board Audit Committee, the Management Board of the Bank with an independent justified assessment of the efficiency of actions, measures and inspections regarding risks to which the Bank is exposed;
- develops and gives recommendations on the 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 implementation of recommendations.

26 Financial Risk Management (Continued)

The Management Board 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 the efficient risk management approved by the Supervisory Board and, respectively:

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

Credit Committee

The Credit Committee makes decisions on asset transactions of the Bank within the authority limits established by the Bank Management Board, approves limits for transacting with counterparty banks, purchase of securities, and oversees significant loan projects. The Credit Committee approves loan products, approves 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 Committee

The main purpose of establishing and operating the Assets and Liabilities Committee is to ensure the efficiency and continuity of the Bank assets and liabilities management process, monitor liquidity risk, currency, interest and price risks (for liability transactions) and take appropriate measures aimed at minimizing these risks and maximizing the financial result of the Bank. The Assets and Liabilities Committee meets once a week.

Operational Risk Management and Informational Security Committee

The main purpose of the Operational Risk Management and Informational Security Committee is to ensure the complexity and effectiveness of operational and informational risk management processes, implementation and support the function of internal control and information security systems, management of risks related to the Bank's interaction with non-banking institutions. The Operational Risk Management and Informational Security Committee meets once a month.

Treasury Department

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

Asset, Liability and Investment Analysis Department

Asset, Liability and Investment Analysis Department daily performs the calculation and control of compliance by the Bank with the prudential liquidity ratios established by the NBU, as well as internal indicators of liquidity risk, prepares reports on the current liquidity status of the Bank.

Risk Management Function is independent from business departments and does not contribute to the generation of the Bank's income. The Risk Management Function reports to the Chief Risk Officer (CRO). Then, CRO reports and is accountable to the Supervisory Board, and has direct access to the Supervisory Board and/or the Risk Committee of the Supervisory Board. CRO has right to veto resolutions of the collegial bodies established by the Management Board.

26 Financial Risk Management (Continued)

The Risk Management Function performs the following main functions:

- ensures functioning of the risk management system for credit risk, operational risk, market and interest rate risks in the bank portfolio (loans, deposits etc.) and liquidity risk through timely identification, measurement, monitoring, control and reporting on each type of risk;
- develops/participates in the development, and keeps updated (depending on the type of a document) the internal bank regulations (procedures, methodologies, regulations, etc.) on risk management;
- prepares conclusions on credit applications submitted by business divisions for both new credits and for modifying terms under valid/current credits;
- prepares and submits risk reports to the Bank's Supervisory Board - at least once a quarter, to the Supervisory Board Risk Committee and the Bank Management Board as well as to committees of the Bank Management Board - at least once a month, and in situations requiring the immediate update of the Bank Supervisory Board – immediately;
- performs stress-testing for risks;
- monitors the compliance with the risk limits and risk appetite indicators;
- develops and implements the early warning system for risky borrowers, financing of which can lead to higher credit risk;
- provides for execution and control of loan loss provisioning in accordance with IFRS, and credit risk assessment in accordance with requirements of the National Bank of Ukraine;
- develops, implements and keeps risk assessment methodologies and models updated.

Compliance Department reports and is accountable to the Bank Supervisory Board, independent from business divisions, does not take part in generating income of the Bank and performs the following functions:

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

Credit risk. The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by defaulting on a contracted liability. Credit risk arises as a result of the Bank's lending and other transactions with counterparties generating financial assets.

The Bank's credit policy defines the general principles for implementing the credit process and credit risk management, establishes a general approach to the acceptance of credit risks, principles and standards of credit activity, defines the authorities and responsibilities of the Bank governance bodies, employees and structural subdivisions at each stage of the credit process, provides for the comprehensive approach to credit risk management.

Credit risk management is carried out on the basis of the regular analysis of the capacity of borrowers and potential borrowers to fulfill their obligations on repaying loan principal and paying interest, the regular analysis of loan portfolio qualify in order to monitor the rate of credit risk by changing lending limits as necessary, by obtaining collateral, making its examination and appraisal at established frequency, and by applying other instruments of credit risk mitigation.

Main information on credit risk rate is systematically updated and provided for analysis in the form of loan portfolio status reports.

The Credit Committee approves the classification of credit transactions by risk groups, reviews, corrects and approves the credit risk assessment in line with regulatory requirements and the estimated amount of loan losses in compliance with IFRS (loans and advances to clients, loan commitments and other financial assets).

26 Financial Risk Management (Continued)

To limit the risks to which the Bank is exposed as a result of its lending transactions, the Bank has the following system of decision-making authority for lending transactions:

- individual authority limits : these are limits delegated to the Risk Management Function for decision making on retail and small and medium business clients under standard product terms;
- dual authority limits ("dual signature" authority): these are limits for risky and risk-free transactions delegated to the managers of risk management divisions together with the heads of relevant business divisions within the standard product terms. A transaction is performed provided the unilateral positive vote to authorize it.;
- group authority limits: these are limits delegated by the Bank Management Board to the Credit Committee, subject to the conclusions, comments or recommendations of the Legal Department, the Security Division, and the opinion of the risk management divisions, which includes comments on specific risks and mitigation actions associated with potential lending transaction to have it approved as negative. The decision is taken by a majority vote of the members of the Credit Committee.

For the purposes of credit quality analysis the Bank categories loans and advances to the 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

Loan Monitoring

The Bank IT systems allow the management to monitor loan portfolio behaviour real time.

The Bank regularly monitors current market value of collateral to assess its sufficiency to secure a specific loan. The appraisal of collateral is carried out by independent appraisal companies accredited by the Bank or by qualified internal appraisers. The frequency of such appraisals depends on the type of collateral.

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 maintains client credit history records. This allows the Bank to control the credit risk rate by targeting borrowers, who have a good credit history.

Problem Loan Recovery

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

- prevention and timely detection of non-performing loans, efficient handling of potentially non-performing debts;
- reduction of the value and share of non-performing debts in the Bank portfolio 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 the comprehensive and efficient system of non-performing loans management.

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

Stages of managing potential non-performing debts and actual non-performing debts:

1. Pre-Collection stage - a set of activities aimed at identifying potential non-performing debts and actual non-performing debts, and preventing the client's failure on the payment schedule.

26 Financial Risk Management (Continued)

2. Soft Collection stage - a range of activities targeted to the collection of payments past due for 1-90 days, in particular, by communicating with clients remotely (telephone, SMS, IVR, letters, etc.)

3. Hard Collection stage - a set of measures aimed at collecting payments past due from 90 to 180 days through direct communication with clients.

4. Legal Collection stage. Preparation for the legal collection stage commences simultaneously with the hard collection stage. Legal collection involves a set of measures to enforce debts through claims.

The tools to manage potential non-performing claims and actual non-performing claims include:

1. Remote contacts with debtors: phone calls, messages to the client`s telephone; Privat-24, IVR system calls; notifications, messengers.

2. Meetings with borrowers: discussing further cooperation with a client.

3. Claims: litigation, debt enforcement by government or private enforcement officers.

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 uncollateralized retail loans – renegotiation of a debt by partial recalculation of the debt-related penalties and fines, commissions, interest, changes in the schedule of debt repayment;
- loan restructuring of "Consumer Lending" segment - renegotiation of a debt by partial recalculation of debt-related penalties and fines, forgiveness of a part of the debt, changes in the schedule of debt repayment, conversion of foreign currency loans into hryvnia, etc.;
- restructuring nonperforming assets of SME clients– renegotiation of a debt by partial recalculation of debt-related 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 accounting books: the Bank writes off assets in accordance with the Bank's accounting policies.

6. Outsourcing: depending on the Bank's strategy, the necessity of transferring distressed assets to external collection companies may be considered.

7. Factoring: if the Bank assesses the debt recovery probability as low, the Bank has the right to assign its debt claimant right to the third party that is a factoring company.

8. Foreclosure of collateral: selling or repossession of collateral.

Related Party Lending

The Bank conducts its business with related parties on commercial terms. Each loan request from a related party is subject to the same credit approval procedures that apply to any loan application from a nonrelated 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 movements in foreign exchange rates, interest rates, cost of financial instruments (market quotes, indexes, etc.). The strategic objective of the Bank risk management policy is to minimize and prevent possible losses that can arise in case the 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 is restricted under Ukrainian law to regulatory limits. The Asset, Liability and Investment Analysis Department and Treasury Department perform daily control of compliance with regulatory limits and currency exchange positions by means of compiling appropriate reports. Refer to Note 8 and 9.

26 Financial Risk Management (Continued)

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 2019				31 December 2018			
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	249,779	175,689	-	74,090	222,041	154,331	-	67,710
US Dollars	23,531	62,336	-	(38,805)	21,617	73,065	-	(51,448)
Euros	13,361	13,507	-	(146)	16,163	15,594	-	569
Other	249	281	-	(32)	499	326	-	173
Total	**286,920**	**251,813**	**-**	**35,107**	**260,320**	**243,316**	**-**	**17,004**

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 2019		31 December 2018	
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**
US Dollar strengthening by 20% (2018: strengthening by 20%)	(8,093)	(8,093)	(10,642)	(10,642)
US Dollar weakening by 5% (2018: weakening by 5%)	2,023	2,023	2,661	2,661
Euro strengthening by 10% (2018: strengthening by 10%)	(15)	(15)	57	57
Euro weakening by 5% (2018: weakening by 5%)	7	7	(28)	(28)
Other strengthening by 5% (2018: strengthening by 5%)	(2)	(2)	9	9
Other weakening by 5% (2018: weakening by 5%)	2	2	(9)	(9)

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 income due to the effect of unfavourable changes in the interest rates. Interest rate risk affects the economic value of the Bank capital and net interest income of the Bank.

The strategic objective of the Bank's interest rate management policy is to minimize and prevent possible losses that can arise in case the market conditions change. The Bank faces the risk of financial losses due to movement of interest rates on assets and liabilities, mainly as a result of granting fixed interest rate loans for the terms and in amounts different from the terms and amounts of liabilities with fixed interest rate.

26 Financial Risk Management (Continued)

The collegial body that ensures the tactical implementation of the Bank's interest rate policy is the Assets and Liabilities Committee. Responsibilities of the Assets and Liabilities Committee in this area include an overview of the financial market price policy, credit and deposit interest rates under the programs of competitive banks, consideration of proposals of the Business and the Head Office divisions to improve the efficiency of the Bank's credit and deposit policy, the assessment of the cost of liabilities and return on assets, interest margin policy, approval of interest rates. Interest rates may undergo review in the event of significant fluctuations in market rates, changes in the discount rate of the regulator, depending on the resource position of the Bank.

Market Risk Management Division, that is a part of the Risk Management Function, monitors and controls the interest rate risk based on the GAP analysis, in which assets and liabilities sensitive to interest rate changes are grouped by time bands.

Fixed interest rate assets and liabilities are arranged by remaining maturities, while assets and liabilities with a variable interest rate are arranged by the earliest repricing dates. The net interest sensitivity gap between assets and liabilities in a given time band represents the GAP. The GAP analysis produces the assessment of the effect of changes in interest rates on the Bank's net interest income. The Bank conducts stress testing to determine the conditions under which 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 analyzing the sensitivity of net interest income to movements in interest rates assuming that the 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 2019						
Total financial assets	77,427	4,191	23,682	181,620	3	286,923
Total financial liabilities	169,546	34,941	45,244	2,082	-	251,813
Net interest sensitivity gap at 31 December 2019	**(92,119)**	**(30,750)**	**(21,562)**	**179,538**	**3**	**35,110**
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**

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 2019				31 December 2018			
In % p.a.	USD	UAH	Euro	Other	USD	UAH	Euro	Other
Assets								
Due from banks	-	-	-	-	-	-	-	-
Loans and advances to legal entities	6	12	3	6	6	12	3	5
Loans and advances to individuals	17	44	18	43	17	46	18	43
Investment securities at FVPL	-	6	-	-	5	6	-	-
Investment securities at FVOCI	6	10	2	-	7	12	4	-
Investment securities at AC	-	19	-	-	5	-	4	-
Liabilities								
Due to the NBU	-	15	-	-	-	16	-	-
Correspondent accounts and overnight deposits of banks	0	0	-	-	-	-	-	-
Current placements of commercial banks	-	-	-	-	-	17	2	-
Long-term loans under the credit lines from financial institutions	-	-	-	-	-	-	-	-
Term placements of banks	-	-	-	-	-	-	-	-
Customer accounts					-	-	-	-
- current accounts of customers	0	4	0	-	0	5	0	-
- term deposits of legal entities	0	12	2	-	0	12	1	-
- term deposits of individuals	3	15	1	8	3	14	2	4
Debt securities in issue	-	15	-	-	-	15	-	-
Subordinated debt	-	-	-	-	-	-	-	-

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 2019 is set out below:

In millions of Ukrainian hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	28,032	16,390	1,472	45,894
Due from banks	27,118	-	-	27,118
Loans and advances to customers	58,698	2	844	59,544
Investment securities at FVPL	84,680	-	-	84,680
Investment securities at FVOCI	66,601	1	-	66,602
Investment securities at AC	875	-	-	875
Other financial assets	152	2,044	14	2,210
Total financial assets	**266,156**	**18,437**	**2,330**	**286,923**
Non-financial assets	**14,514**	**124**	**8,162**	**22,800**
Total assets	**280,670**	**18,561**	**10,492**	**309,723**
Liabilities				
Due to the NBU	7,721	-	-	7,721
Due to banks and other financial institutions	183	13	5	201
Customer accounts	231,677	7,119	1,825	240,621
Lease liabilities	1,748	-	-	1,748
Other financial liabilities	982	435	105	1,522
Total financial liabilities	**242,311**	**7,567**	**1,935**	**251,813**
Non-financial liabilities	**3,374**	**2**	**5**	**3,381**
Total liabilities	**245,685**	**7,569**	**1,940**	**255,194**
Net position	**34,985**	**10,992**	**8,552**	**54,529**
Credit related commitments (Note 17)	**97,392**	**8**	**46**	**97,446**

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 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 at FVPL	86,244	-	-	86,244
Investment securities at FVOCI	79,298	1	-	79,299
Investment securities at 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
Other financial liabilities	1,588	532	129	2,249
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 28)	**71,540**	**19**	**51**	**71,610**

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 are: 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 manages liquidity daily by control of payment calendar of the Bank. Assets, Liabilities and Investments Analysis Department performs daily calculation of liquidity indicators in accordance with the NBU requirements.

Assets, Liabilities and Investments Analysis Department submits reports on liquidity risk to ALCO members and Market risk management unit - to the Risk Committee of Supervisory Board not less than once a month. The reports include information on liquidity breaches based GAP-analysis method (comparison of assets amount and liabilities by liquidity gaps) in main currencies and in equivalent of national currency, available high quality liquid assets, concentration of funding by sources, compliance with the NBU's ratios and mandatory reserves requirements, etc.

26 Financial Risk Management (Continued)

Liquidity risk control is implemented through the compliance with regulatory ratios of short-term liquidity and LCR ratio, as well as limits and liquidity GAPs indicators requirements, required level t of high quality liquid assets and funding concentrations by sources.

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

- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with contractual maturity of up to one year. The ratio was 100.41% at 31 December 2019 (31 December 2018: 97,74%) with the minimum required limit of 60% (31 December 2018: 60%).
- liquidity coverage ratio (LCR) - in multicurrency (LCRBB) and in foreign currency (LCRIB). LCR was 268.26% in multicurrency (LCRBB) and 307.71% in foreign currency (LCRIB) as at 31 December 2019 (31 December 2018: 263.61% and 102,03% respectively) with regulatory limit established by the NBU not less than 100% in multicurrency (LCRBB) and in foreign currency (LCRIB) (31 December 2018: not less than 80% in multicurrency (LCRBB) and 50% in foreign currency (LCRIB)).

Reports on liquidity ratios are used by Treasury for daily liquidity management.

The Bank's Treasury manages current liquidity, analyses schedules of payments, manages liquidity position daily by placing and attracting short-term funds at interbank market, purchase or sale of securities, or by other available financial transactions. Treasury analyses possible consequences of outflows of essential amounts of funds to reduce to the maximum extent a probability of unexpected changes of resources volumes. Treasury ensures compliance with mandatory reserve and regulatory liquidity ratios requirements.

Contingency Funding Plan was developed to manage liquidity in crisis periods. It contains a list of possible reasons leading to crisis, indicators 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 performs stress-testing by liquidity scenarios that include possible unfavourable conditions.

The table below shows liabilities at 31 December 2019 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 2019 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	7,721	-	-	-	-	7,721
Due to banks and other financial institutions	201	-	-	-	-	201
Customer accounts	160,836	35,810	46,069	892	1	243,608
Lease liabilities	61	110	493	1,521	131	2,316
Other financial liabilities	1,520	1	1	-	-	1,522
Total contractual future payments for financial obligations	**170,339**	**35,921**	**46,563**	**2,413**	**132**	**255,368**
Credit related commitments (Note 17)	**96,690**	**383**	**182**	**191**	**-**	**97,446**

26 Financial Risk Management (Continued)

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 to 12 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
Other financial liabilities	2,243	2	2	2	-	2,249
Total contractual future payments for financial obligations	**154,195**	**36,706**	**54,089**	**1,154**	**2**	**246,146**
Credit related commitments and financial guarantees, gross (Note 28)	**70,599**	**313**	**210**	**490**	**-**	**71,612**

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

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 2019:

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	45,894	-	-	-	-	45,894
Due from banks	27,044	-	-	74	-	27,118
Loans and advances to customers	25,511	13,538	11,386	9,109	-	59,544
Investment securities at FVPL	-	620	245	83,815	-	84,680
Investment securities at FVOCI	35	652	9,987	55,927	1	66,602
Investment securities at AC	-	-	636	239	-	875
Other financial assets	455	-	-	1,755	-	2,210
Total financial assets	**98,939**	**14,810**	**22,254**	**150,919**	**1**	**286,923**
Liabilities						
Due to the NBU	7,721	-	-	-	-	7,721
Due to banks and other financial institutions	201	-	-	-	-	201
Customer accounts	101,406	58,314	80,048	853	-	240,621
Lease liabilities	52	86	385	1,225	-	1,748
Other financial liabilities	1,036	1	1	484	-	1,522
Total financial liabilities	**110,416**	**58,401**	**80,434**	**2,562**	**-**	**251,813**
Net liquidity gap at 31 December 2019	**(11,477)**	**(43,591)**	**(58,180)**	**148,357**	**1**	**35,110**
Cumulative liquidity gap at 31 December 2019	**(11,477)**	**(55,068)**	**(113,248)**	**35,109**	**35,110**	
Credit related commitments (Note 17)	**96,690**	**383**	**182**	**191**	**-**	**97,446**

26 Financial Risk Management (Continued)

The Bank had a liquidity gap between financial assets and financial liabilities at maturity of "one year" as at 31 December 2019. 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 15.

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 2019, on demand and less than in one month amounts due to the NBU included a past due amount of refinancing loans of UAH 7,621 million (2018: UAH 9,689 million). The NBU did not demand these refinancing loans for immediate repayment at the date of these separate financial statements.

The analysis by expected maturities 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 at FVPL	1	495	405	85,343	-	86,244
Investment securities at FVOCI	4,650	10,296	12,520	51,832	1	79,299
Investment securities at 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
Other financial liabilities	1,679	2	2	566	-	2,249
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 and financial guarantees (Note 28)	**70,599**	**313**	**210**	**490**	**-**	**71,610**

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. 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. The capital adequacy ratio in accordance with the requirements of the Basel Capital Accord is calculated once a year.

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 the Basel Accord is as follows:

In millions of Ukrainian hryvnias	31 December 2019	31 December 2018
Tier 1 capital	**54,538**	**33,635**
Tier 2 capital (a portion not exceeding 100% of Tier 1)	**(815)**	**(2,763)**
Total capital	**53,723**	**30,872**
Risk Weighted Assets		
Banking book	233,887	216,444
Trading book	39,051	51,483
Risk Weighted Assets	**272,938**	**267,927**
Tier 1 capital ratio	**19.98%**	**12.55%**
Capital adequacy ratio (%)	**19.68%**	**11.52%**

b) As at 31 December 2019, 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 2018: at least 10%).

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

In millions of Ukrainian hryvnias	31 December 2019	31 December 2018
Total regulatory capital	**19,223**	**19,556**
Tier 1 capital	9,685	9,851
Tier 2 capital (a portion not exceeding 100% of Tier 1)	9,685	9,851
Deduction	(147)	(146)
Risk weighted assets	**91,727**	**77,990**
Open foreign currency position	**44,833**	**34,025**
Uncovered credit risk	**(719)**	**-**
Capital adequacy ratio (N2)	**14.15%**	**17.46%**
Tier 1 capital adequacy ratio (N3)	**7.13%**	**-**

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 2019, provision for legal cases of UAH 639 million and provision associated with cessation of operations in Crimea of UAH 1,436 million have been recorded (31 December 2018: UAH 693 million and UAH 1,393 million respectively). Refer to Note 18.

Also, at the nationalisation of the Bank, in December 2016 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 20,780 million (31 December 2018: UAH 21,819 million) at exchange rate as at the date of these financial statements of claims, related to nationalisation, 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.

Crimea related contingent liabilities. As at 31 December 2013, the Bank operated 337 bank offices, 483 ATM/cash machines, and 773 self-service portals at the territory of the Republic of Crimea. In February 2014, the Russian Federation commenced a military operation and established physical possession and control over Crimea. On 15 April 2014, the Ukrainian parliament adopted the Law on occupied territories. Further, the NBU's Regulation enforced on 6 May 2014 effectively prohibited Ukrainian banks to conduct their operations in Crimea.

In response to the above circumstances, during 2014-2016, the Bank has concluded a number of agreements with third party to transfer amounts due to customers and sell the Bank's assets associated with the operations in, in particular:

- two debt transfer agreements under which the Bank transferred its amounts due to customers in Crimea of UAH 8,215 million in 2014 (according to the 2014 Bank's separated financial statements) and of UAH 7 million in 2016. The depositors' consent to transfer their funds was not obtained;

- five agreements on assignment of rights of claim, according to which the Bank transferred its claims on loans issued by the Bank to individuals and legal entities in Crimea in the amount of UAH 13,622 million (including fines and penalties). Carrying amount of such loans at the date of transfer was UAH 6,274 million (according to the 2014 Bank's separated financial statements: gross value of UAH 7,508 million minus provision of UAH 1,234 million);

- purchase and sale agreements for movable and immovable property of the Bank located in Crimea;

- an agreement for the transferred loans servicing, which entails an obligation for the Bank to collect proceeds on transferred loan contracts and transfer them to third party.

Accordingly, the Bank derecognized both assets and liabilities transferred to third party. The Bank recognized net loss on cessation of the Bank's activity in Crimea in 2014 of UAH 155 million.

Subsequent to 2014, the Bank has paid UAH 750 million of deposits (including interest, fines and penalties) based on the court decisions in favor of depositors whose deposits were transferred to third party. The amount compensated to the Bank by third party on respective deposits is UAH 32 million. Compensation was obtained during 2014 – 2016.

As at 31 December 2019, the Bank recognized a provision of UAH 1,436 million against all the claims the depositors have filed with Ukrainian courts on repayment of their deposits in Crimea.

As at 31 December 2019, the Bank had a contingent liability of UAH 6,030 million (2018: UAH 6,456 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. The probability of the outflow of resources to settle these obligations cannot be properly estimated 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.

28 Contingencies and Commitments (Continued)

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 2019 do not exceed UAH 99 million (31 December 2018: UAH 2,174 million).

Capital expenditure commitments. At 31 December 2019, the Bank had contractual capital expenditure commitments in respect of construction of premises and acquisition of computers and furniture and equipment totalling UAH 256 million (31 December 2018: UAH 85 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 2019, 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.

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

	Note	**31 December 2019**		**31 December 2018**	
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	6,11	5,232	7,721	5,389	9,817
Investment securities at FVOCI under the cash consignment contract with the NBU	9	18,364	-	9,122	-

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.

29 Fair Value of Financial Instruments (Continued)

(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. Classification of financial instruments at fair value by fair value hierarchy level as follows:

	31 December 2019				31 December 2018			
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	-	-	84,680	84,680	-	-	86,194	86,194
Medium-term government bonds denominated in foreign currency	-	-	-	-	-	-	50	50
Investment securities at FVOCI								
Long-term government bonds	5	-	55,634	55,639	-	-	52,586	52,586
Medium-term government bonds denominated in foreign currency	2,128	-	5	2,133	-	-	7,588	7,588
Medium-term government bonds	585	-	-	585	-	-	1,821	1,821
Short-term government bonds	-	-	-	-	-	-	12,441	12,441
Short-term government bonds denominated in foreign currency	-	-	8,245	8,245	-	-	4,770	4,770
Long-term bonds issued by the State Mortgage Institution	-	-	-	-	-	-	93	93
NON-FINANCIAL ASSETS								
Investments in associates	-	-	155	155	-	-	30	30
Premises	-	-	1,317	1,317	-	-	1,460	1,460
Repossessed collateral	-	-	1,244	1,244	-	-	1,361	1,361
Investment properties	-	-	3,379	3,379	-	-	3,340	3,340
Assets held for sale	-	-	-	-	-	-	117	117
TOTAL ASSETS RECCURING FAIR VALUE MEASUREMENT	**2,718**	**-**	**154,659**	**157,377**	**-**	**-**	**171,851**	**171,851**

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 2019 and 2018 is as follows:

In millions of Ukrainian hryvnias	**Investment securities at FVPL**	**Investment securities at FVOCI**
Fair value at 1 January 2018	**89,411**	**54,587**
Purchased of investment securities	-	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 (repayment)	(4,434)	(11,761)
Sales of investment securities	(86)	-
Other changes	(6)	88
Fair value as at 31 December 2018	**86,244**	**79,299**
Purchased of investment securities	-	21,305
Total gains/(losses) recorded in:		
Revaluation of investment securities in other comprehensive income	-	2,039
- profit or loss:		
Interest income accrued	4,441	6,765
Revaluation of investment securities in profit or loss	(1,526)	-
Settlements:		
Cash received (repayment)	(4,457)	(43,105)
Sales of investment securities	(18)	(343)
Exchange differences	(4)	(2,076)
Fair value as at 31 December 2019	**84,680**	**63,884**

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 2019				31 December 2018			
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	-	27,043	-	27,043	-	-	-	-
Finance lease receivable	-	75	-	75	-	-	-	-
Loans and advances to customers								
Loans and finance lease managed as a separate portfolio	-	-	3,034	2,728	-	-	3,436	3,342
Corporate loans	-	-	4,711	4,567	-	-	3,621	3,451
Loans to individuals - cards	-	-	38,822	38,822	-	-	32,431	32,431
Loans to individuals - mortgage	-	-	2,353	2,312	-	-	1,660	1,638
Loans to individuals - auto	-	-	1	1	-	-	2	2
Loans to individuals - consumer	-	-	4,280	3,892	-	-	3,905	3,908
Loans to individuals - other	-	-	37	37	-	-	46	46
Loans to small and medium enterprises (SME)	-	-	5,148	5,130	-	-	3,866	3,923
Finance lease receivables	-	-	2,075	2,055	-	-	1,407	1,399
Investment securities at AC								
Medium-term government bonds denominated in foreign currency	-	-	-	-	-	-	13,583	13,666
Long-term bonds issued by the State Mortgage Institution	-	-	1,022	875	-	-	872	872
Other financial assets								
Receivables from operations with customers	-	-	152	152	-	-	118	118
Other	-	-	2,058	2,058	-	-	2,625	2,625
TOTAL	**-**	**27,118**	**63,693**	**89,747**	**-**	**-**	**67,572**	**67,421**

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 2019				31 December 2018			
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	-	7,721	-	7,721	-	9,817	-	9,817
Due to banks and other financial institutions								
Term placements of banks	-	-	-	-	-	-	19	19
Current placements of commercial banks	-	-	-	-	-	-	40	40
Correspondent accounts and overnight placements of banks	-	201	-	201	-	135	-	135
Pledge deposits of banks	-	-	-	-	-	-	1	1
Customer accounts								
Term deposits of individuals	-	-	99,268	99,168	-	-	109,957	109,778
Current/demand accounts of individuals	-	90,827	-	90,827	-	72,892	-	72,892
Current/settlement accounts of government organizations	-	178	-	178	-	178	-	178
Current/settlement accounts of legal entities	-	39,822	-	39,822	-	36,785	-	36,785
Term deposits of legal entities	-	-	10,626	10,626	-	-	11,426	11,422
Other financial liabilities								
Funds in the course of settlement	-	-	56	56	-	-	735	735
Accounts payable	-	-	663	663	-	-	609	609
Other	-	-	803	803	-	-	905	905
Lease liabilities	-	-	1,748	1,748	-	-	-	-
TOTAL	**-**	**138,749**	**113,164**	**251,813**	**-**	**119,807**	**123,692**	**243,316**

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

Financial instruments are classified: (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 2019:

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	45,894	-	-	-	45,894
Due from banks					
Deposit certificates of the National Bank of Ukraine	27,043	-	-	-	27,043
Finance lease receivable	75	-	-	-	75
Loans and advances to customers					
Loans and finance lease managed as a separate portfolio	2,728	-	-	-	2,728
Corporate loans	4,567	-	-	-	4,567
Loans to individuals – cards	38,822	-	-	-	38,822
Loans to individuals – mortgage	2,312	-	-	-	2,312
Loans to individuals – auto	1	-	-	-	1
Loans to individuals – consumer	3,892	-	-	-	3,892
Loans to individuals – other	37	-	-	-	37
Loans to small and medium enterprises (SME)	5,130	-	-	-	5,130
Finance lease receivables	-	-	-	2,055	2,055
Investment securities at AC					
Long-term bonds issued by the State Mortgage Institution	875	-	-	-	875
Investment securities at FVPL					
Long-term government bonds with an embedded option	-	84,680	-	-	84,680
Investment securities at FVOCI					
Long-term government bonds without an embedded option	-	-	55,639	-	55,639
Medium-term government bonds denominated in foreign currency	-	-	2,133	-	2,133
Medium-term government bonds	-	-	585	-	585
Short-term government bonds denominated in foreign currency	-	-	8,245	-	8,245
Other financial assets					
Receivables from operations with customers	152	-	-	-	152
Other	2,058	-	-	-	2,058
TOTAL FINANCIAL ASSETS	**133,586**	**84,680**	**66,602**	**2,055**	**286,923**
NON-FINANCIAL ASSETS					**22,800**
TOTAL ASSETS					**309,723**

As at 31 December 2019 and 2018 all of the Bank's financial liabilities were carried at amortised cost.

30 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with 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	1,638	-	-	-	1,638
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
Finance lease receivables	-	-	-	1,399	1,399
Investment securities at AC					
Medium-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
Medium-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
Medium-term government bonds denominated in foreign currency	-	-	7,588	-	7,588
Medium-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**

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 2019 the Bank was 100% owned by the Government represented by the Cabinet of Ministers of Ukraine (31 December 2018: represented by the Ministry of Finance of Ukraine), which became the sole shareholder of the Bank. Transactions and balances with related parties 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 2019 and 31 December 2018, the outstanding balances with related parties are as follows:

In millions of Ukrainian hryvnias	31 December 2019				31 December 2018			
	Shareholder	Management	Associated companies and subsidiaries	Other related parties	Shareholder	Management	Associated companies and subsidiaries	Other related parties
Cash and cash equivalents and mandatory reserves	-	-	11	8,529	-	-	1	6,407
Due from banks	-	-	-	27,118	-	-	-	-
Loans and advances to customers, gross (contractual interest rate: 2019 – UAH – 18%, USD – 4%; 2018 – UAH – 17%, USD – 7%)	-	-	-	713	-	-	-	669
Less: Allowance for expected credit losses	-	-	-	(202)	-	-	-	(255)
Investment securities at FVPL	84,680	-	-	-	86,244	-	-	-
Investment securities at FVOCI	66,601	-	-	-	79,205	-	-	93
Investment securities at AC	-	-	-	875	13,666	-	-	872
Investment in associates	-	-	155	-	-	-	30	-
Other financial assets	-	-	1	12	-	-	53	38
Assets held for sale	-	-	-	-	-	-	117	-
Due to the NBU	-	-	-	7,721	-	-	-	9,817
Due to banks and other financial institutions	-	-	13	-	-	-	44	-
Customer accounts (contractual interest rate: 2019 UAH – 4%, USD – 1%, EUR – 1%; 2018 UAH – 3%, USD – 1%, EUR – 1%)	-	17	164	2,850	-	22	59	2,414
Other financial liabilities	-	-	-	423	-	-	-	497

The income and expense items with related parties during the 12 months 2019 and 2018 are as follows:

In millions of Ukrainian hryvnias	12 months 2019				12 months 2018			
	Shareholder	Management	Associated companies and subsidiaries	Other related parties	Shareholder	Management	Associated companies and subsidiaries	Other related parties
Interest income	11,589	-	-	701	11,218	-	-	404
Interest expense	-	-	(12)	(1,818)	-	-	(6)	(2,040)
Charge for impairment	-	-	-	22	-	-	1	66
Fee and commission income	-	-	-	185	-	-	-	68
Losses less gains from trading in foreign currencies and swaps	-	-	-	-	-	-	2	-
Losses less gains from investment securities revaluation	(1,526)	-	-	-	(3,085)	-	-	-
Foreign exchange translation (losses less gains)/gains less losses	(3,310)	-	(2)	(25)	(175)	-	(19)	18
Other operating income	-	-	7	9	-	-	3	5
Administrative and other operating expenses, excluding management remuneration	-	(2)	(15)	(15)	-	(2)	(4)	(24)

31 Related Party Transactions (Continued)

Aggregate amounts lent to and repaid by related parties during the period for 12 months 2019 and the period 12 months 2018 are as follows:

In millions of Ukrainian hryvnias	**12 months 2019**				**12 months 2018**			
	Share-holder	**Management**	**Associated companies and subsidiaries**	**Other related parties**	**Share-holder**	**Management**	**Associated companies and subsidiaries**	**Other related parties**
Amounts lent to related parties during the period	-	9	-	315,957	-	7	-	77,251
Amounts repaid by related parties during the period	-	9	-	284,118	-	6	4	83,234
Loans repaid to related parties during the period	-	-	213	67,079	-	-	63	34,287
Loans lent by related parties during the period	-	1	112	57,580	-	1	33	43,542
Amounts granted by investment securities at FVPL	-	-	-	-	24	-	-	-
Amounts received under investment securities at FVPL	4,457	-	-	-	4,434	-	-	-
Amounts granted by investment securities at FVOCI	24,156	-	-	-	32,834	-	-	92
Amounts received under investment securities at FVOCI	42,998	-	-	109	11,761	-	-	1
Amounts granted by investment securities at AC	-	-	-	-	2,614	-	-	905
Amounts received under investment securities at AC	12,796	-	-	101	3,944	-	-	1,132

For 12 months 2019 the remuneration of the members of the Management Board comprised of salaries, pension contributions and other short-term benefits totalling UAH 167 million (for 12 months 2018: UAH 123 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 210,579 million (31 December 2018: UAH 212,795 million), 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	Dividends payable	Lease liabilities	Total
Carrying value as at 1 January 2018	**10,886**	**129**	**-**	**-**	**11,015**
Repayment of the refinancing loan to the NBU	(1,000)	-	-	-	(1,000)
Repayment of the subordinated debt	-	(134)	-	-	(134)
Other	(69)	5	-	-	(64)
Carrying value as at 31 December 2018	**9,817**	**-**	**-**	**1,664**	**11,481**
Repayment of the refinancing loan to the NBU	(2,068)	-	-	-	(2,068)
Dividends accrual	-	-	11,518	-	11,518
Dividend payment	-	-	(11,518)	-	(11,518)
Recognition of new lease liabilities during the year, modification of previously recognized liabilities	-	-	-	615	615
Repayment of lease liabilities	-	-	-	(531)	(531)
Other	(28)	-	-	-	(28)
Carrying value as at 31 December 2019	**7,721**	**-**	**-**	**1,748**	**9,469**

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.

33 Events After the End of the Reporting Period

In February-April 2020, the Bank accumulated a sufficient amount of UAH liquidity and fully repaid long-term NBU refinancing loans in amount UAH 7,603 million.

Subsequent to the reporting date, the Board of the National Bank of Ukraine has approved decisions to reduce the key policy rate from 13.5% per annum effective 13 December 2019, to 11% per annum effective 31 January 2020, to 10% per annum effective 13 March 2020 and to 8% per annum effective 24 April 2020, respectively. The National Bank continued softening its monetary policy and its support of Ukrainian economy amid cooling of the global economy.

At the same time, a spread of the coronavirus pandemic (COVID-19) in 2020 is expected to lead to recession in the global economy and significant slowdown in economic activity in Ukraine. In March 2020, the Government implemented temporary restrictions in business and social activity, which combined with significant reduction in the global demand, as well as investors' reassessment of developing countries risks, may affect Ukrainian economy and foreign trade, cause difficulties in obtaining financing , affect the country's banking system and lead to further depreciation of the national currency against major currencies. Thus, the official exchange rate of hryvnia to US dollar, established by the National Bank of Ukraine decreased by 18.5% from 23.6862 hryvnias per US dollar as at 1 January 2020 to 28.0615 hryvnias per US dollar as at 31 March 2020.

Management is monitoring the changes in the current situation with a spread of coronavirus and with the quarantine and taking actions, where appropriate, to minimize any negative effect to the extent possible. Further adverse developments in events and macroeconomic conditions may affect the Bank's financial position and performance in a manner not currently determinable.