Joint Stock Company
"BTA BANK"

Financial Statements
for the Year Ended 31 December 2018
and Independent Auditor's Report

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2018

Management is responsible for the preparation of the financial statements that present fairly the financial position of JOINT STOCK COMPANY "BTA BANK" (the "Bank") as at 31 December 2018, and the results of its operations, cash flows, and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information;
- Providing additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the Bank's financial position and financial performance; and
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing, and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with the legislation of Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud and other irregularities.

The financial statements of the Bank for the year ended 31 December 2018 were approved and authorized for issue by the Bank's Management Board on 22 April 2019.

On behalf of the Bank's Management Board:

Bezvushko, Ye. O. — Chairman of the Management Board

Gridina, G. V. — Chief Accountant

22 April 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of JOINT STOCK COMPANY "BTA BANK":

Report on the Audit of the Financial Statements

Qualified Opinion

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

In our opinion, except for the possible effects of the matter described in the first paragraph and except for the effects of the matter described in the second paragraph of the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Law of Ukraine "On accounting and financial reporting in Ukraine" ("Law on accounting and financial reporting").

Basis for Qualified Opinion

As discussed in Note 17 during 2018 year the Bank entered into the three years insurance contracts to secure collateral pledged by the borrower under the loan to legal entity. According to the contracts' terms the Bank made full prepayment for the whole insurance term and recognized insurance expenses for the year ended 31 December 2018 in the amount of UAH 15,822 thousand and prepayment for insurance, utilities, and other services in the amount of UAH 48,165 thousand as at 31 December 2018. Subsequent to the 31 December 2018 the Bank identified events (litigations against the insurer and insurance license revocation) that cast doubt on the ability of the insurer to fulfill its obligation under the insurance contracts. Those charged with governance performed internal investigation of this matter by security department of the shareholder. As a result of subsequent events identified and investigation performed, the Bank created an allowance for impairment of the prepayment made under the insurance contracts in the amount of UAH 48,165 thousand as at 31 December 2018. We were unable to obtain sufficient appropriate audit evidence about the substance of the payment initially made and the results of investigation performed. As a result, we are unable to confirm the nature and classification of these amounts in the accompanying financial statements.

Starting from 1 January 2018 the Bank applied IFRS 9. The carrying amount of loan to legal entity measured at amortized cost as at 1 January 2018 comprised UAH 55,983 thousand and the carrying amount of loan to legal entity measured at fair value through profit or loss as at 31 December 2018 comprised UAH 51,941 thousand. Management does not include all expected cash flows scenarios with respective probabilities during individual assessment of expected credit losses as at 1 January 2018 and fair value as at 31 December 2018 which constitute departure from IFRS. Had management used all expected cash flows scenarios with respective probabilities during individual assessment of expected credit losses as at 1 January 2018 and fair value as at 31 December 2018, the carrying amount of loans to legal entities would have increased by UAH 42,228 thousand and UAH 36,078 thousand, respectively. Accordingly, interest income, recovery of provision for credit losses and result of operations with financial assets and liabilities at fair value through profit or loss reported in the statement of profit or loss for the year ended 31 December 2018 would have increased by UAH 2,131 thousand, decreased by UAH 3,363 thousand and decreased by UAH 4,918 thousand, respectively. The equity as at 1 January 2018 would have increased by UAH 34,627 thousand with respective impact on deferred tax in the amount of UAH 7,601 thousand.

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

Material Uncertainty Related to Going Concern

The accompanying financial statements have been prepared assuming that the Bank will continue as a going concern. As discussed in Note 3 to the financial statements, the Bank's loss before income tax, accumulated losses, net cash outflow from operating activities indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as going concern. Management's plans concerning these matters are also discussed in Note 3 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

Emphasis of Matter

We draw your attention to Note 4 to the financial statements which describes the restatement of corresponding figures for the year ended 31 December 2017. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion* section and *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Revaluation of investment property, buildings and non-current assets held for sale Management attracted independent valuators to revalue investment property and buildings classified as property, plant and equipment to fair value as at 31 December 2018 and assess fair value less costs to sell for non-current assets held for sale in order to reflect them at the lower of carrying amount or fair value less costs to sell as at 31 December 2018. Also management identified errors in investment property items fair value assessment, non-current assets held for sale items fair value less cost to sell assessment and that some items of investment property were incorrectly derecognized as at 31 December 2017. Corresponding figures for the year ended 31 December 2017 were restated and presented in Note 4. The determination of fair value and fair value less cost to sell is inherently judgmental. The basis of fair value assessment is market approach and income approach. The inputs to the calculations are subject to management judgment. Judgment is required to determine analogues of property, useful life and condition of assets, discounts etc.	Our audit procedures have included the following: • Obtaining understanding of the Bank's processes and control procedures for fair value assessment of investment property and buildings and the assessment of the lower of carrying amount or fair value less costs to sell for non-current assets held for sale. • Independent assessment of appropriateness of the methodology used for valuation for a sample of investment property, buildings and non-current assets held for sale selected on the risk basis with involvement of valuation experts by reference to the accounting and valuation standards and market practices. An independent assessment of fair value was performed. The appropriateness of management's judgments and assumptions was independently considered. We checked completeness and accuracy of input data used in fair value and fair value less cost to cell assessment. • Obtaining understanding of the nature of restatement made to corresponding figures as at 31 December 2017 and for the year then ended and verifying that restatements were correctly calculated and posted by the Bank.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Revaluation of investment property, buildings and non-current assets held for sale is determined as a key audit matter due to significant balance of investment property, buildings and non-current assets held for sale that as at 31 December 2018 amounted to UAH 71,517 thousand, UAH 23,463 thousand and UAH 16,159 thousand, respectively, and the judgements used in calculations, as discussed in Note 7 and Note 30.	• Checking completeness and accuracy of the relevant notes to the financial statements, including the restatement note.
Classification of loans to customers and expected credit losses Starting from 1 January 2018 the Bank applies IFRS 9 that significantly changes classification of loans to customers and methodology and measurement process in respect of expected credit losses on loans to customers. Classification of loans to customers depends on business model used by management in respect of certain portfolios of loans as at 1 January 2018 and characteristics of contractual cash flows from the loans. As a result of this analysis loans to customers as at 1 January 2018 were measured either at amortized cost or fair value through profit or loss. In order to classify loans to customers management used judgement to determine whether amendments to loan agreements resulted in derecognition of previously accounted financial assets and recognition of new ones or modification of existing agreements. Allowances for expected credit losses represent management's best estimate of the 12-months expected credit losses for Stage 1 assets, or lifetime expected credit losses for Stage 2 or Stage 3 assets as at the reporting date. They are calculated on a collective basis for portfolios of loans with a similar credit risk characteristics and on an individual basis for significant loans. The calculation of both collective and individual expected credit losses is inherently judgmental. Collective expected credit losses are calculated using statistical models, which take into account current and future economic and credit conditions on portfolios of loans. The assumptions to these models are subject to management judgment and model revisions are required. For individual assessment, judgment is required to estimate the expected future cash flows scenarios related to a particular loan. In addition, management's judgement is required to assess whether significant increase of credit risk ("SICR") has occurred since initial recognition of the instrument.	Our audit procedures have included the following: • Obtaining understanding of the Bank's processes and control procedures for classification of loans to customers, including business models determination and SPPI test execution. • Appropriateness assessment of business models used for classification of loans to customers, analysis of terms of loan agreements to verify SPPI test results, including amendments made to the loan agreements and their impact on recognition of new financial assets. • Obtaining understanding of the Bank's processes and control procedures for assessment of a significant increase in credit risk and risk of default and measurement of expected credit losses on loans to customers. • For collectively assessed expected credit losses, the appropriateness of the modeling policy and methodology used for material portfolios was independently assessed with involvement of credit risk and actuarial experts by reference to the accounting standards and market practices. Model calculations were tested through re-performance. The appropriateness of management's judgments was independently considered in respect of calculation methodologies, segmentation, SICR identification, time-period used for probability of default and recovery rates assessment, including macroeconomic adjustment, and valuation of collateral. We checked completeness and accuracy of historical data used in collective models and checked forward-looking inputs to external macroeconomic forecasts.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Classification of loans to customers and measurement of expected credit losses are determined as a key audit matter due to significant balance of loans to customers that, as at 31 December 2018 and 1 January 2018, amounted to UAH 69,089 thousand and UAH 75,710 thousand, respectively, and the judgements used in analysis of characteristics of cash flows and calculation of expected credit losses, as discussed in Note 7 and Note 29.	• For individual expected credit losses, the appropriateness of provisioning methodologies was independently assessed for a sample of loans across the whole portfolio selected on the risk basis. An independent assessment was performed in respect of the levels of provisions booked based on the detailed loan and counterparty information in the credit file. Calculations within a sample of discounted cash flow models were re-performed. • Checking completeness and accuracy of the relevant notes to the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Report on management and Issuer report, which also includes report on corporate governance, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, which constitute the key audit matters included herein. We describe these matters in our auditor's report, except for the cases when a law or regulation prohibits a public disclosure of a specific matter or, in extremely adverse circumstances, we determine that such an matter should not be addressed in our report, as negative consequences from such a disclosure may predictably outweigh its usefulness for interests of the public.

Report on Other Legal Requirements

We have been appointed as auditor of JOINT STOCK COMPANY "BTA BANK" by those charged with governance, the Supervisory Board Meeting on 27 September 2018. In view of the previous renewals and reappointments, we conducted audit from 23 October 2014 to the date of this report.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audited services referred to ISA or requirements of Article 6, paragraph 4 of Law of Ukraine "On Audit of Financial Statements and Audit Activities" were not provided and that the audit engagement partner and audit firm remains independent of the Bank in conducting the audit.

Pursuant to the requirements of Article IV paragraph 11 of the Instruction on the procedure for compilation and publication of financial statements of Ukrainian banks approved by the Resolution of the Board of the National Bank of Ukraine No. 373 dated 24 October 2011 (with changes and amendments) ("Instruction No. 373"), we report the following:

- In our opinion, based on the work undertaken in the course of our audit of the Group's consolidated financial statements, the Report on management has been prepared in accordance with the requirements of the Article IV of the Instruction No. 373 and the information in the Report on management is consistent with the financial statements.

- We are required to report if we have identified material misstatements in the Report on management in light of our knowledge and understanding of the Bank obtained in our audit of the Bank's financial statements. We have nothing to report in this respect.

Basic Information About Audit Firm

Name: PJSC "Deloitte & Touche Ukrainian Services Company".

Address of registration and location of audit firm: 48, 50a Zhylianska Str., Kyiv, 01033, Ukraine.

"Private Joint Stock Company "Deloitte & Touche Ukrainian Services Company" was enrolled to Sections of "Audit Entities", "Audit Entities and Auditors That Have the Right to Conduct Statutory Audits of Financial Statements", and "Audit Entities and Auditors That Have the Right to Conduct Statutory Audits of Financial Statements of Public Interest Entities" of the Register of Auditors and Auditing Entities of the Audit Chamber of Ukraine under #1973".

PJSC Deloitte & Touche USC

Natalia Samoilova
Engagement partner

14 June 2019

STATEMENT OF FINANCIAL POSITION
as at 31 December 2018
(in Ukrainian Hryvnias and in Thousands)

	Notes	*2018*	*2017 (as restated)*
Assets			
Cash and cash equivalents	8	26,406	79,276
Due from banks	9	38,143	47,395
Financial assets measured at fair value through profit or loss	10	-	1,738
Loans to customers	11	69,089	278,075
Securities available for sale	12	-	459,602
Investments in debt securities	12	190,408	-
Investment property	13	71,517	133,181
Property and equipment and intangible assets	14	66,688	24,692
Non-current assets held for sale	15	16,159	34,935
Deferred tax asset	16	-	617
Current income tax receivable		1,249	1,249
Other financial assets	17	1,220	2,875
Other assets	17	20,559	104,611
Total assets		**501,438**	**1,168,246**
Liabilities			
Due to banks	20	-	54,562
Financial liabilities to the shareholder	19	518	163,308
Customer accounts	21	146,028	246,685
Deferred tax liability	16	351	-
Other financial liabilities	17	1,281	20,815
Other liabilities	17	3,987	5,218
Total liabilities		**152,165**	**490,588**
Equity			
Statutory capital	22	1,508,983	1,508,983
Additional paid-in capital	22	3	3
Accumulated losses		(1,158,368)	(862,906)
Reserve and other funds	22	-	28,033
Revaluation reserves	22	(1,345)	3,545
Total equity		**349,273**	**677,658**
Total liabilities and equity		**501,438**	**1,168,246**

Signed and authorized for issue on behalf of the Bank's Management Board:

Bezvushko, Ye. O. — Chairman of the Management Board

Gridina, G. V. — Chief Accountant

22 April 2019

The accompanying notes on pages from 14 to 78 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS
for the Year Ended 31 December 2018
(in Ukrainian Hryvnias and in Thousands)

	Notes	2018	2017 (as restated)
Interest income	24		
Loans to customers		8,228	65,456
Investments in debt securities and securities available for sale		30,237	37,139
Due from banks		3,006	1,227
		41,471	**103,822**
Interest expense			
Customer accounts		(6,350)	(24,206)
Financial liabilities to the shareholder		-	(191,626)
Due to banks		(85)	(1,068)
		(6,435)	**(216,900)**
Net interest income		**35,036**	**(113,078)**
Allowances for impairment of interest bearing assets	8, 9, 11	29,247	(110,083)
Net interest income/(expense) after allowance for impairment of interest bearing assets		**64,283**	**(223,161)**
Fee and commission income		8,486	10,423
Fee and commission expense		(5,676)	(5,615)
Net fee and commission income	25	**2,810**	**4,808**
Trading losses on transactions with investments in debt securities		(3,576)	(1,171)
Net gain on transactions with financial assets and liabilities measured at fair value through profit or loss	26	49,431	5,551
Gain or loss on revaluation of investment property items	13	(50,020)	(193,600)
Net gain/(loss) on foreign currency transactions			
- Dealings		1,329	(5,936)
- Foreign currency exchange differences		2,412	(1,049)
Expenses on de-recognition of financial assets		(557)	-
Rental income		506	110,473
Other income	27	4,730	58,669
Other non-interest income/(loss)		**4,255**	**(27,063)**
Staff costs	28	(47,611)	(64,953)
Depreciation and amortization	14	(10,849)	(6,288)
Other operating expense	28	(70,192)	(168,108)
Allowances for impairment of other assets and liabilities	18	(54,323)	2,718
Other non-interest expense		**(182,975)**	**(236,631)**
Loss before income tax		**(111,627)**	**(482,047)**
Income tax expense/(benefit)	16	(1,842)	716
Loss for the year		**(113,469)**	**(481,331)**
Net losses per ordinary share for the year (UAH per share)		(5.67)	(24.07)
Adjusted net losses per ordinary share for the year (UAH per share)		(5.67)	(24.07)

Signed and authorized for issue on behalf of the Bank's Management Board:

Bezvushko, Ye. O. — Chairman of the Management Board

Gridina, G. V. — Chief Accountant

22 April 2019

The accompanying notes on pages from 14 to 78 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
for the Year Ended 31 December 2018
(in Ukrainian Hryvnias and in Thousands)

	Notes	2018	2017 (as restated)
Loss for the year		**(113,469)**	**(481,331)**
Other comprehensive income:			
Other comprehensive income that may be reclassified subsequently to profit or loss			
Net unrealized (losses)/gains on investments in debt securities and securities available for sale	22	(2,563)	1,396
Income tax attributable to other comprehensive income		298	-
Net other comprehensive (loss)/income that may be reclassified subsequently to profit or loss		**(2,265)**	**1,396**
Other comprehensive income that will not be reclassified subsequently to profit or loss			
Revaluation of property and equipment	22	(3,201)	(5,476)
Income tax attributable to other comprehensive income		576	1,027
Net other comprehensive loss that will not be reclassified subsequently to profit or loss		**(2,625)**	**(4,449)**
Other comprehensive loss after income tax		(4,890)	(3,053)
Total comprehensive loss for the year		**(118,359)**	**(484,384)**

Signed and authorized for issue on behalf of the Bank's Management Board:

Bezvushko, Ye. O. — Chairman of the Management Board

Gridina, G. V. — Chief Accountant

м. КИЇВ • УКРАЇНА • АКЦІОНЕРНЕ ТОВАРИСТВО "БТА БАНК" Ідентифікаційний код 14359845

22 April 2019

STATEMENT OF CHANGES IN EQUITY
for the Year Ended 31 December 2018
(in Ukrainian Hryvnias and in Thousands)

	Notes	*Statutory capital*	*Additional paid-in capital*	*Accumulated losses*	*Reserve and other funds*	*Revaluation reserves*	*Gain on initial recognition of financial instruments on transactions with shareholders*	*Total equity*
As at 31 December 2016		**1,508,983**	**3**	**(400,400)**	**27,826**	**25,630**	**254,583**	**1,416,625**
Total loss for the year		-	-	(481,331)		(3,053)		(484,384)
Allocation to reserve and other funds		-	-	(207)	207	-	-	-
Gain or loss on revaluation of financial instruments on transactions with shareholders	19	-	-	-	-	-	(254,583)	(254,583)
Realized gain or loss on revaluation of property and equipment	22	-	-	18,803		(18,803)	-	-
Depreciation of revaluation reserve, net of taxes	22	-	-	229	-	(229)	-	-
As at 31 December 2017		**1,508,983**	**3**	**(862,906)**	**28,033**	**3,545**	**-**	**677,658**
Effect on transition to IFRS 9	6	-	-	(210,026)	-	-	-	(210,026)
As at 31 December 2017 (as restated)		**1,508,983**	**3**	**(1,072,932)**	**28,033**	**3,545**	**-**	**467,632**
Total loss for the year		-	-	(113,469)	-	-	-	(113,469)
Partial repayment of prior year losses	22	-	-	28,033	(28,033)	-	-	-
Gain or loss on revaluation of investments in debt securities	22	-	-	-	-	(2,265)	-	(2,265)
Gain or loss on revaluation of property and equipment	22	-	-	-	-	(2,625)	-	(2,625)
As at 31 December 2018		**1,508,983**	**3**	**(1,158,368)**	**-**	**(1,345)**	**-**	**349,273**

Signed and authorized for issue on behalf of the Bank's Management Board:

Bezvushko, Ye. O. Chairman of the Management Board

Gridina, G. V. Chief Accountant

22 April 2019

The accompanying notes on pages from 14 to 78 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS UNDER DIRECT METHOD
for the Year Ended 31 December 2018
(in Ukrainian Hryvnias and in Thousands)

	Notes	2018	2017
Cash flows from operating activities			
Interest income received		44,814	67,290
Interest expense paid		(8,365)	(26,776)
Fee and commission income received		8,436	10,412
Fee and commission expense paid		(5,676)	(5,615)
Net gain/(loss) on foreign currency transactions		1,329	(5,936)
Net gain on transactions with financial assets and liabilities measured at fair value through profit or loss	26	83	5,252
Rental income received		506	110,473
Other income received		3,670	39,476
Staff costs paid		(48,411)	(64,401)
Other operating expense paid		(127,848)	(127,868)
Cash (used in)/generated from operating activities before changes in operating assets and liabilities		**(131,462)**	**2,307**
Net decrease/(increase) in operating assets			
Due from banks		5,255	(34,781)
Loans to customers		87,994	83,789
Other assets		86,172	(3,062)
Net (decrease)/increase in operating liabilities			
Due to banks		(54,300)	54,300
Customer accounts		(98,695)	(165,299)
Other liabilities		(2,344)	14,854
Net cash used in operating activities		**(107,380)**	**(47,892)**
Cash flows from investing activities			
Purchase of investments in debt securities and securities available for sale		(2,376,563)	(5,181,823)
Proceeds on disposal and repayment of investments in debt securities		2,633,181	4,900,381
Proceeds on disposal of investment property		11,644	885,728
Purchase of intangible assets		(39,384)	(4,026)
Purchase of property and equipment		(17,364)	(2,547)
Proceeds on disposal of property and equipment		531	66,102
Proceeds on disposal of non-current assets held for sale		10,415	6,837
Net cash generated from investing activities		**222,460**	**670,652**
Cash flows from financing activities			
Repayment of financial liabilities to the shareholder		(164,083)	(652,620)
Net cash used in financing activities		**(164,083)**	**(652,620)**
Effect of foreign exchange rate changes on cash and cash equivalents		(1,616)	14,441
Net decrease in cash and cash equivalents		**(50,619)**	**(15,419)**
Cash and cash equivalents as at 1 January	8	**77,025**	**94,695**
Cash and cash equivalents as at 31 December	8	**26,406**	**79,276**

The accompanying notes on pages from 14 to 78 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS UNDER DIRECT METHOD
for the Year Ended 31 December 2018
(in Ukrainian Hryvnias and in Thousands)

During the years ended 31 December 2018 and 2017, the Bank had non-cash settlements on repossessed loans to customers that were recognized uncollectible in the prior periods. Those non-cash settlements were excluded from the statement of cash flows and presented separately as follows:

	2018	*2017*
Loans to customers settled by means of collateral repossession	2,090	14,235
Properties received as a repossessed collateral	(2,090)	(14,235)

Reconciliation of cash flows generated from financial liabilities

The table below details cash and non-cash changes in financial liabilities to the shareholder:

	As at 31 December 2017	**Repayment of financial liabilities to the shareholder**	**Non-cash changes (foreign currency exchange differences)**	**As at 31 December 2018**
Financial liabilities to the shareholder	163,308	(164,083)	1,293	518
Reconciliation of cash flows generated from financial liabilities	**163,308**	**(164,083)**	**1,293**	**518**

Signed and authorized for issue on behalf of the Bank's Management Board:

Bezvushko, Ye. O. — Chairman of the Management Board

Gridina, G. V. — Chief Accountant

22 April 2019

NOTES TO THE IFRS FINANCIAL STATEMENTS
for the Year Ended 31 December 2018
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1. Organization

JOINT STOCK COMPANY "BTA BANK" (the "Bank") was incorporated on 10 December 1992. The Bank operates under Banking License # 25 issued by the National Bank of Ukraine (the "NBU") on 25 July 2018, which provides the Bank with the right to conduct banking operations, and General License on conducting foreign currency transactions dated 3 August 2018. The Bank also has the License for Depository Activities issued by the National Commission for Securities and Stock Market of Ukraine the validity of which, effective from 12 October 2013, is indefinite, and the Licenses for Professional Activities in Stock Market – Trading in Securities: Brokerage and Dealer Activities issued by the National Commission for Securities and Stock Market on 23 October 2014 the validity of which are indefinite starting from 24 October 2014.

The Bank accepts deposits from individuals and legal entities, extends loans, transfers payments in Ukraine and abroad, exchanges currencies, and provides other banking services to legal entities and individuals.

The Bank has been the participant of Individual Deposit Guarantee Fund since 2 September 1999. The Fund is a state specialized institution that accumulates insurance contributions from Ukrainian banks. The Fund is responsible for covering the Bank's liabilities to individual depositors in the amount that does not exceed UAH 200 thousand per each depositor in the event of bankruptcy or cancellation of the banking license issued by the NBU.

The Bank's head office is located in Kyiv and, as at 31 December 2018, the Bank had 2 operational branches (2017: 2). As at 31 December 2018, the Bank employed 124 persons (2017: 157 persons).

The Bank's registered address is at: 35 D. Shcherbakivskoho Str., Kyiv, Ukraine.

As at 31 December 2018, JSC "BTA Bank" (Kazakhstan) owned 100% (2017: 100%) of issued ordinary shares of the Bank. As at 31 December 2018, the ultimate beneficiary of the Bank was individual Rakishev, Kenes, citizen of the Republic of Kazakhstan (2017: Rakishev, Kenes, citizen of the Republic of Kazakhstan).

The Bank's activities are aimed at generating profits for own development and satisfaction of its shareholders' needs. The Bank is a universal bank and is able to provide to individuals and legal entities (both resident and non-resident) any services in accordance with the Law of Ukraine "On Banks and Banking", licenses and permissions issued by the National Bank of Ukraine and the National Commission for Securities and Stock Market of Ukraine and conduct other activities in accordance with the procedure established by the effective legislation of Ukraine.

2. Operating environment in Ukraine

In 2018, the Ukrainian economy proceeded recovery from the economic and political crisis of previous years and demonstrated sound real GDP growth of around 3.4% (2017: 2.5%), modest annual inflation of 9.8% (2017: 13.7%), and slight devaluation of national currency by around 2.4% against USD and 8.2% against EUR comparing to previous year average.

Also, Ukraine continued to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and a frozen armed conflict with separatists in certain parts of Luhanska and Donetska regions. Amid such events, the Ukrainian economy demonstrated further refocusing on the European Union (the "EU") market realizing all potentials of established Deep and Comprehensive Free Trade Area with EU, in such a way effectively reacting to mutual trading restrictions imposed between Ukraine and Russia. As a result, the weight of the Russian Federation's export and import substantially fell from 18.2% and 23.3% in 2014 to around 7.7% and 14.2% in 2018, respectively.

In terms of currency regulations, the new currency law was adopted in 2018 that came into force on 7 February 2019. It purports to enable the NBU to promulgate more liberal currency regulation and soften a number of currency restrictions, such as: requirement to register loans obtained from non-residents with the NBU, 180-day term for making payments in foreign economic transactions, required 50% share of mandatory sale of foreign currency proceeds, etc.

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned reforms, cooperation with the International Monetary Fund (the "IMF"), and smooth transition through parliamentary elections, due in October 2019.

NOTES TO THE IFRS FINANCIAL STATEMENTS
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3. Going concern

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. Management and the shareholders have the intention to further support the Bank's business. For the year ended 31 December 2018, losses amounted to UAH 113,469 thousand, cash outflows from the Bank's operating activities amounted to UAH 107,380 thousand, and accumulated losses amounted to UAH 1,158,368 thousand.

Management believes that the going concern assumption is appropriate for the Bank due to the following:

- Sufficient capital adequacy ratio based on the NBU's requirements of 117.29% (2017: 92.62%) (Note 33);
- Intentions of the shareholders to further support the Bank's activities.

The Bank's management intends to undertake all required measures to fulfill its strategic objectives for the years 2018 through 2020 and the budget for 2019, in particular:

1) Obtain the maximum rate of return on transactions with securities (deposit certificates issued by the NBU, government debt securities, or assets with minimum risk exposures);
2) Continue efforts on the disposal of properties acquired by the Bank or used as a collateral that was repossessed as a result of claims for overdue loans. The Bank is planning to place the funds received from the sale of properties and investment property into minimum-risk financial instruments (deposit certificates issued by the NBU, other financial instruments issued by the NBU);
3) Undertake measures on renegotiating non-performing loans to individual customers;
4) Continue efforts on the repayment of bad debt balances accounted for on off-balance sheet accounts.

4. Basis of preparation

General information

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" (the "Law on Accounting and Financial Reporting").

The financial statements have been prepared under the historical cost basis, except as disclosed in the summary of accounting policies below. For example, investments in the government debt securities of Ukraine, derivative financial instruments, and investment property are carried at fair value, and buildings included in property and equipment are carried at revalued amounts.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE IFRS FINANCIAL STATEMENTS
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In maintaining its accounting records, the Bank is governed by the Ukrainian legislation. These financial statements have been prepared from the Ukrainian statutory accounting records maintained in accordance with regulations of the National Bank of Ukraine and have been adjusted for transactions for which there are differences between IFRS and the legislation of Ukraine, in particular, application of IAS 29 "Financial Reporting in Hyperinflationary Economies" to equity.

Hyperinflationary accounting

The Ukrainian economy was considered hyperinflationary until 31 December 2000. As such, the Bank has applied IAS 29 "Financial Accounting in Hyperinflationary Economies". The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring unit that was effective as at 31 December 2000 by applying the relevant inflation consumer price indices to the historical cost, and that those restated amounts were used as a basis for accounting in subsequent periods.

The Bank presents items of its statement of financial position in the order of liquidity. A detailed summary on recovery or repayment of items within 12 months after the date of the statement of financial position (current) and over 12 months after the date of the statement of financial position (non-current) is presented in Note 31.

The positions included in the Bank's financial statements are recorded in the currency that best reflects the economic substance of underlying events and conditions relevant to the Bank's activities (the "functional currency"). The functional currency of these financial statements is Ukrainian Hryvnia ("UAH"). All values are rounded to the nearest UAH thousand, unless otherwise indicated.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of profit or loss and the statement of comprehensive income unless required or permitted by any IFRS or Interpretation, and as specifically disclosed in the accounting policies of the Bank. In accounting for the transfer of financial assets that do not result in de-recognition of such assets, the Bank does not offset the assets transferred and the underlying liabilities.

Adjustments of prior periods

In preparing the Bank's financial statements for the year ended 31 December 2018, management identified prior period errors in assessment of fair value of investment property items and fair value less costs to sell of non-current assets held for sale items as at 31 December 2017. Also management identified that some items of investment property were incorrectly derecognized during 2017 while criteria for derecognition were not met. These errors were corrected retrospectively.

The effect of correction on the financial statements for the year ended 31 December 2017 is provided below. The said adjustments have no effect on the earlier periods.

Statement of financial position as at 31 December 2017:

	2017		
	Presented earlier	***Restated***	***Currently presented***
Investment property	68,381	64,800	133,181
Non-current assets held for sale	24,157	10,778	34,935
Total assets	**1,092,668**	**75,578**	**1,168,246**
Accumulated losses	(938,484)	75,578	(862,906)
Total equity	**602,080**	**75,578**	**677,658**

(in Ukrainian Hryvnias and in Thousands, unless Otherwise Indicated)

Statement of profit or loss for the year ended 31 December 2017:

	Presented earlier	*Restated*	*Currently presented*
Gain or loss on revaluation of investment property items	(258,400)	64,800	(193,600)
Other operating expense	(178,886)	10,778	(168,108)
Loss for the year	**(556,909)**	**75,578**	**(481,331)**

Statement of comprehensive income for the year ended 31 December 2017:

	Presented earlier	*Restated*	*Currently presented*
Total comprehensive loss for the year	**(559,962)**	**75,578**	**(484,384)**

5. Summary of significant accounting policies

Financial assets

Initial recognition

Financial assets are classified as either financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, and financial assets measured at fair value through profit or loss, as appropriate. The Bank applies separate approaches to classification of debt financial assets and equity instruments.

At the initial recognition, financial assets are measured at fair value plus, in the case of investments not designated as measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. In accounting, directly attributable transaction costs are recorded as a discount (premium) on the financial asset. At the initial recognition of financial assets, the Bank assigns them to a specific category. Subsequently, the Bank may reclassify financial assets in certain cases.

Debt financial assets are classified and measured based on a business model used by the Bank for managing a certain group of assets to which the classified financial asset belongs, as well as contractual cash flow characteristics under the financial asset.

The Bank determines a business model not on an asset-by-asset basis, but at the level of the groups of assets that are managed in bulk to achieve a certain business objective.

The Bank is entitled, at its discretion, at the initial recognition of financial assets, to classify them to the category of financial assets measured at fair value through profit or loss, whereby this decision cannot be revoked in the future, if doing so would eliminate or significantly reduce an inconsistency in measurement or recognition that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. Such debt financial assets shall not be reclassified subsequently.

Investments in debt securities that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost.

Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income.

Equity instruments and other investments in debt instruments are classified to the measurement category at fair value through profit or loss. In addition, the Bank may, at its discretion, decide to classify certain equity investments to the category of financial assets measured at fair value through other comprehensive income, whereby this decision cannot be revoked in the future.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent accounting

Debt financial assets measured at amortized cost are carried upon initial recognition at amortized cost using the effective interest rate method. Interest income on such debt financial assets is included in profit or loss.

Debt financial assets measured at fair value through other comprehensive income. Upon initial recognition, such debt financial assets are measured at fair value, with gains or losses recorded as a separate component in equity until this investment is disposed of or impaired. In this case, the cumulative gain or loss earlier recognized in equity is included into the statement of profit or loss. Interest on such debt financial assets is calculated using the effective interest rate method and recorded in the statement of profit or loss.

Debt financial assets measured at fair value through profit or loss. Upon initial recognition, such debt financial assets are measured at fair value through profit or loss. Interest on such debt financial assets may not be calculated separately and included into a revaluation result of the financial assets (in the absence of contractual income on the asset) or calculated using the effective interest rate method and recorded in interest income (in the event there is nominal income under the contract).

Equity financial assets (instruments) are classified as follows:

- Assets measured at fair value through other comprehensive income;
- Assets measured at fair value through profit or loss.

Each individual equity instrument, unless this instrument is not held solely for trading, may be included by the Bank, at its discretion, to the category of financial assets measured at fair value through other comprehensive income. Besides, such an instrument may not be subsequently reclassified.

In accordance with IFRS 9, the Bank determines for all its debt financial assets, other than those measured at fair value through profit or loss, and irrevocable loan commitments, outstanding letters of credit and avals an estimated allowance for expected credit losses at the reporting date.

No allowance for expected credit losses is created for equity instruments.

The Bank calculates an allowance for expected credit losses in accordance with the effective regulations related to the issue of computing expected credit loss allowances under IFRS. In addition, respective assets and off-balance sheet liabilities are classified by stages depending on the availability/absence of indicators of a significant increase in credit risk and/or default indicators (as determined in relevant regulations regarding calculation of expected credit losses).

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

De-recognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Due from lending institutions and loans to customers

For due from lending institutions and loans to customers measured at amortized cost, the Bank initially assesses individually whether the objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amounts and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss.

The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure, less costs for repossessing and selling the collateral, whether or not foreclosure is probable.

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

Future cash flows of a group of financial assets that are collectively assessed for impairment are estimated based on historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of a collateral. This may involve extending the payment arrangements and the agreement of new loan terms and conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed, the previous loan is derecognized and a new loan is recognized;
- If the loan restructuring is not caused by the financial difficulties of a borrower, the Bank uses the approach similar to the one described for financial liabilities below;
- If the loan restructuring is caused by the financial difficulties of a borrower and the loan is recognized as impaired after restructuring, the Bank recognizes a difference between the present value of cash flows under new contractual terms discounted using the original effective interest rate and the carrying amount before restructuring in the impairment allowance charges for the reporting period. If the loan is not impaired as a result of restructuring, the Bank uses the approach similar to the one described for financial liabilities below.

Once the terms and conditions have been renegotiated, the loan is no longer considered past due. Management consistently reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, and their recoverable value is calculated using the loan's original or current effective interest rates.

Financial guarantees and loan commitments

The Bank enters into loan commitments, including 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, letters of credit, and commitments to provide a loan are initially recognized at their fair values, which is normally evidenced by the amount of fees received. Subsequently, loan commitments are measured at amortized cost, other than the cases when such loan commitments are issued at lower than market interest rates.

Subsequently, the commitments to provide a loan at a below-market interest rate and financial guarantees are measured at the higher of:

1) The amount of estimated allowance for expected credit losses; and
2) The amount of fair value of the financial liability, less amortization of cumulative income in accordance with its recognition principles.

Financial liabilities

Initial recognition

At the initial recognition, a financial liability is measured at fair value. Incurred costs that are directly attributable to acquisition, placement, or disposal of the financial liability that would not be otherwise incurred if the Bank did not perform the above transactions are included in initial cost of the financial liability as a discount/premium in the currency of the financial instrument.

Subsequent accounting

The Bank measures all financial liabilities upon their initial recognition at amortized cost, except for:

1) Financial liabilities measured at fair value through profit or loss. Such liabilities, including derivative financial instruments, are subsequently measured at fair value;
2) Financial liabilities that arise when the transfer of a financial asset does not meet de-recognition criteria or a principle of continued involvement is applied;
3) Financial guarantee contracts;
4) Loan commitments at lower than market interest rates.

On initial recognition, the Bank, at its sole discretion, may classify a financial liability as an item that may not be reclassified subsequently and designates it as measured at fair value through profit or loss if such a designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from the use of different frameworks for measuring assets or liabilities or recognition of profits or losses related to them.

The Bank recognizes a change in the fair value of a financial liability that is designated, in the Bank's sole discretion, as at fair value through profit or loss which is caused by changes in its own credit risk in other comprehensive income. The Bank recognizes in profit or loss other changes in the fair value of the financial liability.

Differences arising between the fair value of liabilities and contractual terms on transactions with owners are recognized as equity transactions of the Bank.

The Bank *derecognizes financial liabilities* when, and only when, the respective obligations are discharged, cancelled, or have expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss or equity in the event of transactions with shareholders.

Leases

Operating leases – the Bank as a lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by a lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included in other operating expense.

Operating leases – the Bank as a lessor

The Bank presents assets that are subjects of operating leases in the statement of financial position according to the nature of the asset. Rental income on operating leases is recognized in the statement of profit or loss on a straight-line basis over the lease period as other income. The aggregate benefit of incentives is recognized as a reduction of rental income on a straight-line basis over the lease period. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

Taxation

The current income tax charge is calculated in accordance with the Ukrainian tax regulations.

Deferred tax asset and liability are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax asset and liability are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Ukraine also has various other operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

After the initial recognition at cost, buildings are carried at revalued amounts, which is the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed on a regular basis to ensure that the fair value of revalued assets does not differ significantly from their carrying amounts.

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

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between the depreciation based on the revalued carrying amounts of the assets and the depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation reserve for buildings included in equity is transferred directly to retained earnings on a straight-line basis as the Bank uses the assets. On the retirement or disposal of the assets, the remaining revaluation reserve is immediately transferred to retained earnings.

Property and equipment, other than real estate items, are carried at cost, net of the costs of day-to-day maintenance, less accumulated depreciation and any accumulated impairment.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	55
Leasehold improvements	2-7
Furniture and fittings	2-10
Computer and office equipment	1.5-10
Vehicles	5
Equipment	12

Expenditures for leasehold improvements are recognized as assets and charged to the statement of profit or loss on a straight-line basis over the shorter of the applicable lease term or useful life of the leasehold improvement.

The assets' residual values, useful lives, and methods of depreciation are reviewed and adjusted, if appropriate, at the end of each reporting year.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the expenses in the period when incurred. In the situations where it can be clearly determined that the expenditures have resulted in an increase of the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of properties.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of profit or loss in the year when the item is derecognized.

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Intangible assets

Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. After the initial recognition, intangible assets are carried at historical cost, less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives from one to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognized as intangible assets only when the Bank can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete, and the ability to measure reliably the expenditure during the development. Other software development costs are recognized as an expense as incurred.

Investment property

Investment property is property held to earn rental income or for capital appreciation rather than for use in the operating activities or for administrative purposes and which is not occupied by the Bank.

Investment property is initially recognized at cost, including transaction costs, and subsequently re-measured at fair value based on its market value. The market value of the Bank's investment property is obtained from reports of independent and internal appraisers who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

The same investment property item may be allocated to completely separated parts that are used for different purposes: one part, to earn rental income or for capital appreciation, and the other, for use in the Bank's operating activities or for administrative purposes.

Such parts of investment properties should be accounted for separately if they can be disposed of individually. If those parts cannot be disposed of individually, then such an item is recognized as investment property provided only an insignificant part of it (less than 25%) is held for the use in the Bank's operating activities or for administrative purposes.

Non-current assets held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current assets must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and their sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset, and an active program to locate a buyer and complete the plan should have been initiated. Further, the non-current asset should be actively marketed for a sale at the price that is reasonable in relation to its current fair value and, in addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Bank measures an asset classified as held for sale at the lower of its carrying amount and fair value, less costs to sell. The Bank recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value, less costs to sell, if events or changes in circumstance indicate that their carrying amounts may be impaired.

Statutory capital

Statutory capital contributions received before 31 December 2000 are recognized at restated cost following the application of IAS 29 "Financial Reporting in Hyperinflationary Economies".

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Reserves included in equity (other comprehensive income) in the Bank's statement of financial position comprise a revaluation reserve for investments available for sale reflecting changes in the fair value of financial assets available for sale and a revaluation reserve for the buildings consisting of the land and buildings revaluation reserve.

Reserve and other funds are created in accordance with the Ukrainian legislation to cover potential losses and other expenditures of the Bank. Reserve and other funds are created by allocating the Bank's net profits for the year (at least 5%) until the reserve and other funds reach 25% of the Bank's regulatory capital.

Recognition of revenue and expense

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Interest income and expense

Interest income and expense are recognized using the effective interest rate method.

The Bank recognizes interest income on impaired (default) financial assets by accruing interest at the original effective interest rate on the amortized cost of such financial assets.

For financial instruments with undefined cash flows (revolving credit lines), a fee that is considered as an integral part of such instruments is amortized at the cost of deferred income using the straight-line basis on interest income. In the event of contractual changes in the terms of such financial instruments, the unamortized fee balance is amortized using the straight-line basis based on new terms.

Interest on such debt financial assets measured at fair value through profit or loss may not be calculated separately and included into a revaluation gain or loss on the financial assets (in the absence of contractual income on the asset) or calculated using the effective interest rate method and recorded in interest income (in the event there is nominal income under the contract).

Fee and commission income and expense

The Bank earns fee and commission income from a varied range of services it provides to its customers. Fee and commission income can be divided into the following two categories:

- Fee and commission income received from and fee and commission expense paid for the services rendered (received) during a certain period

Fee and commission income and expense earned for the provision of services (paid for the services received) over a period of time are accrued over that period. These fees include commission income (expense) and asset management, custody, and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- Fee and commission income from and expense for the transaction services rendered (received)

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after meeting the corresponding criteria.

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Foreign currency transactions

The financial statements are presented in Ukrainian Hryvnias ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate translated at the official rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss as net result from foreign currency transactions – foreign currency exchange differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU's exchange rate on the date of the transaction are included in a net gain or loss on foreign currency transactions. UAH exchange rates established by the NBU and used in the preparation of the financial statements were as follows:

	As at 31 December 2018	As at 31 December 2017
USD	27.688264	28.067223
EUR	31.714138	33.495424

The accounting policies, presentation, and methods of computation that were applied only in the preparation of the Bank's financial statements for the year ended 31 December 2017

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 "Financial Instruments: Measurement and Recognition" are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently may reclassify financial assets in certain cases as described below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at fair value through profit or loss or securities available for sale. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process, other than those reclassified to other categories of financial assets. Loans to customers granted by the Bank are initially recognized at fair value, plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example, where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized in the statement of profit or loss and the statement of comprehensive income in accordance with the nature of those losses. Subsequently, loans to customers are carried at amortized cost using the effective interest rate method. Loans to customers are carried net of any allowance for impairment.

Securities available for sale

Securities available for sale are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables. After initial recognition, securities available for sale are measured at fair value, with gains or losses being recognized as a separate component in the statement of comprehensive income until the investment is derecognized or is determined to be impaired, at which time the cumulative gain or loss previously reported in the statement of comprehensive income is included in the statement of profit or loss. Interest income calculated using the effective interest rate method is recognized in profit or loss.

Investments in equity instruments that are not quoted in an active market and the fair value of which cannot be measured reliably are measured at cost, net of the allowance for impairment.

Securities held to maturity

The Bank's portfolio held to maturity includes the acquired debt securities with fixed or determinable payments and fixed maturity dates. The debt securities are included in the above portfolio when the Bank has a positive intent and ability to hold them to maturity. At each reporting date, the Bank assesses its intent and ability to hold the securities to maturity. Upon initial recognition, the securities included in the portfolio held to maturity are stated at each reporting date at their amortized cost by using the effective interest rate method. The securities in the portfolio held to maturity are not revalued. Reclassification of the securities held to maturity to the category of available for sale is performed at fair value. In the event a decision is taken on the sale of the securities held to maturity, they are first transferred to the category of securities available for sale.

Reclassification of financial assets

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

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

Financial assets are reclassified at their fair values on the date of reclassification. Any gain or loss already recognized in the statement of profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets and liabilities measured at fair value through profit or loss

In the normal course of business, the Bank enters into various derivative financial instruments, including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/(losses) on transactions with derivatives. Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value on the trading portfolio, with changes in fair value recognized in profit or loss.

If economic characteristics and risks of embedded derivatives are closely related to those of the host contract, then the derivative is not separated from the host contract and is accounted for in the same line in the statement of financial position. Any changes in fair values of the embedded derivative that is not separated from the host contract are recognized in the statement of profit or loss.

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6. Application of new and revised International Financial Reporting Standards

Standards and Interpretations issued that have become effective

Standards/Interpretations	Effective for the annual accounting periods beginning on or after:
IFRS 15 "Revenue from Contracts with Customers", including amendments to IFRS 15	1 January 2018
IFRS 9 "Financial Instruments"	1 January 2018
Amendments to IFRS 2 "Share-based Payment" – Classification and measurement of share-based payment transactions	1 January 2018
Interpretation of IFRS IC 22 "Foreign Currency Transactions and Advance Consideration"	1 January 2018
Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"	1 January 2018
Amendments to IAS 40 "Investment Property" – Transfers of investment property	1 January 2018
Annual Improvements to IFRS 2014-2016 Cycle	1 January 2018

IFRS 15 "Revenue from Contracts with Customers". IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract, and various related matters. New disclosures about revenue are also introduced.

The application of IFRS 15 has not had a significant impact on the Bank's financial statements.

Application of IFRS 9 "Financial Instrument". The Bank has applied IFRS 9 "Financial Instruments" from the date of transfer to accounting under IFRS 9, i.e. 1 January 2018, which has resulted in changes in its accounting policies in part of recognition, classification, and measurement of financial assets and liabilities and impairment of financial assets.

The Bank decided not to transform the comparative figures and recognize the adjusted carrying value of financial assets and liabilities at the date of initial application in the opening balance of retained earnings of the current period. Correspondingly, the revised requirements of IFRS 7 "Financial Instruments: Disclosures" were applied solely to the current period. The comparative period disclosures repeat the disclosures of the previous year.

Details of the accounting policies under IFRS 9 applied in the current period and the policies applied before 1 January 2018 in respect of comparative information are disclosed in Note 5.

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Effect of application of IFRS 9 on the Bank is described below.

	Measurement category		Carrying value under IAS 39 (opening balance as at 31 December 2017)	Effect		Carrying value under IFRS 9 (opening balance as at 1 January 2018)
	IAS 39	IFRS 9		Revaluation	Reclassification	
				Expected credit losses	Obligatory	
Cash and cash equivalents	***Loans and receivables***	***Amortized cost***	**79,276**	**(2,251)**	**-**	**77,025**
Due from banks	***Loans and receivables***	***Amortized cost***	**47,395**	**(4,251)**	**-**	**43,144**
Financial assets measured at fair value through profit or loss	***Loans and receivables***	***Fair value through profit or loss (obligatory)***	**1,738**	**-**	**(1,738)**	**-**
Loans to customers	***Loans and receivables***	***Amortized cost***	277,082	(201,372)	-	75,710
Loans to customers	***Loans and receivables***	***Fair value through profit or loss (obligatory)***	993	-	(350)	643
Total loans to customers			**278,075**	**(201,372)**	**(350)**	**76,353**
Investments in debt securities	***Available for sale***	***Fair value through other comprehensive income***	373,561	-	-	373,561
Investments in debt securities	***Available for sale***	***Amortized cost***	86,041	-	-	86,041
Total investments in debt securities			**459,602**	**-**	**-**	**459,602**
Other financial assets	***Loans and receivables***	***Amortized cost***	**2,875**	**(55)**	**-**	**2,820**
Total financial assets			**868,961**	**(207,929)**	**(2,088)**	**658,944**
Other financial liabilities			**20,815**	**9**	**-**	**20,824**
Total financial liabilities			**20,815**	**9**	**-**	**20,824**

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Amendments to IAS 40 "Investment Property" – Transfers of investment property. The amendments clarify that an entity can only reclassify a property to/from investment property when, and only when, there is evidence that a change in the use of the property has occurred. The amendments emphasize that a change in management's intentions alone would not be enough to support a transfer of property. The Standard has a list of circumstances that evidence a change in use, which is perceived by some as being exhaustive, the amendments make it clear that they are only examples. Entities may elect to apply them either retrospectively (if it is possible without the use of hindsight) or prospectively.

The application of amendments to IAS 40 has not had a significant impact on the Bank's financial statements.

Standards and Interpretations in issue, but not yet effective

Standards/Interpretations	Effective for the annual accounting periods beginning on or after:
Interpretation of IFRS IC 23 "Uncertainty over Income Tax Treatments"	1 January 2019
IFRS 16 "Leases"	1 January 2019
Annual Improvements to IFRS 2015-2017 Cycle	1 January 2019
Amendments to IFRS 9 "Financial Instruments" – Prepayment features with negative compensation	1 January 2019
Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term interests in associates and joint ventures	1 January 2019
Amendments to IAS 19 "Employee Benefits" – Plan amendments, curtailments, or settlements	1 January 2019
IFRS 17 "Insurance Contracts"	1 January 2021
Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or contribution of assets between an investor and its associate or joint venture	The effective date to be determined

IFRS 16 "Leases". IFRS 16 "Leases" specifies how an IFRS reporter will recognize, measure, present, and disclose leases. The Standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16 approach to lessor accounting substantially unchanged from its predecessor, IAS 17 "Leases".

Management of the Bank is currently evaluating the impact of IFRS 16 on the Bank's financial statements.

7. Critical accounting judgments and key sources of estimation uncertainty

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the financial statements:

Business model assessment and testing of solely payments of principal and interest ("SPPI") on the principal amount outstanding

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence, including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets, and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

To determine whether financial assets may be classified as financial assets measured at amortized cost or as financial assets measured at fair value through other comprehensive income (FVTOCI), cash flows are tested that are solely payments of principal and interest on the principal outstanding ("SPPI-test"). The Bank uses judgments to determine whether contractual terms envisage for the receipt of contractual cash flows that are solely payments of principal and interest on the principal outstanding and determine contracts in respect of which the existing loans to customers have been recognized at amortized cost or fair value (i.e. whether changes in the contract have resulted in de-recognition of the old financial asset and recognition of a new or modification of the existing contract).

Assessing a significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In assessing whether the credit risk of an asset has significantly increased, the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to Note 29 for more details.

Establishing groups of assets with similar credit risk characteristics

When expected credit losses are measured on a collective basis, the financial assets are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that, should credit risk characteristics change, there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets, as well as in estimating expected credit losses. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Notes 29 and 30 for more details on expected credit losses and fair value measurement, respectively.

Probability of default (PD)

PD constitutes a key input in measuring expected credit losses. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions, and expectations of future conditions. See Note 29 for more details.

Loss given default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

Fair value of financial instruments

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

Use of forward-looking information for measuring expected credit losses (ECLs)

When measuring expected credit losses, the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 29 for more details.

Useful lives of property and equipment and intangible assets

As explained in Note 5, the Bank reviews estimated useful lives of its property and equipment and intangible assets at the end of each annual reporting period.

Identification of inter-bank swap agreements

In the reporting period, the Bank entered into a number of inter-bank mutual placements in different currencies with other Ukrainian banks. The purpose of the majority of those deals was to provide short-term financing to other banks secured with a cash deposit received in return. The principal amounts of such placements and attractions and related interest rates on such deals may differ significantly. The Bank considers all these mutual placements to be derivative financial instruments and netted respective balances and income/expense.

Fair value of property and equipment, investment property, and assets held for sale

As stated in Note 5, the buildings of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of the valuation performed by independent appraisers. The basis for their valuation is the sales comparison approach, which is further confirmed by the income capitalization approach. When performing revaluations, certain judgments and estimates are applied by appraisers in determination of the comparison of property and equipment to be used in the sales comparison approach, the useful lives of the assets revalued, the capitalization rates to be applied for the income capitalization approach.

As specified in Note 5, the investment property includes property items that are partially used by the Bank in its operating activities or for administrative purposes. Double-purpose properties are included in investment property provided only an insignificant part of it is used not for investment purposes. Based on the historical experience, an insignificant part is considered by the Bank to be a space of less than 25% of the total space of such an item.

Allowances for impairment of other assets and liabilities

Assumptions and estimates related to the accrual of allowances for impairment of other assets and liabilities require significant estimates of management, since key assumptions used for both individual and collective assessment for impairment may change from period to period and materially affect the Bank's performance.

Related party determination

Determination of related parties requires that management apply significant estimates in defining relationships between related parties.

Other sources of uncertainty

While the Ukrainian government has introduced a range of stabilization measures aimed at providing liquidity to Ukraine's banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Bank and its counterparties, which could affect the Bank's financial position, results of operations, and business prospects.

Management is unable to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

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8. Cash and cash equivalents

Cash and cash equivalents comprised:

	2018	*2017*
Cash on hand	11,226	21,959
Cash with the National Bank of Ukraine	7,761	29,028
Correspondent accounts with banks	8,244	28,289
Total cash and cash equivalents before allowance	**27,231**	**79,276**
Allowance for expected credit losses on cash placed on correspondent accounts with banks	(825)	-
Total cash and cash equivalents	**26,406**	**79,276**

The above carrying value of cash placed on correspondent accounts with banks as at 31 December 2018 and 2017 reflects the maximum credit risk exposure of the Bank in respect of those assets.

Cash with the NBU represents amounts deposited with the NBU to secure for daily settlements and other activities. There are no restrictions on the withdrawal of funds from the current accounts with the NBU, other than obligatory reserves stipulated for by the NBU's regulations. As at 31 December 2017, there were no cash and cash equivalents that were past due.

The following table analyzes cash placed on correspondent accounts with banks by their credit quality as at 31 December 2018. The Bank manages credit quality of its financial assets by using a rating system. The rating system used by the Bank correlates with the rating system of the National Bank of Ukraine used to assess the amount of credit risk and solvency of borrowers.

	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs** (unimpaired)	**Stage 3 Lifetime ECLs** (impaired)	**The Bank's purchased or originated credit-impaired assets**	**Total**
Correspondent accounts with banks					
- Rating 1	7,016	-	-	-	7,016
- Rating 2	996	-	-	-	996
- Rating 3	11	-	-	-	11
- Rating 4	-	-	-	-	-
- Rating 5	221	-	-	-	221
Total correspondent accounts with banks before allowance	**8,244**	**-**	**-**	**-**	**8,244**
Allowance for expected credit losses	(825)	-	-	-	(825)
Total correspondent accounts with banks	**7,419**	**-**	**-**	**-**	**7,419**

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The following table summarizes movements in gross carrying value of correspondent accounts with banks for the year ended 31 December 2018.

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs (unimpaired)	Stage 3 Lifetime ECLs (impaired)
1 January 2018	**28,289**	**-**	**-**
New correspondent accounts with banks	1,800	-	-
Transfer to Stage 1 of 12-month ECLs	-	-	-
Transfer to Stage 2 of Lifetime ECLs (unimpaired)	-	-	-
Transfer to Stage 3 of Lifetime ECLs (impaired)	-	-	-
Correspondent accounts derecognized during the reporting period	(21,845)	-	-
Written off during the reporting period	-	-	-
Changes due to modification that have not resulted in de-recognition during the reporting period	-	-	-
Effect of other changes (including the impact of foreign exchange rate fluctuations)	-	-	-
31 December 2018	**8,244**	**-**	**-**

9. Due from banks

Due from banks comprised:

	2018	*2017*
Loans/deposits granted to/placed with other banks	42,100	47,620
Allowance for credit losses	(3,957)	(225)
Total due from banks	**38,143**	**47,395**

The above carrying value of due from banks as at 31 December 2018 and 2017 reflects the maximum credit risk exposure of the Bank in respect of those assets.

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The following table analyzes due from banks by credit quality as at 31 December 2018. The Bank manages credit quality of its financial assets by using a rating system. The rating system used by the Bank to reflect the quality of own assets correlates with the rating system of the National Bank of Ukraine used to assess the amount of credit risk and solvency of borrowers.

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs (unimpaired)	Stage 3 Lifetime ECLs (impaired)	The Bank's purchased or originated credit-impaired assets	Total
Loans/deposits granted to/placed with other banks					
- Rating 1	3,207	-	-	-	3,207
- Rating 2	-	-	-	-	-
- Rating 3	38,893	-	-	-	38,893
- Rating 4	-	-	-	-	-
- Rating 5	-	-	-	-	-
Total loans/deposits granted to/placed with other banks before allowance	**42,100**	**-**	**-**	**-**	**42,100**
Allowance for expected credit losses	(3,957)	-	-	-	(3,957)
Total loans/deposits granted to/placed with other banks	**38,143**	**-**	**-**	**-**	**38,143**

The following table summarizes movements in gross carrying value of due from banks for the year ended 31 December 2018.

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs (unimpaired)	Stage 3 Lifetime ECLs (impaired)
1 January 2018	**47,620**	**-**	**-**
New loans/deposits granted to/placed with other banks	40,001	-	-
Transfer to Stage 1 12-month ECLs	-	-	-
Transfer to Stage 2 Lifetime ECLs (unimpaired loans)	-	-	-
Transfer to Stage 3 Lifetime ECLs (impaired loans)	-	-	-
Due from banks derecognized during the reporting period	(45,521)	-	-
Written off during the reporting period	-	-	-
Changes due to modification that have not resulted in de-recognition during the reporting period	-	-	-
Effect of other changes (including the impact of foreign exchange rate fluctuations)	-	-	-
31 December 2018	**42,100**	**-**	**-**

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The following table summarizes movements in expected credit losses on due from banks for the year ended 31 December 2018.

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs (unimpaired)	Stage 3 Lifetime ECLs (impaired)
1 January 2018	**4,476**	**-**	**-**
New loans/deposits granted to/placed with other banks	3,760	-	-
Transfer to Stage 1 12-month ECLs	-	-	-
Transfer to Stage 2 Lifetime ECLs (unimpaired loans)	-	-	-
Transfer to Stage 3 Lifetime ECLs (impaired loans)	-	-	-
Due from banks derecognized during the reporting period	(4,279)	-	-
Written off during the reporting period	-	-	-
Effect of changes in models or risk parameters	-	-	-
Effect of other changes (including the impact of foreign exchange rate fluctuations)	-	-	-
31 December 2018	**3,957**	**-**	**-**

10. Financial assets measured at fair value through profit or loss

The Bank enters into trading transactions with derivative financial instruments. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their nominal amounts. The nominal amount, recorded gross, is the amount of a derivative's underlying asset, reference rate, or index and is the basis upon which changes in the value of derivatives are measured. The nominal amounts indicate the volume of transactions outstanding at the year-end and are not indicative of the credit risk.

	2018		*2017*	
	Fair value		*Fair value*	
	Assets	*Liabilities*	*Assets*	*Liabilities*
Embedded derivatives on foreign currency denominated loans to customers	-	-	1,738	-
Total financial assets measured at fair value through profit or loss	**-**	**-**	**1,738**	**-**

As at 31 December 2018, the Bank did not record embedded derivatives on foreign currency denominated loans to customers as a separate component and included them to host contracts (Note 11).

11. Loans to customers

Loans to customers comprised:

	2018	*2017*
Gross carrying value of loans to customers measured at amortized cost	55,919	688,797
Allowances for credit losses	(38,771)	(410,722)
Total loans to customers measured at amortized cost	**17,148**	**278,075**
Loans to customers measured at fair value through profit or loss	51,941	-
Total loans to customers	**69,089**	**278,075**

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The above carrying value of loans to customers as at 31 December 2018 and 2017 reflects the maximum credit risk exposure of the Bank in respect of those assets.

Loan portfolio of the Bank comprises loans to customers that do not meet a criterion of solely payments of principal and interest required for their classification at amortized cost under IFRS 9. As at 31 December 2017, the Bank had loans under which a contractual payment was linked to fluctuations in the exchange rate of UAH against USD and, as such, represented an embedded derivative financial instrument. In addition, according to the terms and conditions of concluded agreements, such a payment was payable by a borrower only in the event of growth in the foreign currency exchange rate. If, in subsequent periods, the decrease in foreign currency exchange rates were observed, the contractual payments would remain unchanged. The said formula was not based on the legislation requirements and could be left unchanged in the event of changes in the legislation. The said derivative increased the variability of contractual cash flows, as a result of which they had no economic characteristics of interest. Thus, those loans failed SPPI test. They were measured at fair value through profit or loss.

As a result, those loans to customers were classified to the measurement category as financial assets measured at fair value through profit or loss at the date of initial recognition. The carrying value of loans to customers measured at fair value through profit or loss is determined with reference to their credit risk, thus, it best reflects the relevant maximum credit risk exposure of the Bank in respect of those assets.

The following table analyzes loans to customers measured at amortized cost by credit quality as at 31 December 2018. The Bank manages credit quality of its financial assets by using a rating system. The rating system used by the Bank to reflect the quality of own assets correlates with the rating system of the National Bank of Ukraine used to assess the amount of credit risk and solvency of borrowers.

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs (unimpaired)	Stage 3 Lifetime ECLs (impaired)	The Bank's purchased or originated credit-impaired assets	Total
Loans to individuals					
- Rating 1	432	-	-	-	432
- Rating 2	2,177	-	-	-	2,177
- Rating 3	-	-	-	-	-
- Rating 4	58	-	-	-	58
- Rating 5	7,170	1,080	45,002	-	53,252
Total loans to individuals before allowance	**9,837**	**1,080**	**45,002**	**-**	**55,919**
Allowance for expected credit losses	(358)	(177)	(38,236)	-	(38,771)
Total loans to individuals	**9,479**	**903**	**6,766**	**-**	**17,148**

A financial effect of collateral and other tools of credit quality enhancement on loans to customers measured at fair value through profit or loss is represented by a separate disclosure of the effect of collateral and other tools of credit quality enhancement on the fair value of loans to customers as at the end of the reporting period.

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The following table summarizes movements in gross carrying value of loans measured at amortized cost for the year ended 31 December 2018.

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs (unimpaired)	Stage 3 Lifetime ECLs (impaired)	Purchased or originated credit-impaired loans
1 January 2018	**13,137**	**3,401**	**810,273**	**-**
New loans to customers or purchased loans	-	-	-	-
Transfer to Stage 1 12-month ECLs	-	-	-	-
Transfer to Stage 2 Lifetime ECLs (unimpaired loans)	-	-	-	-
Transfer to Stage 3 Lifetime ECLs (impaired loans)	-	(160)	160	-
Loans derecognized during the reporting period	(2,983)	(2,042)	(599,983)	-
Written off during the reporting period	-	-	(168,454)	-
Effect of changes in models or risk parameters	-	-	-	-
Effect of other changes (including the impact of foreign exchange rate fluctuations)	(317)	(119)	3,006	-
31 December 2018	**9,837**	**1,080**	**45,002**	**-**

The following table summarizes movements in expected credit losses on loans measured at amortized cost for the year ended 31 December 2018.

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs (unimpaired)	Stage 3 Lifetime ECLs (impaired)	Purchased or originated credit-impaired loans
1 January 2018	**570**	**1,734**	**748,796**	**-**
New loans to customers or purchased loans	-	-	-	-
Transfer to Stage 1 12-month ECLs	-	-	-	-
Transfer to Stage 2 Lifetime ECLs (unimpaired loans)	-	-	-	-
Transfer to Stage 3 Lifetime ECLs (impaired loans)	-	(28)	28	-
Loans derecognized during the reporting period	(122)	(1,312)	(543,819)	-
Written off during the reporting period	-	-	(168,366)	-
Effect of changes in models or risk parameters	-	-	-	-
Effect of other changes (including the impact of foreign exchange rate fluctuations)	(90)	(217)	1,597	-
31 December 2018	**358**	**177**	**38,236**	**-**

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Concentration of loans to customers analyzed by economic sectors is provided in the table below:

Loans to customers measured at amortized cost:

	2018		*2017*	
	Amount	%	**Amount**	%
Services	-	-	400,540	*58.2*
Financial services	-	-	150,990	*21.9*
Agriculture and food processing	-	-	83,359	*12.1*
Trade	-	-	2,042	*0.3*
Individuals	55,919	*100.0*	51,866	*7.5*
Other	-	-	-	-
Total loans to customers before allowance	**55,919**	***100.0***	**688,797**	***100,0***
Allowance for credit losses	(38,771)		(410,722)	
Total loans to customers measured at amortized cost	**17,148**		**278,075**	

Loans to customers measured at fair value through profit or loss:

	2018		*2017*	
	Amount	%	**Amount**	%
Financial services	51,941	*100.0*	-	-
Total loans to customers measured at fair value through profit or loss	**51,941**	***100.0***	**-**	**-**

As at 31 December 2018, the Bank's concentration of loans to customers due from ten largest borrowers (the carrying value before impairment and revaluation decrease of those assets) amounted to UAH 522,761 thousand, or 98.1% of the total loan portfolio (2017: UAH 665,904 thousand, or 96.7%). The impairment and revaluation decrease of those assets amounted to UAH 455,752 thousand (2017: UAH 396,635 thousand).

As at 31 December 2018, concentration of the loans to one borrower that exceeded 10% of the Bank's equity amounted to UAH 477,055 thousand, or 89.5% of the total loan portfolio, before revaluation decrease (2017: UAH 394,283 thousand, or 57.2%).

As at 31 December 2018, the Bank still had a high share of negative classified assets (70.06%), however, the Bank continued to undertake actions to decrease the absolute amount and share of negative classified assets.

The Bank's policies in respect of collateral did not change during the reporting period and, also, no significant changes occurred in the quality of collateral that the Bank received on the loans granted.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment. The following tables summarize the gross carrying value of loans to customers secured by respective collateral and not the fair value of collateral itself:

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Loans to customers as at 31 December 2018:

	Loans to legal entities	Loans to individuals	Total
Loans secured by:	**477,055**	**34,683**	**511,738**
- Cash	-	4,554	4,554
- Properties	477,055	29,962	507,017
- Other assets	-	167	167
Total secured loans to customers	**477,055**	**34,683**	**511,738**
Unsecured loans	-	21,236	21,236
Total loans to customers	**477,055**	**55,919**	**532,974**

Loans to customers as at 31 December 2017:

	Loans to legal entities	Loans to individuals	Total
Loans secured by:	**432,271**	**11,550**	**443,821**
- Cash	3,129	4,534	7,663
- Properties	417,913	7,016	424,929
- Other assets	11,229	-	11,229
Total secured loans to customers	**432,271**	**11,550**	**443,821**
Unsecured loans	204,660	40,316	244,976
Total loans to customers	**636,931**	**51,866**	**688,797**

12. Investments in debt securities and securities available for sale

Investments in debt securities and securities available for sale comprised:

	2018	*2017*
Government debt securities of Ukraine measured at fair value through other comprehensive income	126,203	-
Deposit certificates measured at amortized cost	64,205	-
Government bonds of Ukraine available for sale	-	373,561
Deposit certificates available for sale	-	86,041
Total investments in debt securities and securities available for sale	**190,408**	**459,602**

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The following table summarizes movements in gross carrying value of investments measured at amortized cost for the year ended 31 December 2018.

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs (unimpaired)	Stage 3 Lifetime ECLs (impaired)
1 January 2018	**86,041**	**-**	**-**
Investments purchased	64,205	-	-
Investments derecognized during the reporting period	(86,041)	-	-
31 December 2018	**64,205**	**-**	**-**

The following table summarizes movements in gross carrying value of investments measured at fair value through other comprehensive income for the year ended 31 December 2018.

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs (unimpaired)	Stage 3 Lifetime ECLs (impaired)
1 January 2018	**373,561**	**-**	**-**
Investments purchased	5,094	-	-
Investments derecognized during the reporting period	(248,219)	-	-
Effect of other changes (including the impact of foreign exchange rate fluctuations)	(4,233)	-	-
31 December 2018	**126,203**	**-**	**-**

For the securities issued by the NBU and other central government authorities, the Bank determined the value of credit risk to be equal to nil.

As at 31 December 2018, investments in debt securities included government debt securities issued by the Ministry of Finance of Ukraine as represented by interest-bearing securities denominated in USD and UAH. The maturity date of foreign currency denominated bonds is on 12 February 2020, and the nominal coupon rate is 5.4% p.a., and the ultimate maturity date of UAH-denominated bonds is on 4 March 2020, and the maximum nominal coupon rate is 20% p.a.; and deposit certificates issued by the National Bank of Ukraine with ultimate maturities up to 11 January 2019 and nominal interest rate of 18%.

As at 31 December 2017, securities available for sale included deposit certificates issued by the National Bank of Ukraine with ultimate maturities up to 7 February 2018 and nominal interest rate of 15.25% and government bonds issued by the Ministry of Finance of Ukraine as represented by interest-bearing securities denominated in USD and UAH. The maturity date of foreign currency denominated bonds is on 12 February 2020, and the nominal coupon rate is 5.4% p.a., and the ultimate maturity date of UAH-denominated bonds is on 10 June 2020, and the maximum nominal coupon rate is 20% p.a.

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13. Investment property

Movements in investment property were as follows:

	2018	*2017*
Fair value as at 1 January	**133,181**	**1,228,507**
Repossessed collateral	-	24
Disposals	(11,644)	(884,625)
Transfers between categories (Note 15)	-	(17,125)
Gain or loss on revaluation of investment property items	(50,020)	(193,600)
Fair value as at 31 December	**71,517**	**133,181**

Investment property of the Bank comprises land plots, residential and non-residential properties used as a collateral for loans to customers that were repossessed. Investment property is held to earn rentals or for capital appreciation or both, rather than for: use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Investment properties were revalued by an independent appraiser as at 31 December 2018, and their fair values were determined with reference to market information.

The Bank transferred a part of its investment property in operating leases. Future minimum payments under non-cancellable operating leases were as follows:

	2018	*2017*
Within 1 year	5	146
Total	**5**	**146**

During the year ended 31 December 2018, the Bank received rental income in the amount of UAH 506 thousand (2017: UAH 110,473 thousand) included in the statement of profit or loss.

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14. Property and equipment and intangible assets

Movements in property and equipment and intangible assets during the year ended 31 December 2018 were as follows:

	Buildings	*Leasehold improvements*	*Computer and office equipment*	*Furniture and fittings*	*Vehicles*	*Construction in progress*	*Intangible assets*	**Total**
Cost or revalued amounts								
As at 1 January 2018	**16,761**	**-**	**15,571**	**3,966**	**822**	**124**	**10,081**	**47,325**
Additions	12,585	-	3,817	5	935	1,503	39,384	58,229
Revaluation	(3,553)	-	-	-	-	-	-	(3,553)
Disposals	-	-	(2,531)	(1,625)	-	(1,503)	(175)	(5,834)
As at 31 December 2018	**25,793**	**-**	**16,857**	**2,346**	**1,757**	**124**	**49,290**	**96,167**
Accumulated depreciation and amortization								
As at 1 January 2018	**(2,237)**	**-**	**(10,015)**	**(3,237)**	**(748)**	**-**	**(6,396)**	**(22,633)**
Charges for the year	(413)	-	(2,495)	(190)	(188)	-	(7,563)	(10,849)
Revaluation amortized	320	-	-	-	-	-	-	320
Disposals	-	-	2,009	1,499	-	-	175	3,683
As at 31 December 2018	**(2,330)**	**-**	**(10,501)**	**(1,928)**	**(936)**	**-**	**(13,784)**	**(29,479)**
Net book value		-						
As at 1 January 2018	**14,524**	**-**	**5,556**	**729**	**74**	**124**	**3,685**	**24,692**
As at 31 December 2018	**23,463**	**-**	**6,356**	**418**	**821**	**124**	**35,506**	**66,688**

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Movements in property and equipment and intangible assets during the year ended 31 December 2017 were as follows:

	Buildings	*Leasehold improvements*	*Computer and office equipment*	*Furniture and fittings*	*Vehicles*	*Construction in progress*	*Intangible assets*	Total
Cost or revalued amounts								
As at 1 January 2017	**87,786**	**4,788**	**16,145**	**5,874**	**911**	**395**	**5,220**	**121,119**
Additions	263	-	2,160	188	85	-	5,206	7,902
Revaluation	(6,325)	-	-	-	-	-	-	(6,325)
Disposals	(64,963)	(4,788)	(2,734)	(2,096)	(174)	(271)	(345)	(75,371)
As at 31 December 2017	**16,761**	**-**	**15,571**	**3,966**	**822**	**124**	**10,081**	**47,325**
Accumulated depreciation and amortization								
As at 1 January 2017	**(3,092)**	**(4,788)**	**(9,979)**	**(4,518)**	**(870)**	**-**	**(4,574)**	**(27,821)**
Charges for the year	(1,378)	-	(2,186)	(563)	(20)	-	(2,141)	(6,288)
Revaluation amortized	849	-	-	-	-	-	-	849
Disposals	1,384	4,788	2,150	1,844	142	-	319	10,627
As at 31 December 2017	**(2,237)**	**-**	**(10,015)**	**(3,237)**	**(748)**	**-**	**(6,396)**	**(22,633)**
Net book value								
As at 1 January 2017	**84,694**	**-**	**6,166**	**1,356**	**41**	**395**	**646**	**93,298**
As at 31 December 2017	**14,524**	**-**	**5,556**	**729**	**74**	**124**	**3,685**	**24,692**

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As at 31 December 2018, carrying values of buildings would have amounted to UAH 21,871 thousand (2017: UAH 9,631 thousand), had the buildings been carried at cost, less accumulated depreciation.

As at 31 December 2018, cost of fully depreciated items was as follows: computers and office equipment – UAH 6,035 thousand (2017: UAH 6,588 thousand), furniture and fittings – UAH 1,511 thousand (2017: UAH 2,681 thousand), vehicles – UAH 737 thousand (2017: UAH 737 thousand), intangible assets – UAH 5,210 thousand (2017: UAH 4,131 thousand). As at 31 December 2018 and 2017, the Bank had no property and equipment items that would not be used by it.

15. Non-current assets held for sale

Movements in non-current assets held for sale were as follows:

	2018	*2017*
As at 1 January	**34,935**	**51,305**
Additions	2,494	18,357
Disposals	(15,651)	(10,947)
Transfers from investment property (Note 13)	-	17,125
Impairment of non-current and current assets held for sale (Note 28)	(5,619)	(40,905)
As at 31 December	**16,159**	**34,935**

Non-current and current assets held for sale comprise the properties acquired by the Bank or used as a collateral repossessed in recovery of past due loans to customers.

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16. Taxation

As at 31 December 2018 and 2017, deferred tax asset and liability and their movements for the respective years were as follows:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2016	*in the statement of profit or loss*	*in the statement of other comprehensive income*	*2017*	*in the statement of profit or loss*	*in the statement of other comprehensive income*	*2018*
Tax effect of non-taxable temporary differences:							
Allowances for impairment and provisions for other losses	15,396	(14,746)	-	650	(650)	-	-
Income and expense accrued	57	(21)	-	36	(34)	-	2
Investments in debt securities	-	-	-	-		298	298
Fair value of securities available for sale	820	(820)	-	-	-	-	-
Unrecognized deferred tax asset	(16,216)	16,216	-	-	-	-	-
Deferred tax asset	**57**	**629**	**-**	**686**	**(684)**	**298**	**300**
Tax effect of taxable temporary differences:							
Property and equipment	(1,183)	87	1,027	(69)	(1,158)	576	(651)
Deferred tax liability	**(1,183)**	**87**	**1,027**	**(69)**	**(1,158)**	**576**	**(651)**
Total deferred tax (liability)/asset	**(1,126)**	**716**	**1,027**	**617**	**(1,842)**	**874**	**(351)**

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Income tax expense and accounting losses for the years ended 31 December 2018 and 2017 can be reconciled as follows:

	2018	*2017*
Loss before tax	**(111,627)**	**(482,047)**
Income tax at the statutory tax rate	(20,093)	(86,768)
Unrecognized deferred tax assets during the reporting period	20,093	86,768
Income tax expense	**-**	**-**
Current income tax expense	-	-
Deferred income tax expense	1,842	(716)
Income tax expense	**1,842**	**(716)**
Deferred income tax asset/(liability)		
As at the beginning of the period	**617**	**(1,126)**
Tax effect of movements in allowance for revaluation of investments measured at fair value through other comprehensive income	298	-
Tax effect of movements in allowance for revaluation of property and equipment	576	1,027
Deferred income tax expense	(1,842)	716
As at the end of the period	**(351)**	**617**

During the year ended 31 December 2018, the effective tax legislation was not subject to significant amendments that would have a material impact on the taxation of banks.

17. Other assets and liabilities

Other financial assets comprised the following:

	2018	*2017*
Other financial assets measured at amortized cost		
Receivables on transactions with payment systems	1,209	2,418
Receivables on other financial instruments	800	800
Receivables on income accrued	663	613
Receivables on transactions with banks	-	339
Receivables on customer settlements	-	5
Total other financial assets measured at amortized cost before allowance	**2,672**	**4,175**
Allowances for credit losses (Note 18)	(1,452)	(1,300)
Total other financial assets	**1,220**	**2,875**

For other financial assets measured at amortized cost, the Bank uses a simplified approach to creating allowances for expected credit losses under IFRS 9, which allows calculating the allowance for expected losses for the whole life of the instrument. To estimate the expected credit losses, other financial assets are grouped by categories under the number of past days due.

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The allowance for expected credit losses on financial receivables from primary activities is determined in accordance with the provision matrix provided in the table below. The provision matrix as at 31 December 2018 envisaged for a fixed allowance rate depending on the number of days past due on the asset.

	Fixed allowance rates	Gross carrying value
Other financial assets measured at amortized cost		
- Current	0%	1,209
- Past due for less than 7 days and current income accrued	17%	13
- Past due from 8 to 30 days	71%	2
- Past dues from 30 to 60 days	77%	-
- Past due for more than 60 days	100%	1,448
Total other financial assets before allowance		**2,672**
Allowance for expected credit losses		(1,452)
Total other financial assets		**1,220**

Movements in gross carrying value of other financial assets:

	Simplified approach to lifetime ECLs
1 January 2018	**4,175**
New other financial assets	1,315
Other financial assets derecognized during the reporting period	(2,818)
Effect of other changes (including the effect of foreign currency rate fluctuations)	-
31 December 2018	**2,672**

Other assets comprised the following:

	2018	*2017*
Prepayments for insurance, utilities, and other services	68,287	10,104
Other taxes prepaid	8,479	96,568
Materials	326	244
Property and equipment prepaid	17	10
Total other assets before allowance	**77,109**	**106,926**
Allowance for impairment (Note 18)	(56,550)	(2,315)
Total other assets	**20,559**	**104,611**

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In April 2018, the Bank entered into a 3-year insurance contract with regards to secure collateral pledged by the borrower and made a full prepayment of the insurance payment in the amount of UAH 63,987 thousand. After recognition of the annual insurance expense on properties pledged in the amount of UAH 15,822 thousand (Note 28), the amount of prepayment included in other assets in the insurance prepayment, utilities, and other services as at 31 December 2018 was UAH 48,165 thousand. Subsequent to 31 December 2018, a range of events was identified that existed as at 31 December 2018 which cast a doubt on the ability of the insurer to fulfill its obligations under the contract (Note 34). As a result, the Bank created an allowance for impairment of the prepayment made in the amount of UAH 48,165 thousand as at 31 December 2018.

Other financial liabilities comprised the following:

	2018	*2017*
Payables on customer settlements	991	2,712
Payables on services received	285	16,121
Payables on payment card transactions	5	17
Payables on currency transactions	-	1,965
Total other financial liabilities	**1,281**	**20,815**

Other liabilities comprised the following:

	2018	*2017*
Unused vacation and other payroll related accruals	3,285	4,079
Taxes payable, other than income tax	250	421
Payables to Individual Deposit Guarantee Fund	205	311
Deferred income	189	382
Other	58	25
Total other liabilities	**3,987**	**5,218**

18. Allowances for credit losses on other assets and liabilities

Movements in allowances for credit losses on other assets and liabilities were as follows can be reconciled as follows:

	Other financial assets	*Other assets*	*Other financial liabilities*	*Total*
As at 31 December 2016	**4,240**	**5,996**	**63**	**10,299**
Charges/(recovery)	290	(2,945)	(63)	(2,718)
Uncollectible amounts written off	(3,237)	(736)	-	(3,973)
Foreign currency exchange differences on allowances	7	-	-	7
As at 31 December 2017	**1,300**	**2,315**	**-**	**3,615**
Effect of transfer to IFRS 9 as at 1 January 2018	55	-	9	64
Charges/(recovery)	97	54,235	(9)	54,323
Uncollectible amounts written off	-	-	-	-
Foreign currency exchange differences on allowances	-	-	-	-
As at 31 December 2018	**1,452**	**56,550**	**-**	**58,002**

Allowances for credit losses on other assets are deducted from the carrying amounts of the related assets. Provisions for liabilities are included in other liabilities.

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19. Financial liabilities to the shareholder

As at 31 December 2018, financial liabilities to the shareholder amounted to UAH 518 thousand (2017: UAH 163,308 thousand). During the year ended 31 December 2018, pursuant to the shareholder's demand, the Bank repaid the financial liability to the shareholder for the total amount of UAH 164,083 thousand. This amount consisted of interest-free payables for two repossessed buildings from borrowers of the Bank and JSC "BTA Bank" (Kazakhstan). Payables represent the difference between the fair value of the above property and the outstanding amount to be paid to JSC "BTA Bank" (Kazakhstan), since JSC "BTA Bank" (Kazakhstan) also granted loans to the same customers and was in the second order on claims for this collateral.

20. Due to banks

Due to banks comprised:

	2018	*2017*
Borrowings from other banks	-	54,562
Total due to banks	**-**	**54,562**

As at 31 December 2017, the bank received a borrowing from one of Ukrainian banks.

21. Customer accounts

Customer accounts comprised:

	2018	*2017*
Current accounts		
- Individuals	21,661	28,377
- Legal entities	43,188	105,976
Term deposits		
- Individuals	55,056	103,869
- Legal entities	26,123	8,463
Total customer accounts	**146,028**	**246,685**

As at 31 December 2018, customer accounts in the amount of UAH 43,601 thousand (or 29.86%) were due to top ten customers (2017: UAH 74,277 thousand, or 30.11%).

In accordance with the Ukrainian legislation, the Bank is obliged to repay a deposit or its part and accrued interest upon the first demand of a depositor under the banking deposit on demand and, under the term banking deposit, the Bank is obliged to repay a deposit and accrued interest upon the lapse of the term specified in the banking deposit agreement.

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Analysis of customer accounts by economic sectors was as follows:

	2018	*2017*
Individuals	76,717	132,246
Trade	19,825	15,934
Professional, research, and technical activities	18,706	7,477
Real estate services	6,791	13,600
Legal activities	6,141	46,234
Transport and communications	4,077	2,131
Construction	2,919	6,721
Manufacturing	2,678	8,757
Agriculture	315	103
IT development	73	488
Engineering	46	74
Insurance	3	1,251
Health care services	3	104
Other	7,734	11,565
Total customer accounts	**146,028**	**246,685**

22. Equity

For the years ended 31 December 2018 and 2017, there were no movements in the Bank's issued and fully paid shares. As at 31 December 2017, total number of authorized ordinary shares was 20,000,000 shares (2017: 20,000,000 shares) with the nominal value of UAH 75 per share. All authorized shares were issued and fully paid. All ordinary shares have equal voting, dividend, or capital distribution rights.

The Bank's statutory capital was contributed by shareholders in UAH, and all shareholders are entitled to dividends and any capital distributions in UAH. For the years ended 31 December 2018 and 2017, there were no dividends or other capital distributions declared.

The statutory capital was restated in prior periods to reflect the effect of hyperinflation in the amount of UAH 8,983 thousand in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies".

In April 2018, the Bank's shareholder decided to cover the loss incurred during the year ended 31 December 2017 at the cost of the Bank's reserve fund created in the amount of UAH 28,033 thousand.

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Movements in revaluation reserves

Movements in revaluation reserves were as follows:

	Property and equipment revaluation reserve	*Fair value reserve for securities*	*Total revaluation reserve*
As at 1 January 2017	**26,121**	**(491)**	**25,630**
Amortization of revaluation reserve, net of tax	(229)	-	(229)
Gains or losses on revaluation of securities	-	1,396	1,396
Gains or losses on revaluation and realized gains or losses on revaluation of property and equipment	(24,279)	-	(24,279)
Income taxes attributable to revaluation of property and equipment	1,027	-	1,027
As at 31 December 2017	**2,640**	**905**	**3,545**
Gains or losses on revaluation of debt securities	-	(2,563)	(2,563)
Income taxes attributable to revaluation of investments in debt securities	-	298	298
Gains or losses on revaluation of property and equipment	(3,201)	-	(3,201)
Income taxes attributable to revaluation of property and equipment	576	-	576
As at 31 December 2018	**15**	**(1,360)**	**(1,345)**

23. Contingencies and contractual commitments

Legal issues

In the course of the Bank's business, in order to protect its interests (both property and non-property), legal actions and complaints occur where the Bank acts as a plaintiff, a defendant, or a third party.

In order to protect its rights and interests and exclude contingent liabilities during consideration of legal cases, the Bank undertakes all measures provided by law aimed at the course of legal proceedings which do not affect the deterioration of the Bank's financial position.

In the ordinary course of business, the Bank is subject to legal actions and complaints. However, management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or results of the Bank's future operations.

Taxation

In accordance with the Tax Code requirements, the item of taxation shall be determined based on the profit before income tax (upon certain adjustments) as determined in the taxpayer's financial statements submitted to the tax authorities, together with the tax returns.

The current version of the Tax Code contains certain norms that may lead to varying interpretations and cause the tax authorities to apply fiscal approaches. Such an uncertainty and varying treatment may refer to estimation and reflection of financial instruments in accounting, allowances for impairment losses, and pricing on the basis of arm's length transactions and operations with shareholders, which, in turn, may result in assessment of additional tax liabilities, fines, and penalties, if the tax authorities challenge certain interpretations based on the Bank's management's estimates. The Bank's management believes it has accrued all effective taxes based on its interpretation of the tax legislation.

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As at 31 December 2018, the Bank's management believed that its interpretation of the relevant legislation was appropriate and that the Bank's tax and currency positions would be sustained.

Financial contractual commitments and contingencies

The main objective of these instruments is to ensure available cash to satisfy the financial needs of customers. Guarantees and unsecured letters of credit that represent irrevocable assurances of the Bank to make payments in favor of third parties in the event customers fail to meet their obligations carry the same credit risk as loans. Unsecured letters of credit are considered by the Bank as payment obligations to be fulfilled at the cost of customer accounts. Correspondingly, they are not subject to determining loan commitments or guarantees under IFRS 9.

Loan commitments represent unused amounts designed to provide lending in the form of loans, guarantees, and letters of credit. In respect of credit risk on loan commitments, the Bank is exposed to potential losses in the total amount of unused commitments in the event the customers are issued full amounts of such undrawn loans. However, a potential amount of losses is lower than the total amount of unused commitments, since the fulfillment of most loan commitments is dependent on the compliance of customers with certain lending standards. The Bank monitors the maturities of loan commitments, since commitments with longer maturities are commonly characterized by a higher credit risk than current liabilities.

As at 31 December 2018, the Bank had no active financial commitments and/or contingencies that would give rise to any obligations:

	2018	*2017*
Unused credit lines on overdrafts of legal entities and card loans of individuals	-	661
Allowance for losses on loan commitments	-	-
Total loan commitments	**-**	**661**

Future minimal lease payments

As at 31 December 2018 and 2017, future minimum lease payments under non-cancellable lease obligations were as follows:

	2018	*2017*
Within 1 year	224	1,229
Total	**224**	**1,229**

24. Interest income

Interest income comprised the following:

	2018	*2017*
Interest income on financial assets measured at amortized cost	24,708	66,682
Interest income on financial assets measured at fair value	16,763	37,140
Total interest income	**41,471**	**103,822**

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25. Net fee and commission income

Net fee and commission income comprised the following:

	2018	*2017*
Cash and settlement operations	8,236	10,180
Transactions with securities	192	161
Loan servicing	58	62
Guarantees and letters of credit	-	20
Total fee and commission income	**8,486**	**10,423**
Cash and settlement operations	(5,565)	(5,615)
Transactions with securities	(111)	-
Total fee and commission expense	**(5,676)**	**(5,615)**
Net fee and commission income	**2,810**	**4,808**

26. Net gain on transactions with financial assets and liabilities measured at fair value through profit or loss

Net gain on transactions with financial assets and liabilities measured at fair value through profit or loss comprised the following:

	2018	*2017*
Loans measured at fair value through profit or loss	49,348	-
Swaps	83	5,252
Embedded derivatives on foreign currency denominated loans to customers	-	299
Total net gain on transactions with financial assets and liabilities measured at fair value through profit or loss	**49,431**	**5,551**

27. Other income

Other income comprised the following:

	2018	*2017*
Income on repayment of irrecoverable amounts written off in prior periods	2,445	3,378
Income on granting the use of bank safes	939	1,107
Gain on disposal of assets available for sale	372	12
Gain on disposal of property and equipment	306	947
Gain on disposal of investment property	70	1,103
Repayment of utilities by lessees	-	11,936
Repayment of maintenance costs by lessees	-	31,958
Income on placement of vehicles	-	4,244
Other income	598	3,984
Total other income	**4,730**	**58,669**

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28. Staff costs and other operating expense

Staff costs and other operating expense comprised the following:

	2018	*2017*
Staff costs	40,200	56,211
Obligatory social security contributions	7,411	8,742
Total staff costs	**47,611**	**64,953**
Insurance of repossessed properties (Note 17)	15,822	-
Legal and consulting services	10,530	59,029
Operating leases	9,932	3,251
Repair and maintenance of property and equipment	7,080	9,341
Impairment of non-current and current assets held for sale	5,619	40,905
Loss on disposal of non-current assets held for sale	5,237	-
Operating taxes	3,337	6,438
Agent services of intermediaries on real estate transactions	2,433	12,204
Utilities for own property	1,919	12,656
Telecommunications	1,866	2,613
Security services	1,208	2,991
Office supplies	1,083	2,714
Charges to Individual Deposit Guarantee Fund	957	1,679
Communications	393	460
Loss on disposal of property and equipment	353	486
Business travel and related expenses	98	260
Cash collection costs	77	222
Insurance of own property	72	2,578
Representation expenses	72	198
Marketing and advertising	16	113
Other	2,088	9,970
Total other operating expense	**70,192**	**168,108**

29. Financial risk management

Risk is inherent to the banking activities, and it is managed by professional market participants through a process of ongoing identification, measurement, and monitoring of risks, including by avoiding or limiting the volume of accepted risks through setting relevant limits and using other controls over risk volumes. The process of risk management is critical to the Bank's achieving its objectives, and each employee within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, and market risk (subdivided into interest rate risk, currency risk, and early repayment risk). The Bank is also subject to operating risks.

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

Risk management structure

Supervisory Board

The Supervisory Board of the Bank determines the Bank's risk management strategy.

Management Board

The Management Board of the Bank is responsible for the implementation of risk management strategies. The Bank's Management Board develops internal regulations that deal with risk management policies, the methodologies, and procedures by which risks are evaluated, and the process by which risk management is monitored. The Management Board reports to the Supervisory Board regarding the realization of the Bank's strategy and the management of significant risks.

Credit Committee

Credit Committee meets on a daily basis and is responsible for implementation of the internal regulations set by the Management Board, including Credit Policies and credit risk management procedures; taking decisions on a possibility of accepting credit risks; amending terms and conditions of the existing agreements; managing the loan portfolio quality, and considering proposals of the Bank's core services and taking relevant decisions with regards to work with non-performing assets.

Asset and Liability Management Committee ("ALMC")

ALMC is responsible for overseeing the Bank's assets and liabilities and liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Management Board; monitors and takes measures on mitigating gaps between volumes of assets and liabilities with different maturities; develops various scenarios of the Bank's statement of financial position structure based on the different levels of liquidity and interest rate risks. It also periodically reviews the Bank's asset and liability position and determines the strategy of the Bank's asset and liability management; ensures for practical management of the return on assets and cost of raised funds, including the analysis results regarding interest rates offered by the Bank's competitors.

Risk Management Function

Risk Management Function is responsible for implementing and executing risk management procedures to ensure an independent control process.

To implement the best world practices in respect of risk management and in fulfillment of the requirements of the Provision on Organization of Risk Management System in Banks of Ukraine and Banking Groups as approved by Resolution of the Board of the National Bank of Ukraine # 64 dated 11 June 2018, the decision recorded in the minutes of the Bank's Supervisory Board's meeting dated 23 November 2018 amended the Bank's organization structure, as result of which Risk Management Department was reorganized into Risk Management Function to be subordinated directly to the Bank's Supervisory Board, thus, improving the independence of this unit's employees, extending the authorities of employees, and launching the transformation of the whole risk management system to improve its efficiency.

Treasury

The Bank's Treasury Department, while remaining an independent business unit, is directly responsible for managing the Bank liquidity, currency positions; interest rate risk, and price (market) risks in the Bank's operations. Those risks are managed by both conducting transactions in open markets (attracting and placing funds in varied instruments in different currencies) and restraining from transactions that exceed the approved limits, or identifying a potential negative impact on the Bank's operations.

Internal Audit Function

Internal Audit Function is responsible for reviewing the compliance of the Bank's internal regulations with the requirements of the effective legislation in respect of volumes of transactions and risks inherent to the Bank's operations; reviews and assesses the processes that ensure the Bank's activities, including regarding the compliance with the requirements of the effective legislation; assesses the efficiency of the Bank's internal control and risk management systems; checks the reliability of accounting records and financial statements, etc.

Compliance Control Function

Compliance Control Function is responsible for organizing the compliance risk management and performing compliance control in the Bank within its competencies, in particular, arranging control over the Bank's compliance with the legislation norms and internal bank regulations; ensures for monitoring changes in the legislation and assesses the impact of such changes on the processes and procedures implemented in the Bank, and ensures control over implementation of relevant changes in internal bank regulations; ensures for training and awareness of the Bank's employees about the compliance with the legislation requirements, culture of risk management with due reference to ethical norms; performs timely identification, measuring, monitoring, control, reporting, and providing recommendations on mitigating the compliance risk to governing bodies of the Bank and its other structural units.

Financial Monitoring Department

Financial Monitoring Department is responsible for managing risks in the area of preventing and counteracting to legalization (laundering) of the proceeds of crime, terrorist financing, and financing proliferation of mass destruction weapons. Experts of the said unit ensure for practical study of customers and their daily operations in order to prevent possible adverse consequences and realized the requirements of the effective legislation.

Systems for measuring and disclosing risks

During the risk management process, the Bank determines three categories of losses: expected losses, unexpected losses, and extraordinary losses. Expected losses are measured as an average amount of losses on active transactions. Unexpected losses are possible adverse deviations of the amount of actual losses from the amount of expected losses related to unexpected but possible events (are usually calculated based on mathematical models). Extraordinary losses are related to the crises events (both at the level of the Bank and at the macroeconomic level).

During the risk analysis process, the Bank considers the exposure to extraordinary circumstances (stress scenarios) on the basis of which the extraordinary emergency measures are determined in the form of a contingency plan. The risk control process comprises risk planning and setting of limits. The Bank determines a level of risk which it is willing to assume for achieving its business objectives and performing strategic tasks.

To control the current level of liquidity risk, the Bank uses external and internal limits which are communicated to other Bank's units in the form of ALMC's decisions.

Limits set by the Bank for lending are approved by Credit Committee and subdivided into individual credit risk limits, portfolio credit risk limits, and limits of authorities in respect of taking credit decisions.

The Bank monitors risks, studies the trends, and analyzes reasons for changes in the risk level. It regularly compares the projected and actual risk indicators, as well as determines correlation of different types of risks in order to develop and undertake appropriate measures.

Information received as a result of the analysis is regularly presented in the form of reports for examination by the Management Board, ALMC, and Credit Committee.

The Bank's Supervisory Board receives information about risk levels on a quarterly basis, and other collective corporate governance bodies of the Bank – at a higher frequency.

Risk mitigation

As part of its overall risk management, the Bank uses varied instruments to manage exposures resulting from changes in interest rates, foreign currencies, capital adequacy risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its exposure to credit risks. To reduce market risks, the Bank sometimes uses the practice of entering into buyback agreements, by which it ensures for hedging respective contingent negative events.

Excessive risk concentration

The Bank exercises a credit risk management function during the process of selecting potential borrowers taking into account the concentration risk of related parties, industries, maturities, currencies, and other parameters defined by internal regulations.

To maintain a reasonable level of concentration, the Bank sets structural limits which are within prudential requirements.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients, or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to assume for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank's existing credit risk management system represents a complex of the effective interrelated policies, processes, procedures, rules, statutory documents, relevant resources (tangible, intangible, and human) that form an integral whole, interact with the external environment and between each other, and aim at identifying, measuring, monitoring, reporting, controlling, and mitigating credit risk on both an individual and collective basis.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty with a risk rating. Risk ratings are subject to regular revisions. The credit quality review process allows the Bank assessing a potential loss as a result of risks to which it is exposed and take corrective actions.

Measuring a significant increase in credit risk

The Bank assesses the availability of a significant increase in credit risk compared to the credit risk at the date of comparison based on the assessment of changes in risk of default at the reporting date compared to the risk of default at the date of comparison. Besides, changes in the amount of expected credit losses are not taken into account.

Based on the analysis of the availability of a significant increase in credit risk (SICR) and loss (default) events, the Bank allocates financial instruments to three Stages:

- Stage 1 – Financial instruments with no significant increase in credit risk from the date of comparison and no loss events;
- Stage 2 – Financial instruments with available indicators of a significant increase in credit risk from the date of comparison, however, no loss events;
- Stage 3 – Financial instruments with available impairment (default) events, POCI assets.

Instruments with a low credit risk

The Bank defines as assets with a low credit risk and classifies as belonging to Stage 1 the following financial instruments:

- Funds placed on a correspondent account of the National Bank of Ukraine;
- Securities issued by the National Bank of Ukraine;
- Securities issued by central executive bodies;
- Government debt securities;
- Promissory notes of the State Treasury of Ukraine;
- Amounts due from non-resident banks assigned with an investment grade rating by leading global credit rating agencies.

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Definition of default

The definition of default used by the Bank agrees in full with the determination of credit impairment, and a financial instrument is recognized as defaulted when one of the following criteria is met:

Quantitative criteria:

- The borrower is past due more than 90 days to the Bank.

Qualitative criteria:

The borrower fails to meet a solvency criterion, which indicates that the borrower has significant financial difficulties. Examples of such a situation include the following:

- A financial asset is purchased or originated with a great discount, which reflects the credit losses incurred;
- Restructuring due to financial difficulties of the borrower, with losses to the Bank (discount to a lender);
- The borrower is in breach of the contractual financial covenants;
- Bankruptcy proceedings are initiated against the debtor or it is recognized as bankrupt;
- Death of a borrower;
- Disappearance of an active market for the financial asset;
- The issuer declares default.

The above criteria were applied to all financial instruments of the Bank and are in line with the definition of default used for the purposes of the Bank's credit risk management. The definition of default was consistently applied for modeling probability of default (PD), exposure at default (EAD), and loss given default (LGD) in calculating expected credit losses of the Bank.

An instrument ceases to be treated as defaulted (i.e. recovered) if it does not meet any longer any of the criteria for default recognition during more than six consecutive months. The period of six months has been determined based on the analysis that takes into account a probability that a financial instrument may return to the state of default after recovery and considers different definitions of recovery after default.

POCI assets

Purchased or originated credit-impaired (POCI) assets are financial assets that are impaired at the date of initial recognition.

If a financial asset has indicators of impairment (default) at the date of initial recognition, i.e. is purchased or originated credit-impaired (POCI) financial asset, then such an asset refers to Stage 3. The transfer from Stage 3 to Stages 1 or 2 for purchased or originated credit-impaired financial assets during the lifetime of such financial instruments is impossible.

Credit-impaired assets

Expected credit losses are calculated based on the accounting estimates. Management should also use judgment in applying the Bank's accounting policies.

The Bank assesses, on a projected basis, the expected credit losses related to active debt instruments measured at amortized cost and fair value through other comprehensive income, as well as amounts due arising from loan commitments, lease receivables, and financial guarantees. The Bank creates an allowance for such losses at each reporting date.

Measuring expected credit losses

The measurement of expected credit losses reflects the objective and probability weighted amount determined by way of estimating a range of probable results, time value of money, and reasonable and supportable information that can be obtained without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.

The assessment of allowances for expected credit losses on financial assets measured at amortized cost and fair value through other comprehensive income is the area that requires using complex models and significant assumptions about future economic conditions and the state of debt servicing. Significant assumptions required in applying accounting requirements for measuring expected credit losses include the following:

- Determining criteria for a significant increase in credit risk;
- Selecting respective models and assumptions for measuring expected credit losses;
- Determining the number and a relative weight of forward-looking scenarios for each type of products/markets and respective expected credit losses;
- Determining groups of similar financial assets to measure the expected credit losses.

For the Bank, the credit risk represents a threat to incur financial losses if any counterparties, customers, or market partners of the Bank fail to fulfill their contractual obligations to it. The credit risk arises mainly from interbank, commercial, and consumer loans, as well as loan commitments related to lending activities, but may also arise from issued collateral in the form of financial guarantees, letters of credit, and acceptances.

Assessment of accounts payable for the purposes of risk management is complex and requires using models, since payables change together with changes in market conditions, estimated cash flows, and with the flow of time. The measurement of credit risk with regards to a portfolio of assets presupposes performing subsequent assessments of probability of default, relevant loss ratios, and correlations between default of counterparties. The Bank assesses credit risk by using the indicators of probability of default (PD), exposure at default (EAD), and loss given default (LGD). This is a pre-emptive approach used for assessing expected credit losses under IFRS 9.

IFRS 9 establishes a three-stage impairment model based on changes in credit quality of the instrument since initial recognition. According to this model, a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1, and has its credit risk continuously monitored. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2, but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, it is then moved to Stage 3.

Financial instruments in Stage 1 have their expected credit losses measured at an amount equal to the portion of expected credit losses that result from the default events possible within next 12 months. Instruments in Stages 2 or 3 have their expected credit losses measured based on expected credit losses on a lifetime basis. A pervasive concept in measuring expected credit losses in accordance with IFRS 9 is that it should consider forward-looking information. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their expected credit losses are always measured on a lifetime basis.

The financial assets that are credit-impaired are determined under IFRS 9 similar to the financial assets impaired under IAS 39.

A significant increase in credit risk

The Bank states that there has been a significant increase in credit risk under financial instruments if one or several of the following quantitative, qualitative, and supplementary criteria are satisfied.

Quantitative criteria:

The Bank uses quantitative criteria as a primary indicator for assessing a significant increase in credit risk for all tangible portfolios. To perform a quantitative assessment, the Bank compares a probability of default during the whole life of the instrument as at the measurement date against the projected probability of default during the whole life of the instrument as at the date of initial recognition. To assess the probability of default during the whole life of the instrument as at the date of initial recognition, respective assumptions are made. For the financial instruments assigned with high credit ratings, the probability of default is believed to grow with the passage of time. On the other hand, for the financial instruments assigned with low credit ratings, the probability of default is believed to decrease with the passage of time.

he Bank believes that a significant increase in credit risk has occurred when a probability of default has grown twice or more times, although the amount may be even lower due to the effect of several restricting factors, such as a proximity of the ultimate maturities and portfolios of products proper. The Bank does not know any generally acceptable market practice in respect of the indicator when a financial instrument should be moved to Stage 2. In view of this, it is expected that the degree at which an increase in probability of default at the reporting date is considered as significant will be determined with the flow of time in the course of the iterative process of interaction between market participants and regulator.

Qualitative criteria:

The Bank uses qualitative criteria as a secondary indicator for assessing a significant increase in credit risk for all tangible portfolios. Transfers to Stage 2 take place when the following (one or several) criteria are met for government, banking, corporate, and project funding portfolios:

- Available indicators of external market;
- Contractual terms and conditions are modified;
- Management approach has been changed;
- Expert judgment is applied.

The measurement of a significant increase in credit risk considers forward-looking data and is performed on a quarterly basis at the level of individual contracts for all portfolios of the Bank's non-retail business. The measurement of a significant increase in credit risk considers forward-looking data and is performed on a monthly basis at the level of individual contracts for all portfolios of the Bank's retail business.

Supplementary criterion:

A supplementary criterion is applied and a financial instrument, correspondingly, is recognized as exposed to a significant increase in credit risk if the borrower is past due for more than 30 days under a contract. In certain cases, presumptions that the financial assets that are past due for more than 30 days should be included to Stage 2 are rebutted.

Exemption regarding a low credit risk

The Bank has not used the exemption regarding instruments with a low credit risk, however, on a selective basis, it applies the exemption regarding instruments with a low credit risk to debt securities.

Characteristics of inputs, assumptions, and valuation techniques

The expected credit losses are assessed based on a probability of default during the next 12 months or the lifetime of a financial instrument depending on whether a significant increase in credit risk has occurred since initial recognition and whether the asset is treated as credit-impaired. Forward-looking economic information is taken into account when determining the probability of default during 12 months and lifetime of the financial instrument (PD), as well as exposure at default (EAD) and loss given default (LGD). These forecasts change depending on a product type. The expected credit losses represent a discounted multiplication result of probability of default (PD), exposure at default (EAD), loss given default (LGD), and a discount factor (D).

Probability of default

Probability of default is an estimate of the likelihood that the borrower fails to fulfill its financial liabilities within the next 12 months or the whole period remaining to the maturity of the instrument. In general, a probability of default during the lifetime of the instrument is calculated by using, as a start point, the probability of default during the next 12 months, without adhering to a specified degree of prudence. After that, varied statistical models are applied to assess whether probabilities of default will change during the life of a loan or a portfolio of loans starting from the date of initial recognition. Probability of default is based on historical data and parameter functions.

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To assess probability of default for outstanding accounts payable, varied models have been used that can be grouped to the following categories:

- For government institutions, state and local government authorities, insurance companies, and shared investment institutions, probability of default is assessed by using a matrix approach; forward-looking information is considered in computing a probability of default with the help of one-factor Vasicek model;
- For corporate customers, project funding, and financial institutions, probability of default is assessed by using a parametric survival model (Weibull distribution);
- For mortgages and other retail business loans, probability of default is assessed by using a parametric survival model in the competing risk structures; forward-looking information is considered in calculating a probability of default by using stage models.

In certain cases, when inputs are not fully available, calculations have used groupings, averaging, and a comparative data analysis.

Loss given default

The indicator of loss given default reflects the Bank's expectations about the amount of loss on defaulted debt. The loss given default depends on the type of counterparty and product. The loss given default is presented in the form of loss percentage per unit of debt at the moment of default. The loss given default is calculated for a probability of default within the next 12 months or the lifetime of a financial instrument, where the 12-month LGD is the percentage of losses expected to be incurred if a default occurs during the next 12 months, and the Lifetime LGD is the percentage of losses expected to be incurred if a default occurs during the remaining life of a loan.

To assess loss given default on outstanding accounts payable, varied models have been used that can be grouped to the following categories:

- For government institutions, LGD is calculated using market data sources;
- For other customers, LGD is calculated by discounting cash flows from recovery of debt from a debtor; forward-looking information is considered in computing a probability of default with the help of one-factor Vasicek model.

In certain cases, when inputs are not fully available, the Bank uses alternative recovery models, a benchmarking analysis, and expert estimates.

Exposure at default

The exposure at default is based on the amounts the Bank expects to receive at default within the next 12 months or the remaining lifetime to maturity. The 12-month or lifetime EAD is determined on the basis of expected payments that change depending on a product's type. For depreciable products and loans repaid in a lump sum on maturity, EAD is based on the borrower's contractual payments for 12 months or remaining lifetime. Also, the factors of early repayment/refinancing are taken into account.

For revolving products, EAD is projected by using the current balance and loan conversion ratio, which allows to forecast the use of credit limit at default. In certain cases, when inputs are not fully available, the Bank uses a comparative data analysis in calculations.

Discounting

A discount rate used in calculating the expected credit losses, other than leases and purchased (originated) credit-impaired loans, is the effective interest rate or approximated to it.

Calculation

The expected credit losses represent a multiplication result of probability of default, LGD, and EAD multiplied by a probability of default before the planned time. This is reflected in the form of a survival function S. Such a calculation demonstrates future values of expected credit losses that are subsequently discounted and aggregated. The estimated values of expected credit losses are later weighted against a forward-looking scenario.

Forward-looking information

The measurement of a significant increase in credit risk and calculation of expected credit losses consider forward-looking information. The Bank has analyzed and determined key economic indicators that affect the credit risk and expected credit losses for each portfolio.

These economic indicators and their impact on the indicators of PD, LGD, and EAD depend on a category. Also, this process applies expert estimates. The forecast of those economic data (a "baseline economic scenario") is performed on an annual basis and ensures for the best economic estimate for the next three years. In three years, to extrapolate the economic indicators for the remaining lifetime of an instrument, the Bank has used an approach of return to average, which determines whether those data will, by maturity, meet the trend of a long-term average interest rate or long-term average growth rate. The impact of those economic data on the values of PD, LGD, and EAD has been determined by using a statistical regression in order to understand the historical impact of default on interest rates and components of LGD and EAD.

In addition to the baseline economic scenario, the Bank also fixes the best and the worst results and uses weighting ratio to ensure for non-linearity. The Bank has concluded that three or more scenarios properly cover non-linearity. The weighting ratios are determined by combining a statistical analysis and expert estimation considering a range pf possible results, with each selected result being representative. The weighted expected losses are determined for each scenario using a respective estimated model of credit losses and multiplied by a corresponding weighting ratio.

Similar to any economic outlooks, extrapolations and probabilities are characterized by a high degree of uncertainty and, thus, actual results may significantly differ from the projected ones. The Bank believes that those forecasts are the best estimates of possible results and cover any potential non-linear factors and asymmetric information within different portfolios of the Bank.

Sensitivity analysis

The most significant factors that affect the allowances for expected credit losses include the following:

- Corporate portfolios: Gross Domestic Product, unemployment rate, interest rate on long-term government debt securities, inflation rate;
- Retail portfolios: Gross Domestic Product, unemployment rate, real estate prices.

Transformation

Changes in the accounting policies arising from adoption of IFRS 9 are commonly applied retrospectively, except for the cases described below:

- The Bank has used a possibility not to restate comparative figures for prior periods in respect of classification and measurement (including impairment). Differences in the carrying value of financial assets and financial liabilities arising from application of IFRS 9 are included in retained earnings as at 1 January 2018;
- Subsequent estimates should be made on the basis of facts and circumstances existing at the date of original application:
    - Determination of a business model for a financial asset;
    - Establishment and cancellation of the accounting category of FVTPL for certain financial assets and financial liabilities.

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Geographical concentration

Geographical concentration of the Bank's monetary assets and liabilities is set out below:

	2018			
	Ukraine	*OECD countries*	*Banks of CIS and other countries*	*Total*
Assets:				
Cash and cash equivalents	26,240	8	158	26,406
Due from banks	38,143	-	-	38,143
Loans to customers	69,089	-	-	69,089
Investments in debt securities	190,408	-	-	190,408
Other financial assets	1,216	-	4	1,220
	325,096	**8**	**162**	**325,266**
Liabilities:				
Financial liabilities to the shareholder	-	-	518	518
Customer accounts	143,198	957	1,873	146,028
Other financial liabilities	1,273	-	8	1,281
	144,471	**957**	**2,399**	**147,827**
Net position	**180,625**	**(949)**	**(2,237)**	**177,439**
Net contractual commitments and contingencies	**-**	**-**	**-**	**-**

	2017			
	Ukraine	*OECD countries*	*Banks of CIS and other countries*	*Total*
Assets:				
Cash and cash equivalents	73,182	5,590	504	79,276
Due from banks	47,395	-	-	47,395
Loans to customers	278,075	-	-	278,075
Securities available for sale	459,602	-	-	459,602
Financial assets measured at fair value through profit or loss	1,738	-	-	1,738
Other financial assets	2,868	-	7	2,875
	862,860	**5,590**	**511**	**868,961**
Liabilities:				
Financial liabilities to the shareholders	-	-	163,308	163,308
Due to banks	54,562	-	-	54,562
Customer accounts	241,026	1,052	4,607	246,685
Other financial liabilities	20,812	1	2	20,815
	316,400	**1,053**	**167,917**	**485,370**
Net position	**546,460**	**4,537**	**(167,406)**	**383,591**
Net contractual commitments and contingencies	**661**	**-**	**-**	**661**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral, which could be used to secure additional funding if required.

The main liquidity risk factor is represented by the maturity gap in assets and liabilities of the Bank.

Main principles of liquidity risk management are as follows:

- Centralization of liquidity risk management at the Head Office level;
- Separate management of short-term and structural liquidity;
- Diversification of funding sources;
- Limitation of liquidity risk through establishment of limits;
- Matching assets and liabilities in terms of maturity;
- Maintenance of an adequate liquidity buffer in the event of a liquidity deficit;
- Adequate monitoring and control system.

In order to assess its liquidity risk, the Bank uses gap analysis, ratio analysis, scenario analysis (including stress testing), and borrowed funds structure analysis. Liquidity risk is evaluated with respect to each currency. Aging analysis of the Bank's assets and liabilities is presented in Note 31.

Assets and Liabilities Management Committee is generally responsible for development of the liquidity risk management strategy. Operating short-term liquidity risk management is exercised by Treasury Department, ensuring compliance with liquidity risk limits. The structural liquidity management decisions with regards to a more remote perspective are taken by ALMC.

Short-term liquidity risk management

To assess short-term liquidity risk, a gap analysis is prepared on a daily basis with respect to contractual maturity and currency. For maturities up to 14 days, a detailed daily payment schedule is used to determine a daily demand for additional financing; maturities greater than 14 days and up to 90 days are grouped into several time categories for liquidity management purposes.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily sold in the event of an unforeseen interruption of cash flows. The Bank considers the following assets to be liquid: cash on hand, correspondent accounts with the NBU and other banks, and securities refinanced by the NBU. An adequate volume of liquid assets is determined based on stress testing. Furthermore, the Bank has entered into facility agreements with several banks, which it may use in order to satisfy an unexpected demand for funds.

Structural liquidity risk management

To assess structural liquidity risk, a gap analysis of assets and liabilities is prepared on a daily basis with respect to contractual maturity (greater than 91 days) and currency.

The Bank has set the following ratios in order to measure and limit its structural liquidity risk:

- Ratio of term liabilities to total liabilities;
- Ratio of due to banks to total liabilities;
- Ratio of the cumulative gap between monetary assets and liabilities to monetary assets.

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Scenario analysis in liquidity risk management

The Bank regularly monitors the liquidity of the money market. Three scenarios are analyzed: usual market conditions; liquidity crisis of the Bank; liquidity crisis in the market. In the latter case, the Bank implements a preliminary developed action plan for maintaining liquidity under crisis conditions.

In addition, the Bank develops stress-testing scenarios which reflect unlikely but material adverse changes in factors affecting the Bank's operations.

The diversified structure of the Bank's obligations is achieved through consistent monitoring of the liabilities portfolio concentration by categories of customers with the largest amounts of funds with the Bank (the total amount of funds due to 5, 10, and 20 largest customers).

The Bank manages outflows of liquidity through building awareness among depositors so that retain its deposit portfolio, hold balances on current accounts, hold back funds under non-performing borrowers, and sell the Bank's properties.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations. Less than 3 month liabilities are those that are due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment, and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous periods.

31 December 2018	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Financial liabilities to the shareholder	518	-	-	-	518
Customer accounts	118,465	27,212	2,386	-	148,063
Other financial liabilities	1,034	242	5	-	1,281
Total	**120,017**	**27,454**	**2,391**	**-**	**149,862**

31 December 2017	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Financial liabilities to the shareholder	163,308	-	-	-	163,308
Due to banks	54,658	-	-	-	54,658
Customer accounts	173,182	74,579	2,873	-	250,634
Other financial liabilities	20,485	325	5	-	20,815
Total	**411,633**	**74,904**	**2,878**	**-**	**489,415**

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

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
31 December 2018	-	-	-	-	-
31 December 2017	-	641	20	-	**661**

During the year ended 31 December 2018, the Bank cancelled all its loan commitments or other forms of assurances on guarantees, sureties, letters of credit, etc.

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The Bank's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in the amounts due in less than three months in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. Market risk positions are managed and monitored using sensitivity analysis.

Market risk – non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss.

The sensitivity of the statement profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rates for non-trading financial assets and financial liabilities held at 31 December 2018 and 2017. The effect on equity does not differ from the effect on the statement of profit or loss.

	As at 31 December 2018		*As at 31 December 2017*	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Net impact on profit, with simultaneous changes in the yield curve	1,793	(1,793)	3,372	(3,372)
Net impact on profit, with non-simultaneous changes in the yield curve	2,911	(2,911)	6,587	(6,587)

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board sets limits on positions by currency based on the NBU regulations. Positions are monitored on a daily basis.

The Bank has established the following limits to minimize its exposure to foreign currency risk:

- Total open currency position;
- Total long open currency position;
- Total short open currency position.

Compliance with the internal limits of the Bank is in line with the currency risk management requirements established by the NBU.

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The Banks's exposure to foreign currency exchange rate risk is presented in the table below:

31 December 2018	*UAH*	*USD USD 1 = UAH 27.688264*	*EUR EUR 1 = UAH 31.714138*	*Other foreign currencies*	*Total*
Non-derivative financial assets					
Cash and cash equivalents	10,408	6,206	9,142	650	26,406
Due from banks	24,595	13,548	-	-	38,143
Loans to customers	59,023	10,038	28	-	69,089
Investments in debt securities	162,706	27,702	-	-	190,408
Other financial assets	859	82	279	-	1,220
Total non-derivative financial assets	**257,591**	**57,576**	**9,449**	**650**	**325,266**
Non-derivative financial liabilities					
Financial liabilities to the shareholder	518	-	-	-	518
Due to banks	-	-	-	-	-
Customer accounts	93,833	42,583	9,287	325	146,028
Other financial liabilities	1,250	22	5	4	1,281
Total non-derivative financial liabilities	**95,601**	**42,605**	**9,292**	**329**	**147,827**
Open balance sheet position	**161,990**	**14,971**	**157**	**321**	

31 December 2017	*UAH*	*USD USD 1 = UAH 28.067223*	*EUR EUR 1 = UAH 33.495424*	*Other foreign currencies*	*Total*
Non-derivative financial assets					
Cash and cash equivalents	35,029	29,746	13,604	897	79,276
Due from banks	47,395	-	-	-	47,395
Loans to customers	262,209	15,866	-	-	278,075
Securities available for sale	338,367	121,235	-	-	459,602
Other financial assets	2,082	52	402	339	2,875
Total non-derivative financial assets	**685,082**	**166,899**	**14,006**	**1,236**	**867,223**
Non-derivative financial liabilities					
Financial liabilities to the shareholder	518	162,790	-	-	163,308
Due to banks	54,562	-	-	-	54,562
Customer accounts	139,747	91,822	14,749	367	246,685
Other financial liabilities	20,553	25	15	222	20,815
Total non-derivative financial liabilities	**215,380**	**254,637**	**14,764**	**589**	**485,370**
Open balance sheet position	**469,702**	**(87,738)**	**(758)**	**647**	
Derivative financial instruments					
Embedded derivatives on foreign currency denominated loans to customers	1,738	-	-	-	1,738
Open position on derivative financial instruments	**1,738**	**-**	**-**	**-**	**1,738**
Open currency position, including derivatives	**471,440**	**(87,738)**	**(758)**	**647**	

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The tables below indicate the currencies to which the Bank had significant exposure as at 31 December 2018 and 2017 on its financial assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement in the currency rate against UAH on the statement of profit or loss, with all other variables held constant. The effect on equity does not differ from the effect on the statement of profit or loss. A negative amount in the table reflects a potential net reduction in the statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Increase in foreign exchange rate, % 2018*	*Effect on profit and equity 2018*	*Increase in foreign exchange rate, % 2017*	*Effect on profit and equity 2017*
USD	10%	1,228	10%	(7,194)
EUR	10%	13	10%	(62)

Currency	*Increase in foreign exchange rate, % 2018*	*Effect on profit and equity 2018*	*Increase in foreign exchange rate, % 2017*	*Effect on profit and equity 2017*
USD	-10%	(1,228)	-10%	7,194
EUR	-10%	(13)	-10%	62

Operating risk

Operating risk is the risk of loss arising from systems failure, human error, fraud, or external events. When controls fail to perform, operating risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operating risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education, and assessment processes, including the use of internal audit.

30. Fair value measurement

Fair value measurement procedures

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The Bank's Risk Management Function, Treasury, and Investment Property and Business Department determine the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale financial assets, unquoted derivatives, investment property and for non-recurring measurement, such as assets held for sale.

External appraisers are involved for valuation of significant assets, such as real property. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained. The Bank decides, after discussions with its external appraiser, which valuation techniques and inputs to use in each case.

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At each reporting date, the Bank analyzes movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Bank, in conjunction with the Bank's external appraisers, also compares every change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. Periodically, the Bank and external appraisers present the valuation results to Internal Audit Function and the Bank's independent (external) auditors. This includes a discussion of major assumptions used in the valuations.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Quoted prices in active market are the most reliable evidences of the fair value and, if available, may be used to adjust the fair value measurements;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;

Level 3 inputs are unobservable inputs for the asset or liability.

Fair value hierarchy

Certain financial assets and financial liabilities, including the Bank's buildings, are measured at fair values as at the end of the reporting period. The following methods are applied to measure the fair values of those assets and liabilities:

The fair values of government debt securities of Ukraine are measured at Levels 1 and 2 of the fair value hierarchy depending on the extent to which the inputs used for fair value measurement are observable and significance of those inputs for the fair value measurement taken as a whole.

Embedded derivatives are measured at Level 3 of the fair value hierarchy using the discounted cash flows. Future cash flows are estimated based on the observable market data, as well as unobservable data. Unobservable data include assumptions regarding future financial performance of an issuer and its risk profile.

Properties in the stage of construction are measured at Level 3 of the fair value hierarchy. The Bank engages independent appraisers to arrive at the fair value of buildings and office premises, with the comparison sales method applied, whereas for items that have no market analogs, income capitalization method is applied. In applying the comparison sales method, prices for market sales of comparable property items located in the nearest vicinity are adjusted with reference to differences in key parameters (such as floor space of the property). A key parameter used in this valuation method is the price of one square meter of the property item.

Buildings and office premises are measured at Level 3 of the fair value hierarchy. The Bank engages independent appraisers to arrive at the fair value of buildings and office premises, with the comparison sales method applied, whereas for items that have no market analogs, income capitalization method is applied. In applying the comparison sales method, prices for market sales of comparable property items located in the nearest vicinity are adjusted with reference to differences in key parameters (such as floor space of the property). A key parameter used in this valuation method is the price of one square meter of the property item.

Other financial instruments

Due to absence of secondary market for due from banks, due to banks, loans to customers, accounts receivable and payable in Ukraine, it is impracticable to obtain a reliable fair value measurement of those instruments.

The carrying amounts of financial assets and liabilities with short maturities are assumed to approximate their fair values. This assumption is applied to demand deposits and current accounts with unspecified maturities.

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Loans to customers are measured at Level 3 of the fair value hierarchy using the discounted cash flows. Future cash flows are estimated based on the observable market data, as well as unobservable data. Unobservable data include assumptions regarding future financial performance of a counterparty and its risk profile.

Due to banks and deposit certificates are measured at Level 2 of the fair value hierarchy using the discounted cash flows. Future cash flows are estimated based on the information for which significant inputs are observable, either directly or indirectly, and estimates use one or several observable quoted prices for common transactions in the markets that are considered to be active.

Customer accounts are measured at Level 3 of the fair value hierarchy using the discounted cash flows. Future cash flows are estimated based on the observable market data, as well as unobservable data. Unobservable data include assumptions regarding future financial performance of a counterparty and its risk profile.

To disclose fair values, the Bank determined categories of its assets and liabilities based on their nature, characteristics, and risks of assets and liabilities, as well as a level of the fair value hierarchy.

The following table summarizes financial instruments measured at fair value by levels of the fair value hierarchy as at 31 December 2018:

	Fair value measurement using:			
	Quoted prices in active markets (Level 1)	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value				
Investments in debt securities	64,736	61,467	-	126,203
Loans to customers	-	-	51,941	51,941
Investment property	-	-	71,517	71,517
Property and equipment (buildings)	-	-	23,463	23,463
Assets for which fair values are disclosed				
Cash and cash equivalents	26,406	-	-	26,406
Investments in debt securities	-	64,205	-	64,205
Due from banks	-	38,143	-	38,143
Loans to customers	-	-	4,921	4,921
Non-current assets held for sale	-	-	16,159	16,159
Liabilities for which fair values are disclosed				
Financial liabilities to the shareholder	-	518	-	518
Customer accounts	-	-	145,712	145,712

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The following table summarizes financial instruments measured at fair value by levels of the fair value hierarchy as at 31 December 2017:

	Fair value measurement using:			
	Quoted prices in active markets (Level 1)	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value				
Financial assets measured at fair value through profit or loss	-	-	1,738	1,738
Securities available for sale	-	459,602	-	459,602
Investment property	-	-	133,181	133,181
Property and equipment (buildings)	-	-	14,524	14,524
Assets for which fair values are disclosed				
Cash and cash equivalents	79,276	-	-	79,276
Due from banks	-	47,395	-	47,395
Loans to customers	-	-	175,960	175,960
Non-current assets held for sale	-	-	34,935	34,935
Liabilities for which fair values are disclosed				
Financial liabilities to the shareholder	-	163,308	-	163,308
Due to banks	-	54,562	-	54,562
Customer accounts	-	-	247,036	247,036

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

	2018		*2017*	
	Carrying amounts	*Fair value*	*Carrying amounts*	*Fair value*
Financial assets				
Cash and cash equivalents	26,406	26,406	79,276	79,276
Due from banks	38,143	38,143	47,395	47,395
Investments in debt securities	64,205	64,205	-	-
Loans to customers	17,148	14,987	278,075	176,963
Financial liabilities				
Due to banks	-	-	(54,562)	(54,562)
Financial liabilities to the shareholder	(518)	(518)	(163,308)	(163,308)
Customer accounts	(146,028)	(145,712)	(246,685)	(247,036)

The fair values of foreign currency denominated loans to individuals cannot be reliably measured, since, due to regulatory restrictions imposed by the National Bank of Ukraine, the market for such financial instruments during the years ended 31 December 2018 and 2017 was not available, and it impracticable to obtain reasonable market information or apply another methodology to measuring such instruments. As at 31 December 2018 and 2017, the carrying value of such loans amounted to UAH 10,066 thousand and UAH 1,003 thousand, respectively.

The following describes methodologies and assumptions used to determine fair values of loans measured at fair value through profit or loss.

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Calculation methodology

To measure the fair values of loans in its portfolio, the Bank uses income approach (future amounts (cash flows or income and expense) are considered from a pool of possible scenarios, and each of them is taken into account, even when a probability of an individual scenario's realization from such a range is remote. Expected credit losses within a scenario analysis are measured on the basis of projected cash flows and are calculated by considering those flows at a discount rate ("market rate"), with reference to the periods (terms) of cash inflows. The Bank discounts cash flows to determine the value of cash flows relating to future periods at a specific point of time.

Inputs for calculations

The Bank uses the following inputs in calculating the fair value of loans measured at fair value through profit or loss:

- Estimated cash flows;
- Discount rate ("market rate");
- Fair value of collateral;
- Probability of scenarios with reference to the Bank's judgment that is based, including, but not limited to, the historical experience of communication with the borrower.

Sensitivity

Sensitivity of loans measured at fair value through profit or loss to external factors reflects the impact of acceptable changes in the fair value of collateral and discount rate on the fair value.

	As at 31 December 2018	
	Value of collateral +10%	**Value of collateral -10%**
Net impact on profit, with change in value of collateral	1,843	(1,843)

	As at 31 December 2018	
	Discount rate +1%	**Discount rate -1%**
Net impact on profit, with change in discount rate	(281)	281

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

Assets the fair values of which approximate their carrying amounts

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

Financial instruments with fixed and variable interest rates

The fair values of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair values of fixed interest bearing deposits and loans are based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt instruments, the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using the rates currently available for debt on similar terms, credit risk, and remaining maturities.

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31. Maturity analysis of financial assets and financial liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 29 for the Bank's contractual undiscounted repayment obligations.

	2018		
	Within one year	*More than one year*	*Total*
Assets			
Cash and cash equivalents	26,406	-	26,406
Due from banks	38,143	-	38,143
Investments in debt securities	153,559	36,849	190,408
Loans to customers	25,805	43,284	69,089
Other financial assets	1,220	-	1,220
Total	**245,133**	**80,133**	**325,266**
Liabilities			
Financial liabilities to the shareholder	518	-	518
Due to banks	-	-	-
Customer accounts	143,862	2,166	146,028
Other financial liabilities	1,276	5	1,281
Total	**145,656**	**2,171**	**147,827**
Net	**99,477**	**77,962**	**177,439**

	2017		
	Within one year	*More than one year*	*Total*
Assets			
Cash and cash equivalents	79,276	-	79,276
Due from banks	47,395	-	47,395
Financial assets measured at fair value through profit or loss	-	1,738	1,738
Loans to customers	60,517	217,558	278,075
Securities available for sale	214,794	244,808	459,602
Other financial assets	2,875	-	2,875
Total	**404,857**	**464,104**	**868,961**
Liabilities			
Financial liabilities to the shareholder	163,308	-	163,308
Due to banks	54,562	-	54,562
Customer accounts	244,337	2,348	246,685
Financial liabilities measured at fair value through profit or loss	-	-	-
Other financial liabilities	20,810	5	20,815
Total	**483,017**	**2,353**	**485,370**
Net	**(78,160)**	**461,751**	**383,591**

The tables above reflect the expected cash flows estimated by the Bank based on the historical information relating to deposit repayment history in previous periods. The tables show maturities based on contractual settlement dates (besides, a pessimistic scenario is considered for repayment of loans, i.e. when a loan payment is overdue, the whole loan is included to "More than One Year" category). However, the Bank expects that most customers will not demand early repayments.

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Management of the Bank's liquidity includes estimation of basic current accounts, i.e. stable customer account balances, determined by using statistical methods in respect of the historical information about fluctuations in the balances of current customer accounts. As at 31 December 2018, minimum balances on current accounts were estimated in the amount of UAH 50,929 thousand, which represented 70% of minimum balances on current accounts for the reporting period (2017: UAH 60,085 thousand).

32. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions, and amounts as transactions between unrelated parties.

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The related party outstanding balances at the year-end and related expense and income for the year were as follows:

	2018				*2017*			
	Shareholders and entities with significant influence over the Bank	*Entities under common control*	*Key management personnel*	*Other related parties*	*Shareholders and entities with significant influence over the Bank*	*Entities under common control*	*Key management personnel*	*Other related parties*
Loans to customers as at 1 January	-	-	5	150,990	-	-	14	150,988
Net decrease/increase in loans to customers during the year	-	-	(5)	(150,990)	-	-	(9)	2
Loans to customers as at 31 December	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**150,990**
Interest income on loans to customers	-	-	1	-	-	-	3	2
Created allowance for loans to customers	-	-	-	-	-	-	-	150,990
Use of allowance for expected credit losses on loans to customers	-	-	-	(150,990)	-	-	(2)	2
Other amounts due as at 1 January	**3**	**-**	**-**	**-**	**6**	**-**	**-**	**-**
Net decrease/increase in other amounts due during the year	-	-	-	-	(3)	-	-	-
Other amounts due as at 31 December	**3**	**-**	**-**	**-**	**3**	**-**	**-**	**-**
Created allowance for other amounts due	1	-	-	-	-	-	-	-
Expenses to create allowances for other amounts due	1	-	-	-	-	-	-	-

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	2018				2017			
	Shareholders and entities with significant influence over the Bank	*Entities under common control*	*Key management personnel*	*Other related parties*	*Shareholders and entities with significant influence over the Bank*	*Entities under common control*	*Key management personnel*	*Other related parties*
Due from banks as at 1 January	-	**454**	-	-	-	9	-	-
Net decrease/(increase) in due from banks during the year	-	(232)	-	-	-	445	-	-
Due from banks as at 31 December	-	**222**	-	-	-	**454**	-	-
Created allowance for due from banks	-	72	-	-	-	-	-	-
Expenses to create allowances for due from banks	-	72	-	-	-	-	-	-
Financial liabilities to the shareholder as at 1 January	163,308	-	-	-	349,081	-	-	-
Net decrease/(increase) in financial liabilities to the shareholder during the year	1,293	-	-	-	466,847	-	-	-
Repayment of financial liabilities to the shareholder	(164,083)	-	-	-	(652,620)			
Financial liabilities to the shareholder as at 31 December	**518**	-	-	-	**163,308**	-	-	-
Customer accounts as at 1 January	75	-	899	-	-	15,034	570	22
Net decrease/(increase) in customer accounts during the year	(44)	-	31	-	75	(15,034)	329	(22)
Customer accounts as at 31 December	**31**	-	**930**	-	**75**	-	**899**	-
Interest expense	-	-	3	-	(191,626)	(1,085)	(32)	(5)
Other maintenance costs	-	-	-	-	-	(5,144)	-	-
Other operating expense	-	-	-	-	-	-	-	-
Fee and commission expense	-	-	-	-	-	(4)	-	-
Fee and commission income	43	1	28	-	36	5	47	2
Other income	-	1	11	-	-	-	7	2

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Remuneration to key management personnel comprised the following:

	2018	*2017*
Payroll and other short-term benefits	17,132	24,655
Social security charges	2,426	2,394
Total remuneration to key management personnel	**19,558**	**27,049**

For the year ended 31 December 2018, no additional termination benefits were paid to the Bank's employees, including due to reductions.

33. Capital adequacy

The Bank's objective in capital management is to ensure coverage of risks inherent in the banking business and protection of deposits, financial stability, and sustainable development. To monitor the regulatory capital adequacy, the Bank uses varied methods and ratios, including the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank.

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders, or issue equity securities. No changes were made in the objectives, policies, and processes from the previous years.

Capital adequacy ratio under the NBU's requirements

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

	2018	*2017*
Basic capital	314,916	670,395
Additional capital	-	-
Total capital	**314,916**	**670,395**
Risk weighted assets	**268,486**	**723,813**
Regulatory capital adequacy ratio	117.29%	92.62%

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Capital adequacy ratio under the 1988 Basel Capital Accord

As at 31 December 2018 and 2017, the Bank's capital adequacy ratio computed in accordance with the Basel Capital Accord 1988, with subsequent amendments, including the amendments to incorporate market risks, was as follows:

	2018	*2017*
Tier 1 capital	350,618	674,113
Tier 2 capital	(1,345)	3,545
Total capital	**349,273**	**677,658**
Risk weighted assets	**249,106**	**586,995**
Tier 1 capital adequacy ratio	140.75%	114.84%
Total capital adequacy ratio	140.21%	115.45%

34. Events after the reporting period

Subsequent to 31 December 2018, the Bank disposed a part of investment property items and non-current assets held for sale for the total amount of UAH 4,171 thousand and received income in the amount of UAH 36 thousand.

Subsequent to 31 December 2018, the Bank identified a range of events (litigation, revoked license) that cast doubt on the ability of the insurer to fulfill its obligation under the insurance contract. As a result, the Bank created a provision for impairment of the prepayment made under the insurance contract in the amount of UAH 48,165 thousand as at 31 December 2018 (Note 17).

Signed and authorized for issue on behalf of the Bank's Management Board:

Bezvushko, Ye. O. — Chairman of the Management Board

Gridina, G. V. — Chief Accountant

22 April 2019