JOINT-STOCK COMPANY

“PRAVEX BANK”

Annual financial statements as at and for the year ended 31 December 2018

Contents

(in thousands of Ukrainian hryvnias)			
Item	**Notes**	**31 December 2018**	**31 December 2017**
1	**2**	**3**	**4**
ASSETS			
Cash and cash equivalents	6	823 213	1 088 693
Loans and advances to banks	7	138 567	142 875
Loans and advances to customers	8	1 219 305	547 792
Investments in securities accounted at amortized cost	9	1 704 806	2 700 812
Investments in securities accounted at fair value through Other Comprehensive Income	10	3	3
Investment property	11	93 293	177 981
Current income tax receivable		1 631	1 631
Property, equipment and intangible assets	12	448 282	466 416
Other assets	13	71 891	98 543
Total assets		**4 500 991**	**5 224 746**
LIABILITIES			
Due to banks	14	185	26
Due to customers	15	2 372 835	2 921 588
Derivative liabilities		-	956
Debt securities issued by the Bank	16	5 573	36 926
Deferred tax liabilities	26	-	7,104
Provisions for liabilities	17	7 345	5 845
Other liabilities	18	110 870	1,217,867
Total liabilities		**2 496 808**	**4 190 312**
EQUITY			
Share capital	19	1 048 726	1 038 007
Share premium	19	4 600 754	3 502 964
(Accumulated deficit)		(3 898 038)	(3 771 287)
Reserves and other funds		1 332	1 332
Revaluation reserves		251 409	263 418
Total equity		**2 004 183**	1 034 434
Total liabilities and equity		**4 500 991**	**5 224 746**

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" **T.O. Kyrychenko**

Chief Accountant
JSC "PRAVEX BANK" **O.V. Naumenko**
DATE: 21 February 2019

Акціонерне товариство "ПРАВЕКС БАНК" Ідентифікаційний код 14360920 Україна м. Київ

		(in thousands of Ukrainian hryvnias)	
Item	**Notes**	**2018**	**2017**
1	**2**	**3**	**4**
Interest income:	22	493 821	291 565
Interest expense	22	(101 256)	(113 388)
Net interest income		**392 565**	**178 177**
Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks	6,7,8	(5 372)	44 162
Net interest income after provisions for impairment of loans and advances to customers, and due from banks		**387 193**	**222 339**
Fee and commission income	23	142 705	207 803
Fee and commission expense	23	(48 172)	(85 718)
Net gain from foreign exchange operations		18 018	17 676
Net (loss) arising from foreign currency translation		(4 948)	(4 540)
Net (losses) from investment property revaluation	11	(54 586)	8 370
Gains/(losses) from initial recognition of financial assets at interest rates higher or lower than market rates		26	(2607)
Gains from initial recognition of financial liabilities at interest rate higher or lower than market rates		21	1 047
Net increase in provisions for impairment of other assets	13	(1 163)	(31)
Gains on liabilities derecognition		3	0
Net decrease in provisions for liabilities	17	(1 569)	4 763
Other operating income	24	47 664	95 721
Employee benefit expenses		(227 306)	(206 654)
Depreciation and amortization		(73 190)	(66 442)
Other administrative and operating expenses	25	(332 370)	(303 418)
Loss before tax		**(147 674)**	**(111 691)**
Income tax benefit	26	10 347	1 495
Loss from continuing operations		**(137 327)**	**(110 196)**
OTHER COMPREHENSIVE INCOME:			
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Changes in gains arising from property revaluation	20	19 053	19 250
Changes in gains less losses arising from revaluation of transactions with shareholders		256	351
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	20	(3 256)	(2 696)
ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS			
Changes in gains less losses arising from revaluation of securities	20	-	73
Income tax related to items of other comprehensive income that will be reclassified to profit or loss	20	-	(13)
Other comprehensive income/(loss) after tax		**16 053**	**16 965**
Total comprehensive loss for the period		**(121 274)**	**(93 231)**
Loss attributable to shareholders		**(137 327)**	**(110 196)**
Total comprehensive loss attributable to shareholders		(121 274)	(93 231)
Loss per share from continuing operations:			
Basic loss per ordinary share	27	(0.08)	(0.07)
Diluted loss per ordinary share	27	(0.08)	(0.07)
Loss per share attributable to shareholders:			
Basic loss per ordinary share for the period	27	(0.08)	(0.07)
Diluted loss per ordinary share for the period	27	(0.08)	(0.07)

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JSC "PRAVEX BANK" **T.O. Kyrychenko**
Chief Accountant **O.V. Naumenko**
JSC "PRAVEX BANK"

DATE: 21 February 2019

Акціонерне товариство ПРАВЕКС БАНК Ідентифікаційний код 14360920 Україна м. Київ

(in thousands of Ukrainian hryvnias)

Item	Notes	2018	2017
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received		407 392	274 557
Interest expenses paid		(103 715)	(118 188)
Interest income received		142 705	209 543
Fee and commission expenses paid		(48 199)	(85 754)
Gains less losses from dealing in foreign currencies		18 018	17 676
Other operating income received		6 530	66 778
Personnel costs		(229 067)	(206 618)
Administrative and other operating expenses paid		(332 370)	(301 850)
Cash used in operating activities before changes in operating assets and liabilities		**(138 706)**	**(143 856)**
Net decrease in mandatory reserves with the National Bank of Ukraine		-	70 171
Net increase in loans and advances to customers		2 274	(136 931)
Net (increase) decrease in loans and advances to customers		(670 350)	440 722
Net (increase) decrease in other financial assets		21 550	(17 199)
Net decrease in due to banks		(536)	(41 753)
Net decrease in due to customers		(537 647)	(124 221)
Net decrease in debt securities issued by the Bank		(31 305)	(46 426)
Net increase/(decrease) in other financial liabilities		(3 576)	1 078 028
Net cash flows (used in)/ from operating activities		**(1 358 296)**	**1 078 535**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of securities		(99 279 842)	(56 895 141)
Proceeds from sale of investments in securities		100 362 818	55 916 000
Purchase of property and equipment		(35 381)	(28 280)
Proceeds from sale of investment properties		50 779	10 136
Proceeds from disposal of property, equipment and intangible assets		70 165	46 692
Purchase of intangible assets		(43 713)	(21 233)
Net cash flows from investing activities		**1 124 826**	**(971 826)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of ordinary shares		-	-
Net cash flows from financing activities		-	-
Net cash flows from investment activities			**(971 826)**
Net (decrease) increase in cash and cash equivalents		**(233 470)**	**106 709**
Effect of changes in NBU exchange rates on cash and cash equivalents		**(32 010)**	**64 293**
Cash and cash equivalents at the beginning of the year	6	**1 088 693**	**917 691**
Cash and cash equivalents at the end of the period	6	**823 213**	**1 088 693**

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(in thousands of Ukrainian hryvnias)

Item	Attributable to the shareholders						Total equity
	share capital	share premium and other additional capital	reserves and other finds	revaluation reserves	retained earnings	total	
1	2	3	4	5	6	7	8
Balance at 1 January 2017	**1 038 007**	**3 502 964**	**1 332**	**267 585**	**(3 682 223)**	**1 127 665**	**1 127 665**
Total comprehensive income	-	-	-	**(4 167)**	**(89 064)**	**(93 231)**	**(93 231)**
(loss) for 31 December 2018	-	-	-	-	(110 196)	**(110 196)**	**(110 196)**
other comprehensive income	-	-	-	(4 167)	21 132	**16 965**	**16 965**
Amortisation of property and equipment revaluation reserve or realised revaluation surplus	-	-	-	(4 292)	20 860	**16 568**	**16 568**
Amortisation of securities revaluation reserve	-	-	-	60	-	**60**	**60**
Operations with shareholders	-	-	-	65	272	**337**	**337**
Closing balance as at 31 December 2017	**1 038 007**	**3 502 964**	**1 332**	**263 418**	**(3 771 287)**	**1 034 434**	**1 034 434**
Changes due to IFRS 9 implementation	-	-	-	(60)	(14 678)	**(14 738)**	**(14 738)**
Changes in accounting policies	-	-	-	-	(2 748)	(2 748)	(2 748)
Adjusted comprehensive income as at 1 January 2018	**1 038 007**	**3 502 964**	**1 332**	**263 358**	**(3 788 713)**	**1 016 948**	**1 016 948**
Total comprehensive income	-	-	-	**(11 949)**	**(109 325)**	**(121 274)**	**(121 274)**
(loss) for 31 December 2018	-	-	-		(137 327)	**(137 327)**	**(137 327)**
other comprehensive income	-	-	-	(11 949)	28 002	**16 053**	**16 053**
Amortisation of property revaluation reserve or result	-	-	-	(11 906)	27 693	**15 787**	**15 787**
Transactions with shareholders	-	-	-	(43)	309	**266**	**266**

(in thousands of Ukrainian hryvnias)

Item	Attributable to the shareholders						Total equity
	share capital	share premium and other additional capital	reserves and other finds	revaluation reserves	retained earnings	total	
1	2	3	4	5	6	7	8
Issue of shares:	-	-	-				
nominal value	10 719	-	-	-	-	**10 719**	**10 719**
share premium	-	1 097 790	-	-	-	**1 097 790**	**1 097 790**
Closing balance as at 31 December 2018	**1 048 726**	**4 600 754**	**1 332**	**251 409**	**(3 898 038)**	**2 004 183**	**2 004 183**

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Chief Accountant
JSC "PRAVEX BANK" **O.V. Naumenko**

DATE: 21 February 2019

Note 1. Background

Full name of the Bank	Joint-Stock Company "PRAVEX BANK"
Short name of the Bank	JSC "PRAVEX BANK"
Location	9/2 Klovsky Uzviz, Kyiv 01021, Ukraine
Country of registration	Ukraine
Form of ownership	Joint-Stock Company
Name and location of the parent company	Intesa Sanpaolo S.p.A. (Intesa Sanpaolo S.p.A.) 10121 ItaliaTorino, 156 Piazza San Carlo, 156
Management shareholding	0%
Foreign investor shareholding	INTESA SANPAOLO S.p.A. (Italy) owns 100% of the Bank's share capital
Reporting period	From 1 January to 31 December 2018
Reporting currency and measurement unit	Thousands of Ukrainian hryvnias

The strategic goal of activity and development of JSC "PRAVEX BANK" (hereinafter – "the Bank") is to create a universal bank providing a full range of bank services to legal entities and individuals.

The operation within the framework of limited macroeconomic scenario on the background of frozen military conflict in the East of Ukraine, unstable economic situation, inflation and devaluation risks and varying intentions of the financial markets players hampered implementation of the Bank's strategy in year ended 2018 and had an adverse impact on its financial results.

The above factors forced the Bank to focus on the solvency issues and its reliability, giving the highest priority to:

- liquidity management and foreign exchange risks;
- additional effort in dealing with problem loans;
- reorganisation and renovation of the branches after re-branding;
- strengthening its corporate and retail segments, particularly in the lending business;
- strengthening the Bank's position both in the corporate and retail segments, particularly by attraction of new clients and enhancing the service quality.

In accordance with the above key priorities, the Bank took the following actions:

- increased its capital by attracting contributions from shareholders;
- invested available funds in NBU deposit certificates and bonds issued by Ministry of Finance of Ukraine to avoid liquidity risks and ensure risk-free interest income,
- lent to legal entities targeting the customers with stable financial position and high reputation on the market;
- resumed retail lending with tight control over credit risk, including relaunch of car loans and credit cards lending;
- took active steps to improve efficiency of the network;
- continued work aimed at realization/sales of the pledged properties (previously foreclosed by the Bank) and the premises of its branches.

Effective 28 March 2018, Public Joint-Stock Company "Commercial Bank "PRAVEX BANK" (short name – PJSC "PRAVEX BANK") was renamed to Joint-Stock Company "PRAVEX BANK" (short name - JSC "PRAVEX BANK").

JSC "PRAVEX BANK" is a legal successor of Public Joint-Stock Company "Commercial Bank "PRAVEX BANK".

The above changes in the corporate name were entered into the Unified State Register of Legal Entities, Private Entrepreneurs in accordance with applicable regulations.
The Bank's location, corporate ID and bank details have remained unchanged.

Note 2. Economic environment of the Bank

The Bank's operations are located in Ukraine. The political and economic situation in Ukraine has been subject to significant turbulence in recent years and demonstrates characteristics of an emerging market. Consequently, operations in the country involve risks that do not typically exist in other markets.

An armed conflict in certain parts of Lugansk and Donetsk regions, which started in spring 2014, has not been resolved and part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory. Various events in March 2014 led to the accession of the Republic of Crimea to the Russian Federation, which was not recognised by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation.

Ukraine's economic situation deteriorated significantly in 2014-2016 as a result of the fall in trade with the Russian Federation and military tensions in Eastern Ukraine. Although instability continued throughout 2017-2018, Ukrainian economy continued to show signs of recovery with inflation rate slowing down, lower depreciation of hryvnia against major foreign currencies, growing international reserves of the National Bank of Ukraine (the "NBU") and general revival in business activity.

During 2016-2018, the NBU made certain steps to provide a relief to the currency control restrictions introduced in 2014–2015. In particular, the required share of foreign currency proceeds subject to mandatory sale on the interbank market was gradually decreased, while the settlement period for export-import transactions in foreign currency was increased. Also, the NBU allowed Ukrainian companies to pay dividends abroad with a certain monthly limitation. In February 2019, a new law on currency and currency transactions comes into force. The new law abolishes a number of restrictions, defines new principles of currency operations, currency regulation and supervision, and results in significant liberalisation of foreign currency transactions and capital movements.

The banking system remains fragile due to low level of capital and weak asset quality and the Ukrainian companies and banks continue to suffer from the lack of funding from domestic and international financial markets.

The International Monetary Fund (the "IMF") continued to support the Ukrainian government under the four-year Extended Fund Facility (the "EFF") Program approved in March 2015. In October 2018 the government of Ukraine reached an agreement with the IMF on a new fourteen-months Stand-By program, which will replace the existing EFF program. Other international financial institutions have also provided significant technical support in recent years to help Ukraine restructure its external debt and launch various reforms (including anticorruption, corporate law, and gradual liberalization of the energy sector).

In December 2018, Moody's upgraded Ukraine's credit rating to Caa1, with a stable outlook, reflecting the reaching of an agreement on further cooperation with the IMF, positive expectations regarding certain reforms and improved foreign affairs. Further stabilization of economic and political environment depends on the continued implementation of structural reforms and other factors.

Whilst management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Bank's results and financial position in a manner not currently determinable.

These financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

Note 3. Basis of preparation

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter – 'IFRSs'), requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation, and effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market.

During 12 months ended 31 December 2018 and in the preparation of these financial statements, the Bank consistently applied significant accounting policies set out below.

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Transactions are recorded in the underlying transaction currency. Assets and liabilities, income and expenses from transactions with foreign currencies are reflected in UAH equivalent at the official NBU exchange rate for foreign currencies at the date of recognition. The functional currency of these financial statements is the Ukrainian hryvnia (UAH). The financial statements are presented in thousands of Ukrainian hryvnias, unless otherwise indicated.

Reclassifications

The Bank reclassified certain items to ensure conformance of the presentation with the requirements of the Instruction on the procedure for preparation of financial statements by the Ukrainian banks and making them public approved by the Resolution of the NBU Board No 373 of 24 October 2011, as amended. These reclassifications had an impact on the structure of the Bank's assets, liabilities and equity, as well as income and expenses, necessitating further reclassification of certain transactions disclosed in the statement of financial position and statement of profit or loss and other comprehensive income. This did not have an impact on the results of the Bank's operations for 2017.

The effect of these reclassifications as at and for the period ended 31 December 2017 is summarised below:

			(in thousands of Ukrainian hryvnias)
Reclassification	**Amount of reclassification for 2017**	**Line in the statement of financial position or statement of profit or loss and other comprehensive income (as currently reported)**	**Line in the statement of financial position or statement of profit or loss and other comprehensive income (as previously reported)**
Other financial assets included in Other assets in the statement of financial position	98,543	Other assets	Other financial assets
Other financial liabilities included in Other liabilities in the statement of financial position	1,217,867	Other liabilities	Other financial liabilities
Due from banks are included in Loans and advances to banks in the statement of financial position	291,082	Loans and advances to banks	Due from banks
Employee benefit expenses are presented separately in the statement of profit or loss and other comprehensive income	(52,767)	Employee benefit expenses	Administrative and other operating expenses
Depreciation and amortisation is presented separately in the statement of profit or loss and other comprehensive income	(16,719)	Depreciation and amortization	Administrative and other operating expenses

New Standards

The Bank applied IFRS 9 Financial Instruments from 1 January 2018.
The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.
The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The Bank's accounting policies on IFRS 9 application are set out in Note 4.

Based on the SPPI-test and business model analysis, it was determined that:

- the loans recognised in the financial statements as at 31 December 2017 reflect the business model in which they are held to collect, and will be hereafter recognised at amortised cost;
- securities which were presented in the Financial Statements as at and for the year ended 31 December 2017 as available for sale, relate to the held to collect business model and will be recognized at amortized cost (after issuing the Bank's statements for 1-3 quarters 2018 a decision was taken on reclassification of securities with book value of UAH 2 700 812 thousand as at 1 January 2018 from the category of held to collect and sale and measurement at fair value with revaluation in other comprehensive income to the category of held to collect and measurement at amortized cost).

Calculation of loan provisions was performed in accordance with International Financial Reporting Standard IFRS 9.

Table 1 contains information on the amounts of provisions under IAS 39 and IFRS 9, changes in classification of the Bank's loan portfolio and amounts of loan provisions as at 31 December 2017 (in thousands of Ukrainian hryvnias)

									(in thousands of Ukrainian hryvnias)
IFRS 9				**IAS 39**				**Difference**	
Impairment stage	**Gross**	**Provisions**			**Gross**	**Provisions**		**Gross**	**Provisions**
Cash and cash equivalents (note 6)	**718,660**	**58**		**Cash and cash equivalents (note 6)**	**718,660**	**1**		**-**	**57**
Impairment Stage 1	718,660	58		Performing loans	718,659			-	57
Impairment stage 3 (doubtful debt)	-	-		Doubtful debt	1	1		-	(1)
Loans and advances to banks (note 7)	**142,875**	**92**		**Loans and advances to banks (note 7)**	**142,875**	**-**		**-**	**92**
Impairment Stage 1	142,875	92		Performing loans	-	-		-	-
Loans and advances to customers (note 8)	**562,408**	**29,309**		**Loans and advances to customers (note 8)**	**562,408**	**14,616**		**-**	**14,693**
Impairment Stage 1	523,132	11,059		Performing loans	554,678	8,502		(31,546)	2,557
Impairment Stage 2	31,765	12,067		Performing loans	-	-		31,765	12,067
Impairment stage 3 (Overdue loans)	110	50		Overdue loans	329	265		(219)	(215)
Impairment stage 3 (Low repayment probability)	2,388	1,379		Debt with low repayment probability	2,387	1,299		1	80
Impairment stage 3 (doubtful debt)	5,013	4,574		Doubtful debt	5,014	4,550		(1)	204
Investments in securities at amortized cost (note 9)	**2,700,739**	-		**Investments in securities kept for sale (note 9)**	**2,700,812**	-		73	-
Impairment Stage 1	**2,700,739**	-		Performing loans	2,700,812	-		73	-
Provisions for liabilities (note 14)	**212,493**	**414**		**Provisions for liabilities (note 14)**	**212,493**	**370**		**-**	**44**
Impairment Stage 1	212,484	413		Performing loans	212,493	370		-	43
Impairment stage 3 (Low repayment probability)	9	1		Debt with low repayment probability	-	-		-	1
Total	**4,337,251**	**29,873**		**Total**	**4,337,251**	**14,987**		**73-**	**14,886**

Based on the calculation for estimated credit losses stated above, the opening balances as at 31 December 2017 were adjusted for prior year results in accordance with IFRS 9 by UAH 14,679 thousand. The data in Notes 6.2, 7.2, 8.2, 14.1 and 26 is presented taking into account the adjustments of the opening balances under IFRS 9.

Note 4. Accounting policies of JSC "PRAVEX BANK" for year ended 31 December 2018

4.1. Basis of measurement

The Bank's accounting policies are based on the underlying accounting principles under which the financial statements are prepared: completeness, substance over form, standalone basis, prudence, going concern, accrual and matching of income and expenses, consistency (consistent application by the bank of selected accounting policies) and the single monetary unit.

Information on criteria for the recognition and measurement of assets and liabilities and income and expenses is set out in the following sections of this note.

4.2. Use of accounting estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that may significantly affect the amounts in the statement of financial position and in the statement of profit or loss and other comprehensive income, as well as the amounts of assets and liabilities in the financial statements. The estimates are based on the available information and subjective judgements, often based on historical experience, that are used to formulate reasonable assumptions when assessing results of operations. Taking into account their nature, estimates and assumptions used, can be changed from year to year, and, therefore, the amounts presented in the financial statements may significantly differ in the future financial years as a result of change in the subjective estimates.

Management should make its subjective estimates regarding the following:

- assessment of expected losses of loans and, generally, other financial assets;
- estimates and assumptions with regard to realisation of deferred tax assets.

The Bank recognises allowance for expected credit losses (ECL) on such financial instruments that are not measured at fair value through profit or loss (FVTPL):

- financial assets that are debt instruments;
- accounts receivable;
- financial guarantee contracts issued;
- loan commitments issued.

The Bank recognises expected credit loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

Exchange rates applied to the translation of assets and liabilities denominated in foreign currencies. The Ukrainian hryvnia is not a convertible currency outside Ukraine. Accordingly, any conversion of UAH amounts to USD should not be construed as a representation that UAH amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate.

In preparation of these financial statements, management applied the NBU official rate for the retranslation of the operations and balances in foreign currencies. The NBU official exchange rates are derived from officially published source. Management believes that application of these rates substantially serves comparability purposes.

4.3. New standards

Effective from 1 January 2018, changes in the Bank's accounting policies occurred as a result of adoption of IFRS 9.

The basic principle of IFRS 9 allows retrospective application of this standard, except for direct guidelines of IFRS 9 regarding certain aspects of transition.

The Bank takes advantage of the exemption allowing it not to restate comparative figures for prior periods with respect to classification and measurement (including impairment) changes. Differences between the present and carrying amounts of instruments resulting from the adoption of IFRS 9 were recognised in retained earnings and equity reserves as at 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

The Bank has applied IFRS 15 at 1 January 2018. Implementation of IFRS 15 "Revenue from Contracts with Customers" did not have a significant impact on the financial statements.

Due to the changes in accounting policies and the revised accounting treatment for property and equipment, low value non-current assets, low-value short-term items and intangible assets (hereinafter – PE, LVNCA, LVSTI and IA, respectively) from 1 January 2018, the Bank determined:
Property and equipment represents tangible assets held by the Bank in its ordinary activity, to deliver services, to lease to other persons or to perform administrative function, to the extent that the useful lives of such assets exceed 365 days and their value exceeds UAH 6,000. Depreciation of property and equipment is charged on a straight-line basis.

Other non-current tangible assets - other non-current tangible assets and low-value non-current tangible assets with a useful life of more than 365 days and with the value amounting and not exceeding UAH 6,000.00. Depreciation of low-value non-current tangible assets is charged in the first month of the use of the item in the amount of 100 percent of its value.

The value of tangible assets, whose useful life is less than one year and whose value is less than UAH 6,000.00, is recognised as expenses when acquired with no further accounting.

In accordance with the requirements of IAS 8 Accounting policies, changes in accounting estimates and errors, the above changes in accounting treatment represent the changes in accounting policies that should be recognised retrospectively.

Property and equipment with the historical cost amounting to and not exceeding UAH 6,000 was classified as low value non-current tangible assets. The impact of adjustments is presented in p.10 of Note 12.

Property and equipment with a useful life of more than 365 days and the historical cost amounting to and not exceeding UAH 6,000 was classified as low-value non-current tangible assets.

Low value and short-term items with the historical cost amounting to and not exceeding UAH 6,000 were classified as low-value non-current tangible assets.

The cost of video clips was recognised as advertising expenses.

4.4. Initial recognition of financial instruments

A financial instrument represents any contract causing origination (increase) of a financial asset for one counterparty and financial liability or equity instrument for the other counterparty.

The Bank recognises financial assets and liabilities in accounting records, when the Bank becomes a party to the contractual provisions of the instrument.

A financial asset is classified as measured at amortized cost or at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL) on initial recognition.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. The Bank may reclassify financial assets only if it changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Bank's senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. Accordingly, a change in the Bank's business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when the Bank has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

4.5.1. Business Model assessment

The Bank's approach to classification and measurement of financial assets reflects the business model in which assets are managed and their cash flow characteristics.

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest on the outstanding principle (SPPI criterion), the Bank considers the contractual terms of the instrument. This include assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that could change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and

- features that modify consideration for the time value of money – e.g. periodic revision of interest rates.

A financial asset is measured at amortised cost only if it meets both of the following conditions and is not designated as asset at fair value through profit or loss (FVTPL):

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

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

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

All financial assets not classified as measured at amortised cost or at fair value through other comprehensive income (FVOCI) as described above are measured at FVTPL.

The Bank's financial liabilities include credit related commitments, guarantees, suretyships, letters of credit, bills of acceptance and avals issued to banks, and assets receivable. The Bank classifies and measures financial liabilities:

- at amortised cost;

- at fair value through profit or loss.

The Bank regularly evaluates the business model used by it to manage financial assets for the purpose of generating cash flows. The Bank, at the date of the assessment of the business model, takes into account all objective evidence (factors) that are available on this date.

Transaction costs that are directly attributable to the recognition of a financial instrument, including commissions paid to agents, advisors, brokers, dealers, duties to regulators, stock exchanges, etc., are added to the amount of the discount (premium) for underlying financial instrument. The Bank amortises the amount of the discount/premium during the period of life of a financial instrument (excluding financial instruments at fair value through profit or loss) using the effective interest method on at least monthly basis. The amount of the discount/premium must be fully amortised by the financial instrument maturity date.

4.5.2. Provisions for expected credit losses

The Bank recognizes provision for expected credit losses to the following financial instruments that are not measured at FVTPL:

- financial assets that are measured at amortized cost;
- financial assets measured at fair value with revaluation in other comprehensive income;
- credit liabilities and financial guaranrees;
- financial assets that are debt instruments.

No impairment loss is recognised on equity investments.

Expected credit losses allowance (ECL) should be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. Financial instruments with expected credit losses are called as “Financial instruments of the 1st level”.

Expected credit losses over the life of the instrument are expected losses that arise from all possible defaults throughout the expected life of the financial instrument.

The impairment requirements of IFRS 9 are complex and require the use of judgements and estimates, particularly in respect of:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into measurement of ECLs.

4.5.3. Valuation of expected credit losses

Expected credit losses are identified as a calculated estimation of credit losses weighted on the rate of possibility of default:

- financial assets that are not credit-impaired as at the reporting date: as a current value of all expected shortfalls of cash assets (a difference between cash flows, which belong to the Bank according to an agreement and cash flows expected to be received by the Bank);
- financial assets that are credit-impaired as at the reporting date: a difference between gross balance value of assets and current value of future expected cash flows;
- unused credit line limits: a current value of the difference between cash flows which belong to the Bank according to an agreement, if a holder of liability of providing credits uses the right to receive the credit, and cash flows that are expected to be received by Bank in case of credit’s allowance;
- financial guarantee agreements: current value of expected payments for the agreement holder for compensation of a credit loss excluding amounts which the Bank expects to refund.

4.5.4. Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk stages are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk stages 1 and 2 is smaller than the difference between credit risk stages 2 and 3.

Each exposure is allocated to a credit risk stage on initial recognition based on available information about the borrower. Credit impaired exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk stage.

For the financial assets, that have become credit impaired (recognized in the 3rd stage) after initial recognition, interest income is calculated with implementation of effective interest rate to the amortized value of financial asset. If a financial asset is not credit impaired, a calculation of the interest income is conducted based on the gross balance value.

Significant increase of credit risk

Determining whether there is a significant increase in credit risk of a financial instrument since its initial recognition, the Bank considers reasonable and verifiable information that is relevant and accessible without cost of effort including both quantitative and qualitative information, as well as an analysis based on the historical experience of the Bank, an expert assessment of the quality of credit and forecast information.

Firstly the Bank finds if there has been a significant increase in credit risk for positions exposed to credit risk through the probability of default over the remaining period of financial instrument at the reporting date and the probability of default for the rest of the maturity calculated at that time point and determined at the initial recognition of positions exposed to credit risk.

An assessment of a significant increase in credit risk since the initial recognition of a financial instrument requires the determination of the date of initial recognition of the instrument. For some revolving lending mechanisms such as credit cards and overdraft, the date of entering into contracts may be very old. Changing the contractual terms of a financial instrument, which is discussed below, may also affect this rating.

Determining whether credit risk has increased significantly

The Bank develops a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Bank's internal credit risk management process. The criteria for determining whether credit risk has increased significantly vary by portfolio and include a limitation based on delinquency.

In certain instances, using its expert judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a limitation, and as required by IFRS 9, the Bank presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Loans are written off against provisions when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. The bad debt is recognised, and the debt balance is written off against the provision in the cases described below.

The Bank analyses its receivables on loans and other accounts receivable to identify bad debts at least once a quarter.

The Bank recognises credit and other receivables as bad if they meet at least one or several of the following criteria:

- the limitation period on the debt has expired, and no repayments of the debt were made for a three-year period;
- overdue debt of a deceased person possessing no inheritable property upon which the execution could be levied;

- overdue debt of missing or deceased persons recognised as such by court decision;
- forgiven overdue debt of a retail borrower, unless such individual is the creditor's associate, or if he or she is, or was employed by the creditor;
- overdue debt of a corporate or retail borrower outstanding due to insufficiency of the borrower's property, to the extent that the relevant e the enforcement measures in respect of the borrower's property did not result in payoff of the debt;
- cancellation of the debt collection proceedings as a result of their inefficiency, i.e. when the Bank's related legal expenses may exceed the collectible amount;
- debt uncollectible due to impediments of extraordinary nature (force majeure) as determined by the law, including:
  - extraordinary weather conditions and natural disasters (e.g. hurricane, storm, flood, snow blockage, glaze ice, earthquake, fire, subsidence or landslide), unless such weather conditions and natural disasters are insurance events covered by an insurance policy in respect of the pledged property;
  - extraordinary situations caused by a party other than a party to the relevant agreement (e.g. strike, lockout, declared or undeclared war, threat of war, act of terror, blockade, revolution, conspiracy, uprising, mass unrest, public rallies, illegal acts of third parties, fire or explosion);
  - conditions brought under regulation of relevant executive authorities, as well as those related to clean-up and remediation operations with regard to natural disasters and extraordinary situations;
- debt of business entities that were recognised bankrupt or liquidated in a due course of the law;
- debt outstanding upon completion of the bankruptcy procedure, unless the Bank's expenses have been fully recovered or there is a possibility to collect any other type of security;
- debt outstanding upon decision of the court not in the Bank's favour and/or decision of the Bank to abandon any further claims in respect of the debt;
- debt recognised fraudulent as a result of the line-of-duty investigation.

Bad debt is recognised and written off against the provision at the decision of the Management Board. Once the bad debt is written off against the provision, it is carried on the off-balance sheet accounts during the period specified by Ukrainian law

In particular, the Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining the allowance amount include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected revenues, feasibility of other financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Renegotiated loans

If the currency of the loan has been changed, the original loan is derecognised and the new loan is recognised.

If modification of a financial instrument other than measured at FVTPL does not result in derecognition, the Bank recalculates the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognises any resulting adjustment as a modification gain or loss in profit or loss.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due the next day when the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

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

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

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

Generating the term structure of PD

Credit risk stages are used as a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator will be GDP growth.

The Bank's approach to incorporating forward-looking information into this assessment is discussed below.

4.6. Derecognition of financial instruments

Financial assets are derecognised only when as a result of sale all the risks and rewards related to assets are transferred. On the contrary, if a significant portion of risks and rewards related to sold financial assets are retained, they continue to be recognised as assets even if the ownership for these assets was transferred. Unless the identification of transfer of risks and rewards is practicable, financial assets are derecognised when control over assets is lost. In other case, when control is retained at least partially, the Bank continues to recognise assets within its interest therein, which is measured based on the degree of participation in changes in the value of sold assets and underlying cash flows. Finally, sold financial assets are derecognised, if the entity retains contractual obligations for receiving cash flows from an asset, but simultaneously undertakes to transfer respective cash flows to third parties. The

Bank derecognises a financial liability or its part when its contractual obligations are discharged or cancelled or expire.

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

4.7. Modification of financial assets and liabilities contractual terms

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Bank due to changes in the NBU key rate, if the loan contract entitles the Bank to do so. The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. If the cash flows are substantially different from the original financial asset, then the contractual rights to cash flows are deemed to have expired. In making this evaluation, the Bank analogizes to the guidance on the derecognition of financial liabilities.

The Bank concludes that the modification is substantial as a result of the following qualitative factors:

• change the currency of the financial asset;

• change in collateral or other credit enhancement;

• change in the terms of a financial asset that results in non-compliance with the SPPI criterion.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For loans, for which the borrower's right for early repayment at nominal value with no significant penalties is envisaged, the interest rate adjusted to the market level in response to changes in market conditions is taken into account by the Bank similarly to the accounting treatment of instruments with floating interest rates, i.e., the interest rate is revised prospectively.

As part of credit risk management activities, the Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities'). If the Bank plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the modification takes place. This is likely to result in the remaining contractual cash flows that are still recognised as the original financial asset at the point of modification to be similar to the new modified contractual cash flows. If based on quantitative assessment the Bank concludes that modification of financial assets modified as part of the Bank's forbearance policy is not substantial, the Bank performs qualitative evaluation of whether the modification is substantial.

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Bank applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Bank recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 % different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

4.8. Cash and cash equivalents

The Bank recognises cash on hand, balances on accounts in the National Bank of Ukraine, correspondent accounts, and overnight deposits in other banks within cash and cash equivalents. The Bank does not recognise mandatory reserves in the statement of financial position and statement of cash flows if there are restrictions on their use.

4.9. Loans and advances to customers

Loans are measured by the Bank at amortised cost only if both of the following conditions are met:

1) a financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

2) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Loans are initially recognised on the underlying contract date based on the fair value of the financial instrument that equals to the amount given, including expenses/income that are directly attributable to a single loan and can be determined when originated even if paid at a later date.

Subsequent to initial recognition loans are carried at amortised cost, which equals to the original cost increased/decreased by principal repayments and by amounts of adjustments/repayments and amortisation calculated using the effective interest method of any difference between the initial amount and the amount expected in maturity that, usually, relates to expense/income which directly attributable to the loan.

The effective interest rate is the rate that exactly discounts the estimated future cash flows on a loan, i.e. principal amount and interest, to the amount of the cash disbursed, including expenses/income which relate to the loan. This measurement method is based on the financial approach and allows allocating the economic effect of expenses/income over the remaining period until maturity.

4.10. Securities recognized at fair value through other comprehensive income

The Bank recognizes financial asset at fair value with revaluation in other comprehensive income if the following requirements are met at the same time:

1) a financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

2) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt securities and shares available for sale at FVOCI are initially recognised at the settlement date. Assets are initially recognised at fair value taking into account transaction costs and income directly attributable to the instrument.

Subsequent to the initial recognition, financial assets are carried at fair value. Income and loss from change of fair value are recognised in other comprehensive income up to the moment the financial asset is derecognised or objective indications of impairment are identified. When a financial asset is sold or loss is recognised, accumulated gain or loss is reversed through the statement of profit or loss and other comprehensive income. For determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, pricing models are applied that take into account the current market and contractual prices of the underlying instruments and other factors. Equity instruments included to this category and derivative financial instruments originated based on equity instruments whose fair value may not be determined reliably are recognised at cost. Financial assets available for sale are reviewed to determine whether there is any indication of impairment. If any such indication exists, loss is determined as a difference between the carrying amount of the asset and its fair value. If indications of impairment no longer exist after the event that occurred after recognition of impairment, loans and debt securities are reversed through the statement of profit or loss and other comprehensive income and equity instruments are reversed through other comprehensive income. The reversal shall be recognised only to the extent that the carrying amount of the financial asset does not exceed its amortised cost had no impairment losses been recognised in the prior periods.

4.11. Investments in securities recognised at amortised cost

Recognised only if both of the following conditions are met:
1) a financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows ("repayment model");
2) contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("positive SPPI Test").

4.12. Financial instruments at fair value through profit or loss

All other debt financial assets are measured by the Bank at fair value through profit or loss if such financial assets do not meet the criteria of subsequent measurement at amortised cost or at fair value through other comprehensive income.

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- upon initial recognition, designated as at fair value through profit or loss.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available for sale at fair value through other comprehensive income category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

4.13. Property and equipment

Property and equipment represents tangible assets held by the Bank in its ordinary activity, to deliver services, to lease to other persons or to perform administrative function, to the extent that the useful lives of such assets exceed one year.

Property and equipment are initially recognised at cost including any costs directly attributable to acquisition and bringing the assets to the working condition for their intended use.

Subsequent to initial recognition, the Bank measures the property and equipment items, other than properties of the Bank, using historical cost method.

The assets that after initial recognition are measured at historical cost are not subject to any subsequent revaluations.

The Bank measures its properties applying the revalued cost method. The Bank remeasures any properties carried at revalued cost to the extent that the residual value of such properties differs significantly from its fair value at the balance sheet date. In case any properties are revaluated, the Bank performs revaluation of all other properties as of the same date.

To determine fair values of its properties, the Bank orders their independent expert appraisal as at the balance sheet date. Independent expert appraisal must be carried out by in independent appraiser as at the end of the reporting year.

Subsequent revaluations of a group of property and equipment revalued in previous periods must be carried out with a sufficient frequency to ensure their residual value as at the balance sheet date does not significantly differs from their fair value.

As at 31 October 2018, the Bank’s properties valuation was carried out by independent certified appraiser, LLC “Asset Expertise”. At the moment of valuation, LLC “Asset Expertise” company held the appraiser’s certificate required by the effective legislation of Ukraine and previous experience of valuation of similar properties.

Fair value of investment property items was determined to be equal to the market value net of value added tax. The targets’ market value was appraised applying the comparison approach (method of adjustment of similar property value).

A revaluation increase on buildings is recognised directly in other comprehensive income, except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on buildings is recognised in profit or loss, except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity.

In recognising revaluation surplus, historical (revalued) amount of property and equipment is decreased by accumulated depreciation, and the carrying amount calculated on a net basis is revalued to fair value. Based on this method, revalued amount is equal to fair value and accumulated depreciation amounts to nil.

The costs of improvement of property and equipment are recognised on capital investments accounts.

Useful lives and applicable depreciation rates are reviewed at each year-end. The below table presents useful lives of certain categories of property and equipment for 2018:

Description	Useful lives, years
Buildings and constructions	33.33
Machinery and equipment	4-15
Vehicles	10
Fixtures and fittings (furniture)	4-10
Other property and equipment	2-10

Depreciation is charged on a straight-line basis over the estimated useful lives of individual assets. In 2018, that finished on 31 December 2018, there were no changes in property and equipment depreciation method and useful lives.

All non-current assets (except for land and construction in progress) are subject to depreciation.

Expenditures incurred for operating leasehold improvements are charged over the period starting from the month following the month of completion of improvements and ending in the last month of the lease term, or, if the economic life of a leasehold improvement is shorter than the applicable lease, depreciation is charged over the economic life of the leasehold improvement.

Depreciation is discontinued on the earlier of:

– the date of transfer of the underlying asset to the category non-current assets held-for-sale; and

– the date of derecognition of the underlying asset.

Useful lives and applicable depreciation rates are reviewed at each year-end. During 2018, the Bank neither revised, nor made any changes to useful lives of its property and equipment.

Items of property and equipment are derecognised in case of their disposal as a result of sale, free transfer, liquidation, etc.

4.14. Intangible assets

The Bank classified within intangible assets licenses to use computer software, and acquired computer software.

Acquired intangible assets are measured at cost (historical/actual cost) including the costs incurred to acquire and bring specific items to intended use.

Subsequently, the Bank measures intangible assets at historical cost (cost), less accumulated amortisation and accumulated impairment losses.

Amortisation is charged on a straight-line basis. During 2018, that finished on 31 December 2018, there were no changes in intangible assets’ amortisation method and useful lives. Useful lives and amortisation rates of intangible assets are revised at each year-end and when such revisions are supported by relevant reasonable feasibility studies.

Useful lives of intangible assets and the monthly rates of amortisation of main categories of the intangible assets are specified below:

Description	Useful lives, years
Software packages and solutions	1 - 10
Licenses to use computer programs	1 - 10

Amortisation is charged on a monthly basis applying the rates calculated referring to useful life of each individual intangible asset.

4.15. Operating leases

Operating leases are the lease contracts, under which the Bank does not assume substantially all the risks and rewards of ownership to the leased assets. Operating lease agreements entitle the lessee to make use of the non-current assets during the period not exceeding their useful lives subject to their mandatory return to the lessee as provided in the underlying agreement.

Property and equipment are transferred for operating lease at carrying amounts.

Property and equipment transferred to the Bank for operating lease are carried on the Bank's balance sheet applying the same criteria as those applied to any other property and equipment belonging to the Bank.

The items leased by the Bank represent the property and equipment used to support the Bank's operations and activity.

4.16. Investment property

Investment property is property held either to earn rental income or for capital appreciation, or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value, with changes recognised in profit or loss.

If the use of investment property changes and it is reclassified to property and equipment, fair value of investment property as at the date of reclassification becomes its cost for its subsequent accounting.

As at 31 October 2018, the Bank's investment property valuation was carried out by independent certified appraiser, LLC "Asset Expertise". At the moment of valuation, LLC "Asset Expertise" company held the appraiser's certificate required by the effective legislation of Ukraine and previous experience of valuation of similar properties.

4.17. Non-current assets held-for-sale

The Bank recognises non-current assets as held-for-sale, where their carrying amount is recoverable via their sale, rather than as a result of on-going use.

Non-current assets are designated as held-for-sale subject to their compliance with the following conditions as of the date of their designation: their current condition allows their immediate sale and it is highly probable that they may be sold.

Non-current assets held-for-sale are measured and accounted for at the lower of carrying amount and fair value.

Non-current assets held-for-sale are not depreciated.

4.18. Derivative financial instruments

A derivative is a financial instrument meeting the following three criteria:

(a) its value fluctuates in line with changes in effective interest rate, price of financial instrument, consumer goods price, foreign exchange rate, prices or interest rates index, credit or solvency rating or any other similar variable indicator; and

(b) it does not require initial net investments or requires initial net investments that are lower than those that would be required by other types of contracts similarly responding to changes in market condition; and

(c) it is settled on a future date.

All derivative financial instruments are initially measured and recognised at fair value. Transaction costs are recognised in expenses during their initial recognition. Transaction costs do not include any premiums or discounts stipulated under forward contracts or options.

On each balance sheet date following their initial recognition, derivative financial instruments are measured at fair value net of any transaction costs.

Financial instruments traded on stock exchanges are remeasured by the Bank based on results of each trading day (trading session) to the values equal to their quoted (settlement) prices.

Where the quotations of derivative financial instruments on active market are not available, the Bank determines their fair values using the following methods:

- by reference to a market price of another similar instrument;
- discounted cash flows analysis;
- other methods that ensure reliable measurement of fair values of derivative financial instruments.

4.19. Borrowed funds

The Bank mostly designates its own bonds to the borrowed funds category. The Bank may realise the bonds at nominal value at a discount or premium.

The Bank accrues interest and carries out amortisation of discounts (premiums) on own bonds subject to the terms and conditions of their issue at least once a month during the period from the date of placement through the date of redemption of underlying securities.

The amount of amortisation of discount (premium) for the reporting period is assessed using the effective interest method. The amount of amortisation of discount/premium on transactions with own debt securities results in higher/lower interest expenses.

The Bank can redeem own bonds both on and in advance of their maturities (if such option is stipulated by the terms and conditions of the issue). The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. In case of early redemption of a security, the Bank amortises respective part of the discount (premium) through the date of redemption.

4.20. Provisions

The Bank records provisions for liabilities and contingent liabilities.

Provisions for contingent liabilities are established to cover probable risks arising as the result of lawsuits claiming reimbursement of losses in favour of third parties. The Bank establishes the provision in the amount required to reimburse all reasonable contingent expenses the Bank may incur under third parties’ lawsuits.

The Bank recognises a provision for liabilities only to the extent all three following conditions are met:

- the Bank has a present (legal or constructive) debt as a result of past events;
- it is probable that an outflow of economic benefits will be required to settle the debt;

- the amount of the debt can be estimated reliably.

4.21. Employee benefits

Under Ukrainian legislation, the Bank withholds amounts payable by the employees to the statutory pension plan based on the earnings of the employees and transfers mandatory contributions to the Pension Fund of Ukraine. Furthermore, under the current statutory pension system requirements, employers are obliged to assess current payments as a percentage of the total current employees' remuneration. The cost for these contributions is recognised in the period when contributions are due and is included in salaries and employee benefits. Upon their retirement, employees receive retirement benefits from the State Pension Fund of Ukraine. The Bank is not a party to any other non-state retirement benefit plans or other material employee benefits plans that would require additional accruals.

The Bank records provisions for unused vacations.

4.22. Income tax

The Bank recognises its current income tax payable as a liability equal to the amount calculated for the reporting period in accordance with the tax effective laws of Ukraine. According to clause 10 sub-clause 4 of Section XX of the Tax Code of Ukraine, in 2018 as at 31 December 2018) and at 31 December 2017) the corporate income tax rate was 18%.

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the statement of financial position date plus and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available, against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and tax liabilities attributable to the same tax and payable within the same period are offset. In years when the amount of respective deductible temporary differences exceeds the amount of taxable temporary differences, respective deferred tax assets are recognised within assets in the statement of financial position under "Deferred tax assets" caption. Otherwise, in years when the amount of taxable temporary differences exceeds the amount of deductible temporary differences, resulting deferred taxes are recognised in the statement of financial position under "Deferred tax liabilities" caption.

When assessing the portion of the unused deferred tax assets and that of outstanding deferred tax liabilities that are believed to be realised in the years after the balance sheet date, the Bank analyses the degree of probability of such realization. In case the expected taxable profit does not fully offset respective taxable temporary differences, realization of which was expected in the period, the Bank recognises impairment of the deferred tax asset.

The recognised impairment loss is recognised in statement of profit or loss and other comprehensive income under "Income tax" caption.

Taxable profit expected in the future period is assessed referring to the business plan prepared by management and considering available feasible tax planning options.

4.23. Share capital and share premium

Share capital is the value of the shares/equity interests in the Bank contributed in cash by the Bank's shareholders in the amount prescribed by the Charter.

Share premium represents the surplus of the funds received from initial offering or sale of the Bank's own shares (other corporate rights) over their nominal value, or the surplus of the nominal value of the shares (other corporate rights) over their redemption value.

4.24. Recognition of income and expenses

Income and expenses are accounted for on an accrual basis, that is, they are recognised in the period to which they are attributable.

Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the reporting date to the extent that the transaction result can be estimated reliably.

Interest income and expenses are recognised using the effective interest rates pro rata the time lapsed and the amount of the underlying asset (liability).

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

• the gross carrying amount of the financial asset; or

• the amortised cost of the financial liability.

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

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

Any differences, arising between the interest income (expense) recognised using the effective interest rate and the income (expense) accrued applying the nominal interest rate on the financial instruments acquired or issued at nominal value (i.e., without any discount or premium), are recognised on the accounts of non-amortised discounts or premiums in correspondence with underlying interest income and expenses.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the fair value of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income and expense presented in the statement of profit or loss and other comprehensive include:

• interest income and interest expense on financial assets and financial liabilities measured at fair value calculated using the effective interest method;

• interest income on debt instruments measured at FVOCI calculated on an effective interest basis;

• the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;

• the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk;

• interest income on non-derivative debt financial instruments measured at FVTPL is presented separately as "other interest income". It is measured using the effective interest method, excluding transaction costs.

Commissions, not included in a loan cost (e.g. commissions for cash payments and withdrawals, etc.), are recognised within commission income.

Dividends on variable-yield securities available-for-sale are recognised as income for the period during their holding.

4.25. Foreign currencies

Items of assets and liabilities, income and expenses arising from dealing in foreign currencies and precious metals are recognised in UAH equivalent at the official NBU foreign currencies and banking metals exchange rates ruling at the transaction dates.

Income and expenses on items denominated in foreign currencies are translated into Ukrainian hryvnias at the NBU exchange rate ruling as at the transaction date. Foreign currency accruals are translated into UAH at the exchange rate ruling at the transaction date.

Assets and liabilities denominated in foreign currencies are recognised in the statement of financial position at the official NBU exchange rate ruling at the reporting date. As at 31 December 2018, the exchange rates of UAH established by NBU were as follows:

Currency	31 December 2018	31 December 2017
USD	27,69	28,07
EUR	31,71	33,50

All monetary items carried on the balance sheet are revaluated each time when the NBU exchange rate is revised and results are recognised within gains less losses from foreign currency translation in the statement of profit or loss and other comprehensive income.

The Bank recognises gains and losses from dealing in foreign currencies as gains/losses from foreign currency purchase, sale and exchange transactions.

4.26. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only to the extent there is a legally enforceable right to offset and there is an intention to realise the asset and settle the liability simultaneously.

4.27. Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. That definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, the Bank uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, the Bank's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements. The fair value measurement framework described in IFRS 13 applies to both initial and subsequent measurement if fair value is required or permitted by other IFRSs.

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

As a result, the Bank adopted a new definition of fair value, as set out below. The change had no significant impact on the measurements of assets and liabilities.

For financial instruments, fair value is determined through the use of quoted prices obtained from active financial market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If the market for the financial instrument is not active, the Bank estimates the fair value by using a valuation technique. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction. The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

The valuation techniques include:

- using market inputs that are indirectly linked to the instrument being measured and are obtained from products with similar risk characteristics;
- using – even only in part – unobservable inputs that are not derived from the market, for which estimates and assumptions made by the assessor are used.

When measuring fair value, the Bank maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Banks measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

Level 1 inputs:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date.

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available. If any Level 1 inputs are available for financial instruments, some of which might be exchanged in multiple active markets the emphasis within Level 1 is on determining both of the following:

(a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and

(b) whether the Banks can enter into a transaction for the asset or liability at the price in that market at the measurement date.

If the Bank holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability will be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the Bank. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

If an asset or a liability measured at fair value has a bid price and an ask price the Bank use bid prices for asset positions and ask prices for liability positions.

Level 2 inputs:

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. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

(a) quoted prices for similar assets or liabilities in active markets.

(b) quoted prices for identical or similar assets or liabilities in markets that are not active.

(c) inputs other than quoted prices that are observable for the asset or liability, for example:

(i) interest rates and yield curves observable at commonly quoted intervals;

(ii) implied volatilities; and

(iii) credit spreads.

(d) market-corroborated inputs.

Adjustments to Level 2 inputs can vary depending on factors specific to the asset or liability. Those factors include the following:

(a) the condition or location of the asset;

(b) the extent to which inputs relate to items that are comparable to the asset or liability; and

(c) the volume or level of activity in the markets within which the inputs are observed.

An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorized within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

Level 3 inputs:

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

This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The choice between the above valuation techniques is not free, but must follow a specific order of priority. Specifically, if quoted prices in active markets are available, as a rule the other valuation approaches cannot be used. IFRS 13 describes three different valuation techniques that may be used to measure fair value (which would be applied for Level 2 and Level 3 hierarchy based on the inputs used in the valuation techniques):

- Market approach: uses prices comparison and other relevant information from market transaction involving identical or similar assets or liabilities.
- Income approach: converts future amounts (e.g. cash flows or income and expenses) to a single current (discounted) amount reflecting current market expectations about those future amounts.
- Cost approach: reflects the amount required currently to replace the service capacity of an asset (frequently) referred to a current replacement cost, which differs from the cost incurred).

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available. In some cases, this will result in more than one technique being used.

Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, any of the following events take place:

(a) new markets develop;

(b) new information becomes available;

(c) information previously used is no longer available;

(d) valuation techniques improve;

(e) market conditions change.

The Bank has formalized Market Risk Management Policy that defines the principles and tools used for the assessment, control and management of fair value, and establish the overall responsibility for measurement of fair value to Risk Management Division that is independent from operational function.

As at 31 October 2018, fair value measurement was applied to land plots and buildings appraised by an independent entity at the end of 2018 applying the comparable sales method or income capitalisation to property and cost approach to certain infrastructure objects or specialised property with limited market information.

4.28. Operating segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance, and for which discrete financial information is available.

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy.

The Bank has no customers generating individually revenues in excess of 10% of its total external revenues.

Substantially all revenues from external customers are generated from services to customers that are Ukrainian residents. Substantially all assets of the Bank are located in Ukraine.

Note 5. New and amended standards

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2018, and are not applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

The following standards are not expected to have a material impact on the Bank's financial statements in the period of initial application.

(a) IFRS 16 Leases

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

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

So far, the most significant impact identified is that the Bank will recognise new assets and liabilities for its operating leases of office buildings. As at 31 December 2018, the Bank had no non-cancellable operating leases.

i. ***Transition***

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

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

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

The Bank plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach.

The Bank performed an assessment of the impact resulting from the application of IFRS 16 at 1 January 2019. The Bank expects that assets and liabilities will be recognised for the amount of UAH 66 million. The impact on equity and statement of profit or loss and other comprehensive income is not expected.

(b) Other standards

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

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.

— Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).

— Transfers of Investment Property (Amendments to IAS 40).

— Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

— IFRIC 22 Foreign Currency Transactions and Advance Consideration.

— IFRIC 23 Uncertainty over Income Tax Treatments.

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31 December 2018**	**31 December 2017**
1	**2**	**3**	**4**
1	Cash on hand	233 507	245 998
2	Provision for cash balances located on temporarily occupied territories	(1 488)	(1 513)
3	Balances with the National Bank of Ukraine	405 812	125 549
4	Correspondent accounts with:	**185 394**	718 660
4.1.	domestic banks	558	3 745
4.2.	foreign banks	184 836	714 915
5	Provisions for cash in correspondent accounts with other banks	(12)	(1)
6	**Total cash and cash equivalents**	**823 213**	**1 088 693**

Line 6 in Table 6.1 corresponds to Cash and cash equivalents in the Statement of financial position.

As at 31 December 2018, the balance on the correspondent account with DEUTSCHE BANK TRUST CO. AMERICAS amounts to UAH 38,924 thousand (2017: Intesa Sanpaolo SpA in amount of UAH 352,232 thousand), representing a significant concentration.

As at 31 December 2018 and 31 December 2017, balances in correspondent accounts were neither overdue.

Table 6.2. Movements in provisions for cash on correspondent accounts with other banks for year ended 2018

			(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Provisions for cash in correspondent accounts with other banks**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	(1)	(1)
2	IFRS 9 Adjustments	(57)	(57)
3	Adjusted balance at the beginning of the year	(58)	(58)
4	Impairment allowance decrease during the year	42	42
5	Foreign exchange differences	4	4
6	**Balance at the end of the period**	**(12)**	**(12)**

Balances on line 4 in Tables 6.2, 7.2 and 8.2 correspond to Net (increase) in provisions for impairment of loans and advances to customers, and due from banks in the statement of profit or loss and other comprehensive income. The difference between the amount shown in Net (increase) in provisions for impairment of loans and advances to customers, and due from banks in the Statement of profit or loss and other comprehensive income, and the amounts in line 4 of Tables 6.2, 7.2 and 8.2 represents the bad debt written off against provision in the prior reporting periods and repaid as at 31 December 2018 (UAH 7,253 thousand) and during 2017 (UAH 84,409 thousand).

Table 6.3. Movements in provisions for cash on correspondent accounts with other banks during 2017

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Provisions for cash in correspondent accounts with other banks	Total
1	2	3	4
1	Balance at the beginning of the period	-	-
2	(Increase) in provision for impairment during the year	(1)	(1)
3	**Balance at the end of the period**	**(1)**	**(1)**

Table 6.4 Credit quality analysis of cash and cash equivalents as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Balances on the correspondent accounts with other banks by impairment stage	Cash	Balances with the National Bank of Ukraine	Total
1	2	3	4	5	6
1	Impairment Stage 1	185 394	232 019	405 812	823 225
1.1.	Not overdue	185 394	232 019	405 812	823 225
2	Impairment Stage 3	-	1 488	-	1 488
2.2.	Overdue more than 90 days	-	1 488	-	1 488
3	Provision for impairment	(12)	(1 488)	-	(1 500)
4	**Total cash and cash equivalents**	**185 382**	**232 019**	**405 812**	**823 213**

Table 6.5 Credit quality analysis of cash and cash equivalents as at 31 December 2017

(in thousands of Ukrainian hryvnias)

Line	Item	Balances on the correspondent accounts with other banks by impairment stage	Cash	Balances with the National Bank of Ukraine	Total
1	2	3	4	5	6
1	Impairment Stage 1	718 660	244 485	125 549	1 088 694
1.1.	Not overdue	718 660	244 485	125 549	1 088 694
2	Impairment Stage 3	-	1 513	-	1 513
2.2.	Overdue more than 90 days	-	1 513	-	1 513
3	Provision for impairment	(1)	(1 513)	-	(1 514)
4	**Total cash and cash equivalents**	**718 659**	**244 485**	**125 549**	**1 088 693**

Note 7. Loans and advances to banks

7.1. Loans and advances to banks

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31 December 2018**	**31 December 2017**
1	**2**	**3**	**4**
1	Loans to banks:	138 572	142 875
1.1	Short-term loans	138 572	142 875
2	Provision for impairment of loans and advances to banks	(5)	-
3	**Total loans and advances to banks, net of provisions**	**138 567**	**142 875**

Line 3 in Table 7.1 corresponds to Loans and advances to banks in the statement of financial position. Line 1 "Loans to banks" includes accrued income in the amount of UAH 125 thousand (2017: UAH 593 thousand). As at 31 December 2018, loans were issued to Intesa Sanpaolo S.p.A. in the amount of UAH 138,572 thousand (2017: UAH 112 269 thousand), representing a significant concentration.

Table 7.2 Movements in provisions for impairment of loans and advances to banks during year ended 2018

			(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Provision for loans to other banks**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the period	-	-
2	IFRS 9 Adjustments	(92)	(92)
3	Adjusted Balance at the beginning of the period	(92)	(92)
4	Decrease in provision for impairment during the year	87	87
5	Balance at the end of the period	**(5)**	**(5)**

Balances on line 2 in Tables 6.2, 7.2 and 8.2 correspond to Net (increase) in provisions for impairment of loans and advances to customers, and due from banks in the statement of profit or loss and other comprehensive income. The difference between the amount shown in Net (increase) in provisions for impairment of loans and advances to customers, and due from banks in the Statement of profit or loss and other comprehensive income, and the amounts in line 4 of Tables 6.2, 7.2 and 8.2 represents the bad debt written off against provision in the prior reporting periods and repaid as at 31 December 2018 (UAH 7,253 thousand) and during 2017 (UAH 84,409 thousand).

Table 7.3 Credit quality analysis of loans and advances to banks as at 31 December 2018

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Loans**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1	**138 572**	**138 572**
1.1.	Not overdue	138 572	138 572
2	Provision for impairment of loans and advances to banks	(5)	(5)
3	**Total due from banks, net of provisions**	**138 567**	**138 567**

Note 8. Loans and advances to customers

Table 8.1. Loans and advances to customers

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31 December 2018**	**31 December 2017**
1	**2**	**3**	**4**
1	Loans to corporate entities	1 073 455	355 716
2	Retail mortgage loans	119 370	149 194
3	Retail consumer loans	82 333	57 005
4	Other retail loans	62	493
5	Provision for impairment of loans	(55 915)	(14 616)
6	**Total loans less provisions**	**1 219 305**	**547 792**

Line 6 in Table 8.1 corresponds to Loans and advances to customers in the statement of financial position. Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2018 would be UAH 10,210 thousand lower/higher (31 December 2017: UAH 5,478 thousand). Data of Article 6 Table 8.1 discloses information about loans recognized at amortised cost. There are no Loans and advances to customers that are valued through profit or loss.

Concentration of loans to customers

The Bank believes that potential concentration risk per customer may arise when at least 10% of net loan portfolio is attributable to a limited number of customers. As at 31 December 2018 and 31 December 2017, loans to 1 customer account for 33% i 12%, respectively (UAH 401,495 thousand and UAH 68,156 thousand, respectively).

Table 8.2. Movements in provisions for loan impairment during year ended 2018

						(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Loans to corporate customers**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Balance at the beginning of the year	(5 336)	(8 269)	(998)	(13)	(14 616)
2	IFRS 9 Adjustments	3 406	(9 888)	(8 190)	(21)	(14 693)
3	Adjusted Balance at the beginning of the year	(1 930)	(18 157)	(9 188)	(34)	(29 309)
2	(Increase)/ decrease in provision for impairment during the period	(43 287)	25 995	4 504	34	(12 754)
3	Bad debts written off against provisions	-	303	109	-	412
4	Recovery of loans written off against provisions in prior periods	-	(14 590)	-	-	(14 590)
5	Interest accrued on impaired loans	-	(132)	4	-	(128)
6	Foreign exchange differences	211	243	-	-	454
7	**Balance at the end of the period**	**(45 006)**	**(6 338)**	**(4 571)**	**-**	**(55 915)**

Balances on line 2 in Tables 6.2, 7.2 and 8.2 correspond to Net (increase) in provisions for impairment of loans and advances to customers, and due from banks in the statement of profit or loss and other comprehensive income. The difference between the amount shown in Net (increase) in provisions for impairment of loans and advances to customers, and due from banks in the statement of profit or loss and other comprehensive income, and the amounts in lines 4 of Tables 6.2, 7.2 and 8.2 represents the bad debt written off against provision in the prior reporting periods and repaid as at 31 December 2018 in the amount of UAH 7,253 thousand (2017: UAH 84,409 thousand).

As at 31 December 2018 expected credit losses allowance for loans mainly consists of provision for stage 3 in the amount of UAH 40,201 thousand.

Table 8.3. Movements in provisions for loan impairment during 2017

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Balance at the beginning of the period	(72,018)	(31)	(766,368)	(1,029,342)	(22,838)	(1,890,597)
2	(Increase)/ decrease in provision for impairment during the period	(2,718)	31	(20,099)	(34,645)	(288)	(57,719)
3	Bad debt written off against provision and/or derecognised	67,666	-	774,293	1,057,253	22,730	1,921,942
4	Interest accrued on impaired loans	675	-	-	1,657	383	2,715
5	Foreign exchange differences	1,059	-	3,905	4,079	-	9,043
6	**Balance at the end of the period**	**(5,336)**	**-**	**(8,269)**	**(998)**	**(13)**	**(14,616)**

Table 8.4. Loans by economic sector

(in thousands of Ukrainian hryvnias)

Line	Sector	31 December 2018		31 December 2017	
1	2	3	4	5	6
1	Production and distribution of electric power, natural gas and water	-	0,00%	11 537	2,05%
2	Trade, repair of vehicles, household equipment, and items of personal use	192 943	25,44%	131 906	23,45%
3	Agriculture, hunting, and forestry	228 175	18,39%	64 693	11,50%
4	Processing industry	652 337	36,21%	147 580	26,24%
5	Individuals	201 765	19,96%	206 692	36,76%
6	**Total loans and advances to customers, net of provisions**	**1 275 220**	**100,00%**	**562 408**	**100,00%**

Table 8.5. Loans by type of collateral as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Loans to corporate customers	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7
1	Unsecured loans	415 396	-	5 504	62	420 962
2	Loans secured by:	658 059	119 370	76 829	-	854 258
2.1	cash and cash equivalents	100 476	-	-	-	100 476
2.2	real estate	177 717	119 370	23 931	-	321 018
2.2.1	residential mortgage	-	114 998	723	-	115 721
2.2.2	non-residential mortgage	177 717	4 372	23 208	-	205 297
2.2	Other assets	379 866	-	52 898	-	432 764
2.2.1	equipment	113 850	-	-	-	113 850
2.2.2	goods in turnover	239 250	-	-	-	239 250
2.2.3	vehicles	26 766	-	52 898	-	79 664
3	**Total gross exposure**	**1 073 455**	**119 370**	**82 333**	**62**	**1 275 220**

Table 8.6. Loans by type of collateral in 2017

(in thousands of Ukrainian hryvnias)

Line	Item	Loans to corporate customers	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7
1	Unsecured loans	-	-	274	493	767
2	Loans secured by:	355 716	149 194	56 731	-	561 641
2.1	real estate	173 384	149 194	26 802	-	349 380
2.1.1	non-residential mortgage	173 384	-	24 332	-	197 716
2.1.2	land	-	5 168	172	-	5 340
2.1.2	residential mortgage	-	144 026	2 298	-	146 324
2.2	Other assets	182 332	-	29 929	-	212 261
2.2.1	equipment	95 404	-	-	-	95 404
2.2.2	inventory	86 928	-	-	-	86 928
2.2.3	vehicles	-	-	29 929	-	29 929
3	**Total gross exposure**	**355 716**	**149 194**	**57 005**	**493**	**562 408**

This table presents loans secured with collateral rather than fair value of the collateral.

Table 8.7. Analysis of loan portfolio quality as at 31 December 2018

						(in thousands of Ukrainian hryvnias)
Line	**Item**	**Loans to corporate customers**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Impairment Stage 1	**986 052**	**102 622**	**71 874**	**62**	**1 160 610**
1.1.	Not overdue	986 052	99 757	70 430	62	1 156 301
1.2.	Less than 30 days	-	2 865	1 423	-	4 288
1.3.	31 - 60 days	-	-	21	-	21
2	Impairment Stage 2	**52 226**	**11 092**	**10 208**	**-**	**73 526**
2.1.	Not overdue	52 226	9 074	10 082	-	71 382
2.2.	Less than 30 days	-	945	-	-	945
2.3.	31 - 60 days	-	931	29	-	960
2.4.	61 - 90 days	-	142	97	-	239
3	Impairment Stage 3	35 177	5 655	252	-	41 084
3.1.	Not overdue	35 177	695	-	-	35 872
3.2.	31 - 60 days	-	994	16	-	1 010
3.3.	61 - 90 days	-	63	8	-	71
3.4.	91 - 180 days	-	-	90	-	90
3.5.	181 - 270 days	-	942	44	-	986
3.6.	More than 270 days	-	2 960	95	-	3 055
4	**Gross loans**	**1 073 455**	**119 369**	**82 334**	**62**	**1 275 220**
5	**Provision for impairment**	**(45 006)**	**(6 338)**	**(4 571)**	**-**	**(55 915)**
6	**Total loans less provisions**	**1 028 449**	**113 031**	**77 763**	**62**	**1 219 305**

As at 31 December 2018 and 1 January 2018 the majority of loans provided to corporate borrowers are short-term and granted to borrowers with minimal credit risk according to the Bank's assessment.

Table 8.8. Analysis of loan portfolio quality as at 31 December 2017

						(in thousands of Ukrainian hryvnias)
Line	**Item**	**Loans to corporate customers**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Impairment Stage 1	**355 716**	**122 078**	**44 851**	**487**	**523 132**
1.1.	Not overdue	355 716	116 544	41 806	486	514 552
1.2.	Less than 30 days	-	4 275	2 713	1	6 989
1.3.	31 - 60 days	-	951	332	-	1 283
1.4.	61 - 90 days	-	89	-	-	89
1.5.	91 - 180 days	-	219	-	-	219
2	Impairment Stage 2:	**-**	**20 113**	**11 650**	**2**	**31 765**
2.1.	Not overdue	-	19 006	11 488	-	30 494
2.2.	Less than 30 days	-	462	44	-	506
2.3.	31 - 60 days	-	-	8	1	9

						(in thousands of Ukrainian hryvnias)
Line	**Item**	**Loans to corporate customers**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
2.4.	61 - 90 days	-	645	110	1	756
3	Impairment Stage 3:	**-**	**7 003**	**504**	**4**	**7 511**
3.1.	Not overdue	-	1 599	-	-	1 599
3.2.	Less than 30 days	-	2 183	-	-	2 183
3.3.	31 - 60 days	-	-	19	-	19
3.4.	91 - 180 days	-	-	309	1	310
3.5.	181 - 270 days	-	127	102	1	230
3.6.	More than 270 days	-	3 094	74	2	3 170
4	Gross loans	**355 716**	**149 194**	**57 005**	**493**	**562 408**
5	Provision for impairment	**(5 336)**	**(8 269)**	**(998)**	**(13)**	**(14 616)**
6	**Total loans less provisions**	**350 380**	**140 925**	**56 007**	**480**	**547 792**

8.9. Credit exposure and financial effect of collateral value

Corporate loans
Corporate loans are subject to individual assessment and testing for impairment. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.
Based on management estimates, the expected credit losses allowance without taking into account of collateral would be higher at 31 December 2018 by UAH 3,792 thousand (31 December 2017: UAH 0 thousand).

Retail loans
Based on management estimates, the expected credit losses allowance would be higher at 31 December 2018: UAH 1,548 thousand (31 December 2017: UAH 1,660 thousand) for mortgage loans and at 31 December 2018: UAH 1,663 thousand (31 December 2017: UAH 295 thousand) for other retail loans.
The mass valuation of collateral was performed for real estate (apartments, housing estate, non-residential premises, land plots) and movable property (vehicles) as at 1 July 2018. The valuation was performed by the independent certified appraiser.
The market value was determined based on results of the comparative methodological approach.

Note 9. Investments in securities accounted at amortized cost

Table 9.1 Investments in securities accounted at amortized cost

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31 December 2018**	**31 December 2017**
1	**2**	**3**	**4**
1	Debt securities recognized at amortized cost	1 704 806	2 700 812
1.1	discount government bonds	450 275	308 295
1.2.	certificates of deposit of the National Bank of Ukraine	1 254 531	2 392 517
2	**Total investments in securities recognized at amortized cost less provisions**	**1 704 806**	**2 700 812**

Line 2 in Table 9.1 corresponds to Investments in securities accounted at amortized cost in the statement of financial position.

Debt securities are accounted at amortized cost.

As at 31 December 2018, the Bank purchased discount government bonds as follows:

- UAH 100 thousand due on 06.02.2019;
- UAH 150 thousand due on 27.03.2019;
- UAH 50 thousand due on 02.01.2019 with interest rate 15,5%;
- UAH 100 thousand due on 23.01.2019 with interest rate 20%,
- UAH 20 thousand due on 06.03.2019 with interest rate 15%,
- UAH 14,7 thousand due on 10.04.2019 with interest rate 14%;
- UAH 10 thousand due on 15.05.2019 with interest rate 18%

Table 9.2. Credit quality analysis of debt securities as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	NBU certificates of deposit	Discounted government bonds	Total
1	**2**	**3**	**4**	**5**
1	Impairment Stage 1	1 254 531	450 275	1 704 806
1.1	Not overdue	1 254 531	450 275	1 704 806
1.2	Provision for impairment of securities	-	-	-
2	**Total investments in securities**	**1 254 531**	**450 275**	**1 704 806**

Table 9.3. Credit quality analysis of debt securities as at 31 December 2017

(in thousands of Ukrainian hryvnias)

Line	Item	NBU certificates of deposit	Discounted government bonds	Total
1	**2**	**3**	**4**	**5**
1	Impairment Stage 1	2 392 517	308 295	2 700 812
1.1	Not overdue	2 392 517	308 295	2 700 812
2	Provision for impairment of securities	-	-	-
3	**Total investments in securities accounted at amortized cost**	**2 392 517**	**308 295**	**2 700 812**

Note 10. Investments in securities accounted at fair value through other comprehensive income

Table 10.1. Investments in securities accounted at fair value through other comprehensive income as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	31.12.2018	31.12.2017
1	**2**	**3**	**4**
1	Shares of enterprises and other non-fixed-income securities that are not traded on stock exchanges and are recognised at fair value with revaluation through other comprehensive income	34	34
2	Provision for impairment of securities	(31)	(31)

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31.12.2018**	**31.12.2017**
1	**2**	**3**	**4**
3	**Total investments in securities accounted at fair value through other comprehensive income**	**3**	**3**

Line 3 in Table 10.1 corresponds to Investments in securities accounted at fair value though other comprehensive income in the statement of financial position.

Table 10.2. Movements in provisions for impairment of securities during year ended 2018

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Corporate shares**	**Total**
1	**2**	**3**	**4**
1	Balance as at 1 January 2018	(31)	(31)
2	Increase in provision for impairment during the year	-	-
3	**Closing balance as at 31 December 2018**	**(31)**	**(31)**

Table 10.3. Movements in provisions for impairment of securities during year ended 2017

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Corporate shares**	**Total**
1	**2**	**3**	**4**
1	Balance as at 1 January 2018	(31)	(31)
2	Increase in provision for impairment during the year	-	-
3	**Closing balance as at 31 December 2018**	**(31)**	**(31)**

Table 10.4. Investments in shares and other securities accounted at fair value through other comprehensive income

(in thousands of Ukrainian hryvnias)					
Line	**Company name**	**Activity**	**Country of Incorporation**	**Measured at cost (fair value cannot be reliably measured)**	
				31 December 2018	**31 December 2017**
1	**2**	**3**	**4**	**5**	**6**
1	CJSC Crimean Stock Exchange	Financial market management	Ukraine	11	11
2	CJSC Ukrainian Inter-Bank Currency Exchange	Financial market management	Ukraine	2	2
3	Crimean Inter-Bank Currency Exchange	Financial market management	Ukraine	20	20
4	UCE “UICE Contracting House”	Financial market management	Ukraine	1	1
5	**Total**			**34**	**34**

Note 11. Investment property

Table 11.1. Fair value of investment property

(in thousands of Ukrainian hryvnias)

Line	Item	31 December 2018	31 December 2017
1	**2**	**3**	**4**
1	Fair value of investment property at the beginning of the period	**177 981**	**176 306**
2	Recovery of carrying amount from sale of investment property	(30 102)	(6 670)
3	Losses from sale of investment property	-	(25)
4	Increase/(decrease) in investment property value	(54 586)	8 370
5	**Fair value of investment property at the end of the period**	**93 293**	**177 981**

Line 5 in Table 11.1 corresponds to Investment property in the statement of financial position.

Fair value of investment property items was determined to be equal to the market value net of value added tax. The targets' market value was appraised applying the comparison approach (method of adjustment of similar property value).

Investment property includes collateralized items foreclosed by the Bank. Certain investment property items worth UAH 24,884 thousand as at 31.12.2018 and UAH 60,395 thousand as at 31.12.2017 are subject to immediate sale restrictions due to administrative proceedings. The Bank believes that all restrictions will be lifted.

Table 11.2. Amounts recognised in the Statement of profit or loss and other comprehensive income

(in thousands of Ukrainian hryvnias)

Line	Amount	31 December 2018	31 December 2017
1	**2**	**3**	**4**
1	Gains from disposal of investment property	18 739	3 466

Note 12. Tangible and intangible assets

Line	Item	Land plots	Buildings, constructions and transmission equipment	Machines and equipment	Motor vehicles	Fixtures and fittings (furniture)	Other property and equipment	Other non-current tangible assets	Low value non-current tangible assets	Construction in progress	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
1	**Carrying amount as at 31.12.2016/ 01.01.2017:**	**221**	**283 702**	**26 797**	**2 534**	**835**	**82**	**11**	**-**	**3 529**	**167 925**	**485 636**
1.1	**Historical (revalued) cost**	**221**	**288 336**	**180 692**	**10 848**	**7 903**	**3 558**	**18 574**	**-**	**3 529**	**369 323**	**882 984**
1.2	**Depreciation as at 31.12.2016**	**-**	**(4 634)**	**(153 895)**	**(8 314)**	**(7 068)**	**(3 476)**	**(18 563)**	**-**	**-**	**(201 398)**	**(397 348)**
2	Additions	-	-	-	-	-	-	-	-	49 793	-	49 793
3	Property, equipment and intangible assets put into operation		-	9 385	-	4 523	529	4 819	-	(34 169)	14 913	-
4	Improvements of property, equipment and intangible assets	-	5 651	823	6	-	-	1 635	-	(15 549)	7 434	-
5	Disposals	-	(23 217)	(14 698)	(13)	(1 472)	(1 778)	(2 324)	-	(136)	(137)	(43 775)
6	Disposals (accumulated depreciation)	-	740	14 015	9	1 451	1 749	2 324	-	-	132	20 420
7	Depreciation charge	-	(15 028)	(10 054)	(1 063)	(334)	(38)	(276)	-	-	(39 649)	(66 442)
8	Revaluation	5	20 779	-	-	-	-	-	-	-	-	20 784
8.1	Revaluation of historical cost	5	6 265	-	-	-	-	-	-	-	-	6 270
8.2	Revaluation of depreciation	-	14 514	-	-	-	-	-	-	-	-	14 514
9	**Carrying amount as at 31.12.2017/ 01.01.2018**	**226**	**272 627**	**26 268**	**1 473**	**5 003**	**544**	**6 189**	**-**	**3 468**	**150 618**	**466 416**
9.1	**Historical (revalued) cost**	**226**	**277 035**	**176 202**	**10 841**	**10 954**	**2 308**	**22 703**	**-**	**3 468**	**391 533**	**895 270**
9.2	**Depreciation as at 31.12.2017**	**-**	**(4 408)**	**(149 934)**	**(9 368)**	**(5 951)**	**(1 764)**	**(16 514)**	**-**	**-**	**(240 915)**	**(428 854)**
10	Changes in accounting policies	-	-	(703)	(2)	(1 816)	(226)	-	2 747	-	-	-
10.1	Adjustment of historical cost due to	-	-	(1 018)	(3)	(2 122)	(267)	-	3 410	-	-	-

	changes in accounting policies											
10.2	Adjustment of depreciation due to changes in accounting policies	-	-	315	1	306	41	-	(663)	-	-	-
11	Adjusted carrying amount due to changes in accounting policies as at 01.01.2018	226	272 627	25 565	1 471	3 187	318	6 189	2 747	3 468	150 618	466 416
11.1	Adjusted historical (revalued) cost as at 01.01.2018 due to changes in accounting policies	226	277 035	175 184	10 838	8 832	2 041	22 703	3 410	3 468	391 533	895 270
11.2	Adjusted depreciation as at 01.01.2018 due to changes in accounting policies	-	(4 408)	(149 619)	(9 367)	(5 645)	(1 723)	(16 514)	(663)	-	(240 915)	(428 854)
12	Additions	-	-	-	-	-	-	-	-	66 128	-	66 128
13	Property, equipment and intangible assets put into operation	-	-	7 678	-	2 135	770	6 394	4 561	(37 811)	16 273	-
14	Improvements of property, equipment and intangible assets	-	1 291	675	-	-	-	143	-	(21 021)	18 912	-
15	Disposals	-	(28 303)	(11 745)	(208)	(1 331)	(737)	(9 757)	-	(1 244)	(4 574)	(57 899)
16	**Disposals (accumulated depreciation)**	**-**	**1 055**	**10 249**	**206**	**(374)**	**340**	**9 757**		**-**	**4 460**	**25 693**
17	**Depreciation charge**	**-**	**(15 227)**	**(8 728)**	**(722)**	**787**	**245**	**(3 233)**	**(7 308)**	**-**	**(39 004)**	**(73 190)**
18	**Revaluation**	**2**	**21 341**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21 343**
18.1	Revaluation of historical cost	2	6 796	-	-	-	-	-	-	-	-	6 798
18.2	Revaluation of depreciation	-	14 545	-	-	-	-	-	-	-	-	14 545
19	Reclassified from LVSTI group		-	-	-	-	-	-	1 025	-	-	1 025

20	Depreciation due to reclassification from LVSTI								(1 025)			(1 025)
21	Other	-	-	-	-	-	-	-	-	-	(326)	(326)
22	Other depreciation	-	-	-	-	-	-	-	-	-	117	117
23	**Carrying amount as at 31.12.2018:**	**228**	**252 784**	**23 695**	**747**	**4 404**	**936**	**9 493**	**-**	**9 520**	**146 476**	**448 282**
23.1	**Historical (revalued) cost**	**228**	**256 819**	**171 792**	**10 630**	**9 636**	**2 074**	**19 483**	**8 996**	**9 520**	**421 818**	**910 996**
23.2	**Depreciation as at 31.12.2018**	**-**	**(4 035)**	**(148 098)**	**(9 883)**	**(5 232)**	**(1 138)**	**(9 990)**	**(8 996)**	**-**	**(275 342)**	**(462 713)**

As at 31 December 2018, there are no property and equipment items that are:
- legally restricted for ownership, use, and disposal;
- pledged;
- temporarily not in use (reserve, reconstruction, etc.);
- restricted in terms of ownership;
- withdrawn from use.

As at 31 December 2018, historical (revalued) cost of fully depreciated/amortized property, equipment, intangible assets and other non-current assets amounts to UAH 210,306 thousand. (2017: UAH 204,943 thousand):
- property and equipment - UAH 116,411 thousand (2016: UAH 115,972 thousand)
- intangible assets - UAH 83,723 thousand (2017: UAH 78,813 thousand)
- other non-current assets - UAH 10,172 thousand (2017: UAH 10,158 thousand)

As at 31 December 2018, the costs caused by the impairment of property and equipment (in ATO zone) are as follows:
- UAH 0 thousand recognised directly in equity (2017: UAH 0.00)

As at 31 December 2018, the cost of the internally designed intangible assets comprised UAH 0,00 (2017: UAH 47 thousand)

Note 13. Other assets

Table 13.1. Other assets

(in thousands of Ukrainian hryvnias)

Line	Item	31 December 2018	31 December 2017
1	2	3	4
1	Due from customers	11 346	15 527
2	Amounts due on accrued income from cash and settlement services and other accrued income	1 819	1 852
3	Accounts receivable on credit and debit card operations	18 529	25 026
4	Due from banks	932	932
5	Accounts receivable on purchase of assets	264	3 126
6	Prepaid services	30 626	41 042
7	Precious metals	15 949	19 506
8	Taxes recoverable, other than income tax	191	217
9	Other assets	4 469	2 809
10	Provision	(12 234)	(11 494)
11	**Provision for precious metals and other assets**	**71 891**	**98 543**

Line 11 in Table 13.1 corresponds to Other assets in the statement of financial position.

Table 13.2. Movements in provisions for impairment of other assets during year ended 2018

									(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Due from customers**	**Amounts due on overdue accrued income from cash and settlement services, and other accrued income**	**Due from banks**	**Accounts receivable on purchase of assets**	**Prepaid services**	**Precious metals**	**Othe r**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1	Balance as at 1 January 2018	(9 101)	(371)	(932)	(386)	(92)	(346)	(266)	(11 494)
2	(Increase)/ decrease in provision for impairment during the period	(1 015)	(73)	-	277	(397)	-	35	(1 173)
3	Bad debt written off	235	146	-	-	52	-	-	433
4	Foreign exchange differences on provisions	(14)	-	-	-	-	14	-	-
5	**Closing balance as at 31 December 2018**	**(9 895)**	**(298)**	**(932)**	**(109)**	**(437)**	**(332)**	**(231)**	**(12 234)**

Line 2 in Table 13.2 corresponds to Net (increase) in provisions for impairment of other assets in the Statement of profit or loss and other comprehensive income. The difference of UAH 9 thousand between the amount of Net (increase) in provision for impairment of other assets in the Statement of profit or loss and other comprehensive income and total of Line 2 balances in Table 13.2 comprises bad debt written off against the provision for bad debt during prior reporting periods and recovered during year ended 31 December 2018.

Table 13.3. Movement in provision for impairment of other assets during 2017

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Due from customers	Amounts due on overdue accrued income from cash and settlement services, and other accrued income	Due from banks	Accounts receivable on purchase of assets	Prepaid services	Precious metals	Other	Total
1	2	3	4	5	6	7	8	9	10
1	**Balance as at 1 January 2017**	**(8 976)**	**(553)**	**(932)**	**(42)**	**(143)**	**(302)**	**(417)**	**(11 365)**
2	(Increase)/decrease in provision for impairment during the year	(91)	182	-	(344)	51	-	151	(51)
3	Bad debt written off	-	-	-	-	-	-	-	-
4	Foreign exchange differences on provisions	(34)	-	-	-	-	(44)	-	(78)
5	**Balance as at 31 December 2017**	**(9 101)**	**(371)**	**(932)**	**(386)**	**(92)**	**(346)**	**(266)**	**(11 494)**

Table 13.4. Credit quality analysis of other assets for year ended 31 December 2018

(in thousands of Ukrainian hryvnias)

Accounts receivable without significant financing component

Line	Item	Due from customers	Amounts due on accrued income from cash and settlement services and other accrued income	Accounts receivable on credit and debit card operations	Due from banks	Accounts receivable on purchase of assets	Prepaid services	Precious metals	Taxes recoverable, other than income tax	Other assets	Total
1	2	3	4	5	6	7	8	9	10	11	12
1	Impairment Stage 1	1 495	1 554	18 529	-	222	30 113	15 617	191	4 238	71 959
1.1	Not overdue	1 401	1 466	18 529	-	90	30 103	15 617	191	4 238	71 635
1.2	Less than 30 days	57	39	-	-	-	10	-	-	-	106
1.3.	31 - 60 days	35	45	-	-	-	-	-	-	-	80
1.4	61 - 90 days	2	4	-	-	132	-	-	-	-	138
2	Impairment Stage 3:	9 851	265	-	932	42	513	332	-	231	12 166
2.1	Less than 30 days	-	12	-	-	-	-	-	-	-	12
2.2	31 - 60 days	-	6	-	-	-	-	-	-	-	6
2.3	61 - 90 days	-	6	-	-	-	-	-	-	-	6
2.4	91 - 180 days	68	21	-	-	26	120	-	-	-	235
2.5	181 - 270 days	12	15	-	-	-	42	-	-	1	70
2.6	More than 270 days	9 771	205	-	932	16	351	332	-	230	11 837
3	Total other assets	11 346	1 819	18 529	932	264	30 626	15 949	191	4 469	84 125

(in thousands of Ukrainian hryvnias)

Accounts receivable without significant financing component

Line	Item	Due from customers	Amounts due on accrued income from cash and settlement services and other accrued income	Accounts receivable on credit and debit card operations	Due from banks	Accounts receivable on purchase of assets	Prepaid services	Precious metals	Taxes recoverable, other than income tax	Other assets	Total
1	2	3	4	5	6	7	8	9	10	11	12
4	Provision for impairment of other assets	(9 895)	(298)	-	(932)	(109)	(437)	(332)	-	(231)	(12 234)
5	**Total other assets less provisions**	1 451	1 521	18 529	-	155	30 189	15 617	191	4 238	71 891

Table 13.5. Credit quality analysis of other financial assets for 2017

											(in thousands of Ukrainian hryvnias)
Accounts receivable without significant financing component											
Line	**Item**	**Due from customers**	**Amounts due on accrued income from cash and settlement services and other accrued income**	**Accounts receivable on credit and debit card operations**	**Due from banks**	**Accounts receivable on purchase of assets**	**Prepaid services**	**Precious metals**	**Taxes recoverable, other than income tax**	**Other**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1	Impairment Stage 1	6,434	1,519	25,026	-	2,968	40,964	19,160	217	2,543	98,831
1.1	Not overdue	6,412	1,271	25,026	-	1,827	40,893	19,160	217	2,543	97,349
1.2.	Less than 30 days	10	90	-	-	307	45	-	-	-	452
1.3.	31 - 60 days	7	28	-	-	822	26	-	-	-	883
1.4	61 - 90 days	5	24	-	-	12	-	-	-	-	41
1.5.	91 - 180 days	-	37	-	-	-	-	-	-	-	37
1.6	181 - 270 days	-	29	-	-	-	-	-	-	-	29
1.7	More than 270 days	-	40	-	-	-	-	-	-	-	40
2	Impairment Stage 3:	9,093	333	-	932	158	78	346	-	266	11,206
2.1	Less than 30 days	-	23	-	-	29	-	-	-	-	52
2.2	31 - 60 days	-	9	-	-	-	-	-	-	-	9
2.3	61 - 90 days	-	17	-	-	24	-	-	-	-	41
2.4	91 - 180 days	5	53	-	-	33	-	-	-	4	95
2.5	181 - 270 days	6	24	-	-	72	-	-	-	65	167

(in thousands of Ukrainian hryvnias)

Accounts receivable without significant financing component

Line	Item	Due from customers	Amounts due on accrued income from cash and settlement services and other accrued income	Accounts receivable on credit and debit card operations	Due from banks	Accounts receivable on purchase of assets	Prepaid services	Precious metals	Taxes recoverable, other than income tax	Other	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
2.6	More than 270 days	9,082	207	-	932	-	78	346	-	197	10,842
3	Total other assets	15 527	1 852	25 026	932	3 126	41 042	19 506	217	2 809	110 037
5	Provision for impairment of other assets	(9,101)	(371)	-	(932)	(386)	(92)	(346)	-	(266)	(11,494)
5	**Total other assets less provisions**	**6,426**	**1,481**	**25,026**	**-**	**2,740**	**40,950**	**19,160**	**217**	**2,543**	**98,543**

Note 14. Due to banks

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31 December 2018**	**31 December 2017**
1	**2**	**3**	**4**
1	Correspondent accounts	185	26
2	**Total due to banks**	**185**	**26**

Line 2 in Note 14 corresponds to “Due to banks” in the Statement of financial position.

Note 15. Due to customers

Table 15.1. Due to customers

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31 December 2018**	**31 December 2017**
1	**2**	**3**	**4**
1	Government and public organisations:	7 724	9 416
1.1	Current accounts	7 594	9 052
1.2	Term deposits	130	364
2	Other legal entities:	1 065 062	1 577 371
2.1	Current accounts	854 460	1 236 516
2.2	Term deposits	210 602	340 855
3	Individuals:	1 300 049	1 334 801
3, 1	Current accounts	913 017	898 752
3.2	Term deposits	387 032	436 049
4	**Total due to customers**	**2 372 835**	**2 921 588**

Line 4 in Table 15.1 corresponds to “Due to customers” in the Statement of financial position.

The Bank believes that potential concentration risk may arise when at least 10% of deposits from customers (net of subordinated debt and loans from international financial institutions) are attracted from a limited number of creditors. As at 31 December 2018 and 31 December 2017, deposits of 11 and 3 Bank’s customers amount to UAH 238,010 thousand and UAH 299,777 thousand, respectively, representing 10% of total due to customers as at the reporting dates.

Table 15.2. Due to customers by type of activity

(in thousands of Ukrainian hryvnias)					
Line	**Sector**	**31 December 2018**		**31 December 2017**	
		amount	**%**	**amount**	**%**
1	**2**	**3**	**4**	**5**	**6**
1	State authorities	20	0,01%	20	0,01%
2	Production and distribution of electric power, natural gas and water	10 768	0,45%	11 535	0,39%
3	Transactions with real estate, leasing, engineering and provision of services	133 557	5,53%	116 205	3,98%
4	Trade, repair of vehicles, household equipment, and items of personal use	244 870	10,32%	368 364	12,61%
5	Agriculture, hunting, and forestry	27 341	1,15%	36 093	1,24%
6	Individuals	1 300 049	54,78%	1 334 801	45,68%
7	Processing industry	108 622	4,58%	286 306	9,80%
8	Financial and insurance services	298 174	12,57%	243 049	8,32%
9	Construction	53 895	2,27%	86 155	2,95%

					(in thousands of Ukrainian hryvnias)
Line	**Sector**	**31 December 2018**		**31 December 2017**	
		amount	**%**	**amount**	**%**
1	**2**	**3**	**4**	**5**	**6**
10	Information and telecommunications	123 142	5,19%	354 449	12,13%
11	Other	72 397	3,05%	84 611	2,89%
12	**Total due to customers**	**2 372 835**	**100,00%**	**2 921 588**	**100,00%**

Note 16. Debt securities issued by the Bank

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31 December 2018**	**31 December 2017**
1	**2**	**3**	**4**
1	Certificates of deposit	5 573	36 926
2	**Total**	**5 573**	**36 926**

Line 2 in Note 16 corresponds to “Debt securities issued by the Bank” in the Statement of financial position.

As at 31 December 2018, line 1 in Note 16 ‘Debt securities issued by the Bank’ comprises registered short-term (187 days) certificates of deposit issued by the Bank in foreign currencies.

As at 31 December 2017 and 31 December 2018, the Bank has no convertible debt instruments.

Note 17. Provisions for liabilities

Table 17.1. Movement in provisions for liabilities during year ended 31 December 2018

					(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Credit related commitments**	**Litigation contingencies**	**Operational risks**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Balance at 1 January 2018	**370**	**4 334**	**1 141**	**5 845**
2	IFRS 9 adjustment	44	-	-	44
3	Adjusted Balance at 1 January 2018	**414**	**4 334**	**1 141**	**5 889**
4	(Decrease)/increase in provision for impairment during the year	2 131	579	(1 141)	1 569
5	Debt repayment	-	(93)	-	(93)
6	Foreign exchange differences on provisions	(20)	-	-	(20)
7	**Closing balance as at 31 December 2018**	**2 525**	**4 820**	**-**	**7 345**

Line 7 in Table 17.1 corresponds to “Provisions for liabilities” in the Statement of financial position.

As at 31 December 2018, the Bank’s contingencies arising from proceedings in administrative courts and courts of general jurisdiction amount to:

- UAH 1,021 thousand on employment contract disputes;
- UAH 3,799 thousand on deposit contract disputes.

The Bank had a dispute with state authorities for the amount of UAH 196 thousand in respect of the results for 2017. Based on the estimates made by the Bank regarding the dispute resolution, no provisions for contingent liabilities per this risk were created in the financial statements as at 31 December 2018.

Table 17.2. Movement in provisions for liabilities during 2017

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Credit related commitments	Tax risks	Litigation contingencies	Operational risks	Total
1	2	3	4	5	6	7
1	**Balance at 1 January 2017**	325	5,914	4,360	-	10,599
2	(Decrease)/increase in provision for impairment during the year	28	(5,914)	(18)	1,141	(4,763)
3	Amounts repaid	-	-	(8)	-	(8)
4	Foreign exchange differences on provisions	17	-	-	-	17
5	**Closing balance as at 31 December 2017**	**370**	**-**	**4,334**	**1,141**	**5,845**

Line 5 in Note 16.2 corresponds to “Provisions for liabilities” in the Statement of financial position. Line 2 in Note 16.2 corresponds to “Net loss from decrease/(increase) in provisions for liabilities” in the Statement of profit or loss and other comprehensive income.

As at 31 December 2017, the Bank’s contingencies arising from proceedings in administrative courts and courts of general jurisdiction amount to:
– UAH 535 thousand on employment contract disputes;
– UAH 3,799 thousand on deposit contract disputes;

Note 18. Other liabilities

(in thousands of Ukrainian hryvnias)

Line	Item	31 December 2018	31 December 2017
1	2	3	4
1	Balances on the investment account of Intesa Sanpaolo S.p.A.	4 739	1 113 905
2	Accounts payable to customers	29 844	37 774
3	Accounts payable on debit and credit cards	13 602	7 891
4	Foreign exchange transactions and settlements	4 694	2 348
5	Taxes payable, other than income tax payable	7 077	6 113
6	Salaries payable	7 754	8 171
7	Provisions for other employees payable	11 625	14 499
8	Accounts payable for assets purchased	10 193	3 720
9	Deferred income	5 306	4 329
10	Accounts payable for specialists recruitment services	5 996	3 441

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31 December 2018**	**31 December 2017**
1	**2**	**3**	**4**
11	Accounts payable for technical support and software maintenance services	646	917
12	Accounts payable for services and security	5 300	8 197
13	Accounts payable for services related to bad debt recovery	55	405
14	Accounts payable for services rendered using self-service complexes	-	3 614
15	Other payables	4 039	2 543
16	**Total other liabilities**	**110 870**	**1 217 867**

Line 16 in Note 18 corresponds to "Other liabilities" in the Statement of financial position.

During year ended 31 December 2018, balances on the investment account of the shareholder were used to purchase shares in the amount of UAH 1,108,879 thousand (Note 31).

Note 19. Share capital

(in thousands of Ukrainian hryvnias)						
Line	**Item**	**Outstanding shares (thousand)**	**Ordinary shares**	**Share premium**	**Preference share capital**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	**Balance at 1 January 2017**	**1,669,604**	**1,037,137**	**3,502,964**	**870**	**4,540,971**
2	Contributions for new share issue	-	-	-	-	-
3	**Closing balance as at 31 December 2017 (balance as at 1 January 2018)**	**1,669,604**	**1,037,137**	**3,502,964**	**870**	**4,540,971**
4	Contributions for new share issue	18,481	10,719	1,097,790	-	1,108,509
5	**Closing balance as at 31 December 2018**	**1,688,085**	**1,047,856**	**4,600,754**	**870**	**5,649,480**

As at 31 December 2018 and 31 December 2017, preference shares outstanding amount to 1,500 shares.

As at 31 December 2018 and 31 December 2017, the par value of the shares is UAH 0.58 per share.

Holders of preference shares have the right to:

— participate in profit distribution and receive dividends in the amount stipulated by their preference shares, notwithstanding the amount of Bank's net profit for the respective year;

— preferences stipulated by preference share issue terms as follows: holders of registered preference shares are entitled to dividends of 18% per annum, notwithstanding the amount of Bank's net profit for the respective year.

In accordance with Ukrainian legislation, distributable reserves are restricted by retained earnings reported in the statutory financial statements.

Pursuant to Shareholder's resolution No. 3/2017 of 27 November 2017 and amendments to the Charter of JSC "PRAVEX BANK", during the 1st quarter of 2018 the share capital was increased by increasing the number ordinary registered shares with the existing par value via additional contributions. The state registration of the amendments to the Bank's constituent documents was performed on 28 March 2018, Register No. 10701050063003106.

20. Revaluation reserves (components of other comprehensive income)

Table 20.1. Revaluation of securities

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31 December 2018**	**31 December 2017**
1	**2**	**3**	**4**
1	Balance as at 1 January	60	-
2	Changes due to IFRS 9	(60)	-
3	Revaluation of securities	-	73
3.1	change in fair value revaluation	-	1 868
3.2	impairment	-	(1 795)
4	Income tax related to change in revaluation reserve on securities	-	(13)
5	**Total revaluation reserves, net of income tax**	-	60

Table 20.2. Movements in revaluation reserve on property and equipment

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31 December 2018**	**31 December 2017**
1	**2**	**3**	
1	Balance as at 1 January	**263 293**	**267 585**
2	PPE revaluation	**(8 640)**	**(1 610)**
2.1	change in fair value revaluation	21 186	19 539
2.2	impairment	(2 133)	(289)
2.3	realized gain/loss on revaluation recognised in retained earnings	(27 693)	(20 860)
3	Income tax related to revaluation of property and equipment	(3 266)	(2 682)
4	**Total revaluation reserves, net of income tax**	**251 387**	**263 293**

Table 20.3. Results of adjustment of value of financial instruments per transactions with shareholders

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31 December 2018**	**31 December 2017**
1	**2**	**3**	**4**
1	Balance as at 1 January	65	-

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31 December 2018**	**31 December 2017**
1	**2**	**3**	**4**
2	Results of adjustment of value of financial instruments per transactions with shareholders	(53)	79
2.1	Gain recognised on initial recognition of the financial instrument per transactions with the Bank's shareholders	287	351
2.2	(Loss) recognised on initial recognition and included in retained earnings on disposal of the financial instrument per transactions with the Bank's shareholders	(31)	(272)
2.3	(Loss) recognised on initial recognition and included in retained earnings on disposal of the financial instrument per transactions with the Bank's shareholders	(309)	-
3	Income tax attributable to the adjustment of the value of the financial instruments per transactions with the Bank's shareholders	10	(14)
4	**Total adjustments of the value of financial instruments, net of income tax**	**22**	**65**

Note 21. Analysis of contractual maturities of assets and liabilities

(in thousands of Ukrainian hryvnias)

Line	Item	Notes	31 December 2018			31 December 2017		
			Less than 12 months	More than 12 months	total	Less than 12 months	More than 12 months	total
1	2	3	4	5	6	7	8	9
	ASSETS							
1	Cash and cash equivalents	6	823 213	-	823 213	1 088 693	-	1 088 693
2	Loans and advances to customers	7	138 567	-	138 567	142 875	-	142 875
3	Loans and advances to customers	8	943 846	275 459	1 219 305	375 641	172 151	547 792
4	Investments in securities accounted at amortized cost	9	1 704 806	-	1 704 806	2 700 812	-	2 700 812
5	Investments in securities accounted at fair value through other comprehensive income	10	3		3	3		3
6	Investment property	11		93 293-	93 293	-	177 981	177 981
7	Current income tax receivable		1 631	-	1 631	1 631	-	1 631
8	Property, equipment and intangible assets	12	-	448 282	448 282	-	466 416	466 416
9	Other assets	13	71 764	127	71 891	98 543	-	98 543
10	**Total assets**		**3 638 830**	**817 161**	**4 500 991**	**4 408 198**	**816 548**	**5 224 746**
	LIABILITIES							
11	Due to banks	14	185		185	26	-	26
12	Due to customers	15	2 372 781	54	2 372 835	2 907 944	13 644	2 921 588
13	Derivative liabilities		-	-	-	956	-	956
14	Debt securities issued by the Bank	16	5 573	-	5 573	36 926	-	36 926
15	Deferred tax liabilities	26	-	-	-	-	7 104	7 104
16	Provisions for liabilities	17	6 438	907	7 345	5 845	-	5 845
17	Other liabilities	18	110 773	97	110 870	1 217 773	94	1 217 867
18	**Total liabilities**		**2 495 750**	**1 058**	**2 496 808**	**4 169 470**	**20 842**	**4 190 312**

Note 22. Interest income and expense

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2018**	**31/12/2017**
1	**2**	**3**	**4**
	Interest income		
1	Loans and advances to customers	110 103	95 815
2	Debt securities accounted at amortized cost	370 248	192 102
3	loans	13 470	3 648
4	**Total interest income**	**493 821**	**291 565**
	Interest expense:		
5	Term deposits from legal entities	(15 512)	(10 200)
6	Term deposits from individuals	(13 126)	(22 777)
7	Term deposits due to banks	(7)	(58)
8	Current accounts	(72 596)	(79 479)
9	Debt securities issued by the Bank	(15)	(874)
10	**Total interest expense**	**(101 256)**	**(113 388)**
11	**Net interest income**	**392 565**	**178 177**

Line 11 in Note 22 corresponds to Net interest income in the Statement of profit or loss and other comprehensive income.

Note 23. Commission income and expense

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2018**	**31/12/2017**
1	**2**	**3**	**4**
	COMMISSION INCOME:		
1	Cash payments and withdrawals	107 488	175 650
2	Commission for lease of safe deposit boxes	9 240	9 410
3	Commission for consulting services	31	44
4	Commission for insurance broker services	1 380	2 588
5	Commission for TaxFree check payments	1 577	1 294
6	Transactions with securities	248	247
7	Interbank operations with plastic cards	22 633	17 897
8	Commission for purchase/sale non-cash foreign currency	-	524
9	Guarantees issued	2	1
10	Other	106	148
11	**Total fee and commission income**	**142 705**	**207 803**
	COMMISSION EXPENSE:		
12	Cash payments and withdrawals	(33 620)	(26 675)
13	Commission for services and other commissions	(965)	(3 710)
14	Commission for maintenance of self-servicing machines	-	(46 434)
15	Guarantee expenses	(471)	(522)
16	Services provided by payment systems and operations with plastic cards	(13 116)	(8 377)
17	**Total fee and commission expense**	**(48 172)**	**(85 718)**
18	**Net commission income**	**94 533**	**122 085**

Line 11 and Line 17 in Note 23 correspond to Commission income and Commission expense in the Statement of profit or loss and other comprehensive income.

Note 24. Other operating income

(in thousands of Ukrainian hryvnias)

Line	Item	31 December 2018	31 December 2017
1	**2**	**3**	**4**
1	Operating lease	1 196	553
2	Penalties and fines received	615	954
3	Undrawn funds upon expiration of limitation period	8 007	14 249
4	Shortages charged to responsible employees	227	355
5	Gain/loss from sale of investment properties	18 739	3 441
6	Gain/loss on disposal of property and equipment	16 404	23 475
7	Proceeds from sale of claims on loans	-	50 420
8	Revaluation of property and equipment	2 290	1 534
9	Other	186	740
10	**Total operating income**	**47 664**	**95 721**

Line 10 in Note 24 corresponds to Other operating income in the Statement of profit or loss and other comprehensive income.

Note 25. Other administrative and operating expenses

(in thousands of Ukrainian hryvnias)

Line	Item	31 December 2018	31 December 2017
1	**2**	**3**	**4**
1	Business trips	3 419	2 190
2	Recruitment services	20 179	17 357
3	Maintenance of property, equipment and intangible assets, telecommunication and other operational services	188 343	168 513
4	Operating lease expenses	30 865	16 953
5	Cash collection and transportation	555	2 076
6	Services provided by payment systems on payment cards	6 101	5 769
7	Legal services on litigations and payments to collectors	15 260	9 293
8	Professional services	26 064	38 018
9	Marketing and advertising	8 049	4 088
10	Security	9 308	7 891
11	Taxes, other than income tax	21 907	28 041
12	Other	2 320	3 229
13	**Total other administrative and operating expenses**	**332 370**	**303 418**

Line 13 in Note 25 corresponds to Other administrative and operating expenses in the Statement of profit or loss and other comprehensive income.

Note 26. Income tax expense

Table 26.1. Income tax expense

(in thousands of Ukrainian hryvnias)

Line	Item	31 December 2018	31 December 2017
1	2	3	4
1	**Current income tax**	-	-
2	**Change in deferred income tax resulting from:**	10 374	1 495
2.1	origination or reversal of temporary differences	10 374	1 495
2.2	increase or decrease in tax rate	-	-
3	**Total income tax benefit/(expense)**	**10 374**	**1 495**

Line 3 in Table 26.1 corresponds to Income tax expense/benefit in the Statement of profit or loss and other comprehensive income.

Table 26.2. Reconciliation of accounting loss and taxable loss

(in thousands of Ukrainian hryvnias)

Line	Item	31 December 2018	31 December 2017
1	2	3	4
1	(Loss) before tax	(147 674)	(111 691)
2	Income tax at applicable tax rate	26 581	20 104
3	Effect of permanent tax differences	-	641
4	Changes in unrecognised deferred tax assets	(17 261)	(19 543)
5	Deferred tax asset derecognised (deferred tax asset not recognised previously)	1 054	293
6	**Income tax (expense)/benefit**	**10 374**	**1 495**

Table 26.3.1. Tax effects of deferred tax assets and liabilities recognised during year ended 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2018	Recognised in profit or loss during year ended 2018	Recognised in OCI during year ended 2018	Balance as at 31 December 2018
1	2	3	4	5	6
1	**Tax effect of temporary differences**				
1.1.	Property, equipment, intangible assets, and investment property	(7 104)	10 370	(3 266)	-
1.2	Adjustment of financial instruments value on initial recognition	-	(10)	10	-
2	Net deferred tax asset (liability), including:	(7 104)	10 360	(3 256)	-
3	**Recognised deferred tax liability**	**(7 104)**	-	-	-

Table 26.3.2. Unrecognised deferred tax assets during year ended 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2017	Change in unrecognised DTA as per results of operations in year ended 2018	Revised assessment of feasibility of realisation of the tax differences in respect of which no DTA was recognised	Balance as at 31 December 2018
1	2	3	4	5	6
1	**Tax effect of impaired temporary differences:**				
1.1	Tax losses carry-forward	395 316	6 484	(20 477)	381 323
1.2.	Loans and advances to customers	2 799	-	(2 799)	-
1.3.	Provisions for liabilities	1 454	(66)	-	1 388
1.4	Other assets	2 174	(167)	-	2 007
1.5.	Property, equipment, intangible assets, and investment property	(245)	11 104	-	10 859
2	**Provision for impairment of deferred tax assets**	**(401 498)**	**(17 355)**	23 276	**(395 577)**
2.1	Provision for tax loss carried forward	(395 316)	13 993	-	(381 323)
2.2	Provision for impairment of other deferred tax assets	(6 182)	(8 072)	-	(14 254)

Table 26.4.1. Tax effects of deferred tax assets and liabilities recognised during 2017

Line	Item	Balance at 1 January 2017	Recognised in profit or loss during 2017	Recognised in OCI during 2017	Balance as at 31 December 2017
1	2	3	4	5	6
1	**Tax effect of temporary differences:**				
1.1.	Property, equipment, intangible assets, and investment property	(5,890)	1,468	(2,682)	(7,104)
1.2.	Securities	-	13	(13)	-
1.3.	Adjustment of financial instruments value on initial recognition	-	14	(14)	-
2	Net deferred tax asset (liability), including:	(5,890)	1,495	(2,709)	(7,104)
3	**Recognised deferred tax liability**	**(5,890)**	**-**	**-**	**(7,104)**

Table 26.4.2. Unrecognised deferred tax assets during 2017

Line	Item	Balance at 1 January 2017	Changes in unrecognised deferred tax assets as per results of operations during 2017	Revised assessment of feasibility of realisation of the tax differences in respect of which no DTA was recognised during 2017	Balance as at 31 December 2017
1	2	3	4	5	6
1	**Tax effect of impaired temporary differences:**				
1.1	Tax losses carry-forward	318,870	20,104	56,342	395,316
1.2.	Loans and advances to customers	173,306	-	(170,507)	2,799
1.3.	Provisions for liabilities	2,310	(856)	-	1,454
1.4	Other assets	2,146	28	-	2,174
1.5.	Property, equipment, intangible assets, and investment property	(512)	267	-	(245)
2	**Provision for impairment of deferred tax assets**	**(496,120)**	**(19,543)**	**(114,165)**	**(401,498)**
2.1	Provision for tax loss carried forward	(318,870)	(76,446)	-	(395,316)
2.2	Provision for impairment of other deferred tax assets	(177,250)	171,068	-	(6,182)

Note 27. (Loss)/earnings per ordinary share and preference share

(in thousands of Ukrainian hryvnias, if nothing else is noted)

Line	Item	31 December 2018	31 December 2017
1	2	3	4
1	Loss attributable to holders of ordinary shares	(137 327)	(110 196)
2	Profit attributable to holders of preference shares	157	157
3	Loss for the period	(137 327)	(110 196)
4	Annual average number of ordinary shares outstanding (in thousands of shares)	1 682 181	1 668 104
5	Annual average number of preference shares outstanding (in thousands of shares)	1 500	1 500
6	Basic and diluted (loss) per ordinary share (kopeck)	(0,08)	(0,07)
7	Basic and diluted earnings per preference share	0,10	0,10

Note 28. Dividends

(in thousands of Ukrainian hryvnias)					
Line	**Item**	**31 December 2018**		**31 December 2017**	
		Ordinary shares	**Preference shares**	**Ordinary shares**	**Preference shares**
1	**2**	**3**	**4**	**5**	**6**
1	Balance as at 1 January	-	-	-	-
2	Dividends declared for payment during the period	-	157	-	157
3	Increase in reserves due to dividends	-	(157)	-	(157)
4	**Balance as at the end of the period**	-	-	-	-

In accordance with Shareholder's resolution 26.04.2018 №2/2018, dividends on preference shares payable for 2017 were calculated and transferred to Bank's reserves.

Note 29. Contingent liabilities

Capital investments commitments

As at 31 December 2018, in accordance contractual obligations PJSC "PRAVEX BANK" had contractual obligations on purchase of property, equipment and intangible assets amounting to UAH 13 048 thousand (31 December 2017: UAH 3 536 thousand).

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**As at 31 December 2018 (end of the day)**	**As at 31 December 2017 (end of the day)**
1	**2**	**3**	**4**
1	Outstanding credit related commitments	1 800	15 694
2	Unused credit lines	710 247	187 795
3	Export letters of credit	-	76 873
4	Guarantees given	-	9 004
5	Provision for credit related commitments	(2 525)	(135)
6	**Total credit related commitments less provision**	**709 522**	**289 231**

Table 29.1. Structure of credit related commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities and credit lines. Total outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Table 29.2. Credit related commitments by currency (including provisions)

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**As at 31 December 2018 (end of the day)**	**As at 31 December 2017 (end of the day)**
1	**2**	**3**	**4**
1	UAH	273 250	125 202
2	USD	220	155 138
3	EUR	436 052	8 891
4	**Total**	**709 522**	**289 231**

Note 30. Financial risk management

The Bank manages its risks by means of risk management system which is comprehensive, adequate and effective. The risk management system was created taking into account the specifics of business, the business model, the nature and scope of operations, the risk profile, requirements and recommendations of the NBU, and the best practices of the Parent Company.

The risk management system provides continuous risk analysis for taking timely and adequate management decisions to mitigate risks and reduce their losses clearly delimiting the functions and tasks of all Bank units using the model of three lines protection.

The risk management system includes the definition of the organizational structure, the system of internal documents on risk management, the information system and directly the management tools.

The Bank has created the Head Risk Management Department, headed by CRO. The system of internal documents of the Bank establishes the principles of the control system by defining processes, limits, relevant functions and responsibilities. Policies also specify the risk limits and risk-taking principles by type of activity, the necessary actions in case of exceeding the limits.

Apart from Head Risk Management Department, monitoring and management of Bank’s risks are performed by the following Committees.

To ensure adequate level of risk management while maintaining proper profitability, the Bank has established Assets and Liabilities Management Committee (ALCO), Credit Committee, Credit Risk Management Committee (CRMC) and NPLs Management Committee (NPLMC).

JSC “PRAVEX BANK” distinguishes the following main risks inherent in its operations in the process of risk management: credit risk, liquidity risk, interest rate risk, market risk and operational risk.

Credit risk

Credit risk is the risk of expected losses on an asset as the result of default of the borrower/counterparty.

The Bank calculates the scope of credit risk by assets on an individual, group basis.

The Bank combines financial assets with homogeneous characteristics into groups with homogeneous characteristics, in particular:

1. orientation;

2. type of product;
3. fractionality applied to loans united in:
   - groups of loans issued to debtors – legal entities (except of debtors of associations of the apartment building owners, housing offices);
   - groups of loans granted to debtors - individuals, pledged by mortgage items;
   - groups of loans granted to debtors - to individuals, whose pledge is purchased vehicles;
   - groups of loans granted to debtors - individuals, mortgaged by other types of collateral;

4. Materiality of the individual requirements (the maximum amount of debt for several loans of one debtor / counterparty included in the group cannot exceed the limit set for the respective group);
5. The periodicity and scope of debt repayment by the debtor, which are determined by the terms of the contract for providing the loan.

An individual credit risk is the risk of a specific debtor / counterparty of the bank. An assessment of individual credit risk involves an assessment of creditworthiness of an individual debtor / counterparty, that is, its individual ability to pay off in full and on time in respect of liabilities assumed.

For mitigating a credit risk, the Bank employs different types and conditions for lending operations in terms of maturity, borrowers, security, interest rates, principles of interest accrual, limits, diversification of the loan portfolio, provisioning, monitoring and control of risks.

Market risk

The Bank is exposed to market risks arising from changes in interest rates, foreign exchange rates, and other market prices that mostly depend on general and specific market conditions. This is the risk of changes in fair value or future cash flows from financial instruments due to fluctuations in market variables such as interest rates, exchange rates and yield on securities.

The market risk management system is based on the following general principles:

- Independence of the functions of the risk management department from business units;
- Comprehensive approach to identification of tools and risks;
- Coherence at all levels of aggregation due to use of successive measurement models;
- Time frames for data preparation to support decision and process control;
- Transparency in the assessment methodology and criteria used to better understand the adopted risk measurements;
- Extension of authority in determining the delegated authority;
- Efficiency and flexibility in the architecture of the structure of limits and their updating.

The process of market risk management in the Bank is carried out exclusively within the limits of the Bank's Book (ledger) using the following internal documents:

- Market risk management policies approved by the decisions of the competent corporate bodies;
- Guidelines of JSC PRAVEX BANK concerning interest rate risk management in the Bank's ledger approved by the decisions of the competent corporate bodies;
- Rules of JSC PRAVEX BANK regarding measurement and control of interest risk approved by decisions of the competent corporate bodies;
- Policies on the financial portfolio management of JSC “PRAVEX BANK” approved by decisions of the competent corporate bodies.

The Bank classifies and assesses transactions with securities and other financial investments based on the business model that it uses to manage these assets and the characteristics of cash flows provided for by the contract. The Bank assesses deposit certificates and government bonds at amortized cost.

The Bank classifies and assesses credit operations, based on the business model that it uses to manage these assets, and the characteristics of cash flows, provided by the contract, at amortized cost. An assessment of suitability of a credit operation to the business model is performed at the level of the introduction of a new product.

Currency risk

Currency risk is the risk of adverse changes in net foreign exchange positions due to fluctuations of currency rates. This risk has a potential impact on the Bank's profitability and capital

The Bank uses limits as the key instrument for currency risk management. The Bank applies this instrument via establishment of limits on the overall open foreign exchange position of the Bank and limits and sublimits on foreign exchange position by specific currency. The system of internal limits allows comprehensive and adequate currency risk management based on principles adopted by the Bank.

In compliance with the NBU requirements, the Bank set currency risk limits and sublimits for its subdivisions for currency risk management purposes. Such limits are necessary to avoid unexpected losses from significant foreign exchange rate fluctuations.

Table 30.1. Currency risk analysis

(in thousands of Ukrainian hryvnias)

Line	Currency	As at 31 December 2018			As at 31 December 2017		
		Monetary assets	Monetary liabilities	Net position	Monetary assets	Monetary liabilities	Net position
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	USD	545 438	578 636	(33 198)	777 776	771 644	6 132
2	EUR	198 039	211 558	(13 519)	210 308	217 526	(7 218)
3	GBP	3 173	1 571	1 602	2 934	1 327	1 607
4	Other	52 867	42 250	10 617	52 784	46 888	5 896
5	**Total**	**799 517**	**834 015**	**(34 498)**	**1 043 802**	**1 037 385**	**6 417**

Table 30.2. Sensitivity of net profit or loss and equity to potential changes in official UAH exchange rates as at the reporting date, assuming that all other variables remain constant

(in thousands of Ukrainian hryvnias)

Line	Item	Weighted average currency rate as at 31 December 2018		Weighted average currency rate as at 31 December 2017	
		Effect on profit/(loss)	Effect on equity	Effect on profit/(loss)	Effect on equity
1	**2**	**3**	**4**	**5**	**6**
1	20 % strengthening of USD	(6 640)	(6 640)	(29 660)	(29 660)
2	20 % weakening of USD	6 640	6 640	29 660	29 660
3	20 % strengthening of Euro	(2 704)	(2 704)	24 968	24 968
4	20% weakening of Euro	2 704	2 704	(24 968)	(24 968)
5	20 % strengthening of GBP	320	320	(7)	(7)
6	20% weakening of GBP	(320)	(320)	7	7
7	20% strengthening of other currencies	2 124	2 124	267	267

(in thousands of Ukrainian hryvnias)					
Line	**Item**	**Weighted average currency rate as at 31 December 2018**		**Weighted average currency rate as at 31 December 2017**	
		Effect on profit/(loss)	**Effect on equity**	**Effect on profit/(loss)**	**Effect on equity**
1	**2**	**3**	**4**	**5**	**6**
8	20% weakening of other currencies	(2 124)	(2 124)	(267)	(267)

Interest rate risk

Interest rate risk of the Bank's ledger is probability of occurrence of losses or additional losses or shortfall of planned revenues due to unfavorable changes in interest rates on a ledger. Interest rate risk of the ledger affects the economic value of bank capital and net interest income of the bank.

The Bank's interest rate risk management process is implemented using the following internal documents:

- Guidelines of JSC "PRAVEX BANK" concerning interest rate risk management in the Bank's ledger approved by the decisions of the competent corporate bodies;
- JSC "PRAVEX BANK" Rules of Interest Risk Evaluation and Control approved by decisions of the competent corporate bodies.

Table 30.3. Interest rate risk overview

Financial assets and liabilities insensitive to interest rate fluctuations, such as mandatory reserves with the NBU, other financial assets, and other financial liabilities were not included in the overview of interest rate risk as at 31 December 2018 and 31 December 2017.

(in thousands of Ukrainian hryvnias)						
Line	**Item**	**On demand and less than 1 month**	**1 – 6 months**	**6 - 12 months**	**More than 1 year**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
31 December 2018						
1	Total financial assets	1 917 956	825 286	43 610	275 459	3 062 311
2	Total financial liabilities	2 010 929	326 131	35 721	54	2 372 835
3	Net base interest rate charges gap as at the end of previous period	(92 973)	499 155	7 889	275 405	689 476
31 December 2017						
4	Total financial assets	3 433 118	218 467	153 820	175 557	3 980 962
5	Total financial liabilities	3 830 537	271 738	55 268	13 931	4 171 474

6	Net base interest rate charges gap as at the end of previous period	(397 419)	(53 271)	98 552	161 626	(190 512)

Table 30.4. Monitoring of financial instruments interest rates

(%)

Line	Item	31 December 2018				31 December 2017			
		UAH	USD	EUR	Other	UAH	USD	EUR	Other
1	2	3	4	5	6	7	8	9	10
	Assets								
1	Cash and cash equivalents	-	2,95	-	-	13,27	1	-	-
2	Loans and advances to customers	-	-	-	-	-	-	-	-
3	Loans and advances to customers	20,46	5,36	5,07	-	15,19	9,12	5,56	-
4	Investments in securities	15,40	-	-	-	12,47	-	-	-
	Liabilities								
5	Due to customers								
5.1	current accounts	0,96	0,19	0,20	-	2,97	0,48	0,46	-
5.2	term deposits	13,61	1,11	1,05	-	9,41	1,07	0,85	-
6	Debt securities issued by the Bank	-	0,03	0,71	-	-	0,52	0,50	-

Other market price risk

Other market price risk arises in connection with the Bank's investments in securities. Investments in securities are made within the prescribed limits. Limits on transactions with securities are set by the relevant committee of the Parent company. Limits are established in the light of issuers and specific issues of securities. Limits are established with the limited term of effect and thereafter reviewed.

The Treasury and Investment Banking Department initiates the necessity to establish the limits. The Risk Management Department provides assessment of the possibility to establish such limits. Then the relevant materials are submitted to the relevant committee of the Parent company.

The Risk Management Department monitors the compliance with the established limits on the permanent basis.

The Bank manages its market price risk using the following internal documents:

— Guidelines on the prudential valuation of financial instruments at fair value adopted by Resolution of competent corporate bodies;

— Rules on the prudential valuation of financial instruments at fair value, adopted by Resolution of competent corporate bodies;

— Financial Portfolio Management Policy approved by Resolution of competent corporate bodies.

Geographic risk

Geographic risk is determined by specifics of the certain administrative and geographical region with conditions other than the average conditions in the country in general. The differences may refer to climate, national, political, legislative and other characteristics of the region that influence on the borrower's position and is a component of credit risk.

Concentration of assets and liabilities by region is shown in tables 30.5 and 30.6.

Table 30.5. Analysis of geographic concentration of financial assets and financial liabilities as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Ukraine	OECD	Other	Total
1	2	3	4	5	6
	Assets				
1	Cash and cash equivalents	638 377	179 335	5 501	823 213
2	Loans and advances to customers	(5)	138 572	-	138 567
3	Loans and advances to customers	1 219 270	-	35	1 219 305
4	Investments in securities accounted at amortized cost	1 704 806	-	-	1 704 806
5	Investments in securities accounted at fair value through other comprehensive income	3	-	-	3
6	Other assets	54 611	869	462	55 942
7	Total financial assets	**3 617 062**	**318 776**	**5 998**	**3 941 836**
	Liabilities				
8	Due to banks	185	-	-	185
9	Due to customers	2 328 194	25 407	19 234	2 372 835
10	Debt securities issued by the Bank	5 573	-	-	5 573
11	Other liabilities	98 752	12 042	76	110 870
12	Total financial liabilities	**2 432 704**	**37 449**	**19 310**	**2 489 463**
13	Net balance sheet position	**1 184 358**	**281 327**	**(13 312)**	**1 452 373**
14	Credit related commitments	1 800	-	-	1 800

Table 30.6. Analysis of geographic concentration of financial assets and financial liabilities as at 31 December 2017

(in thousands of Ukrainian hryvnias)

Line	Item	Ukraine	OECD	Other	Total
1	2	3	4	5	6
	Assets				
1	Cash and cash equivalents	373,779	711,391	3,523	1,088,693
2	Loans and advances to customers	30,046	112,829	-	142,875
3	Loans and advances to customers	547,736	-	56	547,792
4	Investments in securities accounted at amortized cost	2,700,812	-	-	2,700,812
5	Investments in securities accounted at fair value with reestimation in	3			3

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Ukraine**	**OECD**	**Other**	**Total**
1	**2**	**3**	**4**	**5**	**6**
	other comprehensive income				
6	Other assets	97,772	672	99	98,543
7	Total financial assets	3,750,148	824,892	3,678	4,578,718
	Liabilities				
7	Due to banks	26	-	-	26
8	Due to customers	2882152	10,348	29,088	2,921,588
9	Debt securities issued by the Bank	36,926	-	-	36,926
10	Other liabilities	98,597	1,119,055	215	1,217,867
11	Total financial liabilities	3,017,701	1,129,403	29,303	4,176,407
12	Net balance sheet position	732,447	(304,511)	(25,625)	402,311
13	Credit related commitments	15,694	-	-	15,694

Liquidity risk

Liquidity risk is an existing or potential risk for revenues and capital that arises due to the bank's failure to fulfil its obligations in due time without experiencing unacceptable losses.

The Treasury and Stock Market Department of the Head Financial Department exercises control over liquidity risk management. The liquidity risk management is monitored by the Chairman of the Board of the Bank, Assets and Liabilities Management Committee, Head Financial Department, Head Department of Business and the Parent Company.

Liquidity risk management covers current and term liquidity management, as well as liquidity management under the extraordinary conditions.

The process of current liquidity management of the Bank covers:

- Planning the needs of the Bank in liquidity for the current day and in the time horizon for 1 month and up to 1 year;
- Financing the Bank's needs for liquidity for the current operating day;
- ensuring compliance with the NBU requirements for mandatory reserve requirements and liquidity;
- control over observance of the established internal limits.

The process of termed liquidity management of the Bank covers:

- analysis of internal and external factors, namely:
  - continuous monitoring of changes in market liquidity;
  - identification of the level of the bank's dependence on the "large" borrowers;
  - tracking legislative changes;

- Forecasting the liquidity situation, which is carried out by:
  - calculation of liquidity gaps in terms of currencies: national currency, freely convertible currency and non-convertible currency, and in aggregate in all currencies in UAH equivalent;

- determination of the resource base to maturity in terms of periods (term funds, taking into account planned and early repayments and projected volumes of attracting funds, cash on current accounts and other types of resources);
- calculation of functional distribution of the resource base in active operations (maximum scope of loan and investment portfolio);
- analysis of the liquidity ratios in order to prevent liquidity risk.

The issues of liquidity management under the crisis situations due to deterioration of the Bank's financial position have been specified in the Contingency Plan.

The Contingency Plan provides:

- detection of the initial indices of liquidity lack, their permanent control and determination of procedures to be implemented when the lack of liquidity becomes evident;
- legitimating of the actions of management responsible for administration of the extraordinary liquidity who should be able to the quick change of assets and liabilities structure;
- a range of instruments for immediate actions and intermediation to resolve the extraordinary situation.

The liquidity risk management is carried out in accordance with the following internal documents:

- The liquidity risk management policy, approved by decisions of the competent corporate bodies;
- Procedures for implementation of liquidity risk management, approved by decisions of the competent corporate bodies.

Table 30.7. Analysis of financial liabilities by maturities as at 31 December 2018

Contractual maturities of undiscounted cash flows (including interest payments) of agreements on financial liabilities as at 31 December 2018 are as follows:

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and up to 1 month	1 to 3 months	3 - 12 months	12 months to 5 years	More than 5 years	Total
1	2	3	4	5	6	7	8
1	Due to banks	185	-	-	-	-	185
2	Due to customers	2 015 061	255 697	116 658	63	-	2 387 479
2.1	Due to individuals	996 282	222 861	89 886	63	-	1 309 092
2.2	Other	1 018 779	32 836	26 772	-	-	1 078 387
3	Debt securities issued by the Bank	5 573	-	-	-	-	5 573
4	Other financial liabilities	104 989	5 565	219	76	21	110 870

(in thousands of Ukrainian hryvnias)							
Line	**Item**	**On demand and up to 1 month**	**1 to 3 months**	**3 - 12 months**	**12 months to 5 years**	**More than 5 years**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
5	Other credit-related obligations	-	-	1 800	-		1 800
6	Total potential future payments per financial obligations	**2 125 808**	**261 262**	**118 677**	**139**	**21**	**2 505 907**

Table 30.8. Analysis of financial liabilities by maturities for 2017

Contractual maturities of undiscounted cash flows (including interest payments) of agreements on financial liabilities as at 31 December 2017 are as follows:

(in thousands of Ukrainian hryvnias)						
Line	**Item**	**On demand and up to 1 month**	**1 to 3 months**	**3 - 12 months**	**12 months to 5 years**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Due to banks	26	-	-	-	26
2	Due to customers	2,324,198	397,718	192,242	14,237	2,928,395
2.1	Due to individuals	973,657	152,896	179,933	14,237	1,320,723
2.2	Other	1,350,541	244,822	12,309	-	1,607,672
3	Debt securities issued by the Bank	36,926	-	-	-	36,926
4	Other liabilities	1,214,531	158	2,925	94	1,217,708
5	Financial guarantees	9,003	-	-	-	9,003
6	Other credit-related obligations	15,694	-	-	-	15,694
7	Total potential future payments per financial obligations	3,600,378	397,876	195,167	14,331	4,207,752

Table 30.9. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2018

(in thousands of Ukrainian hryvnias)							
Line	**Item**	**On demand and up to 1 month**	**1 to 3 months**	**3 - 12 months**	**12 months to 5 years**	**Over 5 years**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Assets							
1	Cash and cash equivalents	823 213	-	-	-	-	823 213

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and up to 1 month	1 to 3 months	3 - 12 months	12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
2	Loans and advances to customers	138 567	-	-	-	-	138 567
3	Loans and advances to customers	362 372	481 125	100 349	207 604	67 855	1 219 305
4	Investments in securities accounted at amortized cost	1 417 385	262 295	25 126	-	-	1 704 806
5	Investments in securities accounted at fair value through other comprehensive income	3	-	-	-	-	3
6	Other financial assets	21 401	127				21 528
7	**Total financial assets**	2 762 941	743 547	125 475	207 604	67 855	3 907 422
	Liabilities						
8	Due to banks	185	-	-	-	-	185
9	Due to customers	2 010 929	251 547	110 305	54	-	2 372 835
10	Debt securities issued by the Bank	5 573	-	-	-	-	5 573
11	Other liabilities	104 989	5 565	219	76	21	110 870
12	**Total financial liabilities**	2 121 676	257 112	110 524	130	21	2 489 463
13	Net liquidity gap as at 31 December 2018	**641 265**	**486 435**	**14 951**	**207 474**	**67 834**	**1 417 959**
14	Cumulative liquidity gap as at 31 December 2018	**641 265**	**1 127 700**	**1 142 651**	**1 350 125**	**1 417 959**	

Table 30.10. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2017

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and up to 1 month	1 to 3 months	3 - 12 months	12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
	Assets						
1	Cash and cash equivalents	1 088 693	-	-	-	-	1 088 693
2	Loans and advances to customers	142 875	-	-	-	-	142 875
3	Loans and advances to customers	61 713	143 078	175 538	146 582	20 881	547 792

(in thousands of Ukrainian hryvnias)							
Line	**Item**	**On demand and up to 1 month**	**1 to 3 months**	**3 - 12 months**	**12 months to 5 years**	**Over 5 years**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
4	Securities available for sale	2 111 683	480 756	108 376	-	-	2 700 815
5	Other assets	32 842	116	122	-	-	33 080
6	**Total financial assets**	**3 437 806**	**623 950**	**284 036**	**146 582**	**20 881**	**4 513 255**
	Liabilities						
7	Due to banks	26	-	-	-	-	26
8	Due to customers	2 347 199	374 322	188 980	11 087	-	2 921 588
9	Debt securities issued by the Bank	36 926	-	-	-	-	36 926
10	Other liabilities	1 175 370	159	2 925	94	-	1 178 548
11	**Total financial liabilities**	**3 559 521**	**374 481**	**191 905**	**11 181**	**-**	**4 137 088**
12	Net liquidity gap as at 31 December 2017	(121 715)	249 469	92 131	135 401	20 881	376 167
13	Cumulative liquidity gap as at 31 December 2017	(121 715)	127 754	219 885	355 286	376 167	-

Operational risks

The Bank determines an operational risk as the risk of losses resulting from inconsistency or failure to fulfil any procedures, incorrect actions of staff or internal systems, or because of external events. Such definition applies to a legal risk; however, strategic and reputation risks are not taken into account.

Operational risk management is a part of the Bank general risk management system. The necessity of operational risk management is determined by the essential value of losses caused by the operational risk that may threaten to the Bank financial stability.

Management activities covers:

- identification and implementation of actions aimed at mitigating the risk and its transfer, in accordance with the position regarding risks identified by the Board, as well as with regard to the objectives of capital placement;
- streamlining and optimizing the costs / benefits of the insurance return and other forms of risk transfer accepted by the ISP Group.

The key functions of operational risk management are:

- Conscious acceptance of operational risk, which is inextricably related with the Bank's business activities;
- reduction of operational risk due to actions taken to appropriate risk factors;
- risk transfer through insurance or other special financial instruments (Alternative transfer of risk).

The Bank manages its operational risk using the following internal documents:

- Operational Risk Management Policy adopted by Resolution of the component corporate bodies;
- Policy on Key Operational Risk Indicators Management adopted by Resolution of the component corporate bodies;
- Specifications of Key Operational Risk Indicators adopted by Resolution of the component corporate bodies;

Note 31. Capital management

The Bank's shareholders give sufficient deal of interest to capital increase, specifically, to increase of the share capital as the key component of capital.

The Bank's capital is formed for the purpose of:

- highly profitable use of own assets;
- covering of all risks accepted by the Bank;
- optimization of assets and liabilities structure by ageing and investment of funds

As at 31 December 2018, the National Bank of Ukraine (the NBU) requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets computed in accordance with the NBU regulations

As at 31 December 2018 and 31 December 2017, the Bank complied with regulatory capital adequacy ratio (R2) of 96.06% (31 December 2017: 51.03%).

Table 31.1. Structure of regulatory capital based on the NBU requirements

(in thousands of Ukrainian hryvnias)

Line	Item	31 December 2018	31 December 2017
1	2	3	4
	Primary capital	**1 584 665**	**578 813**
1	Share capital	979 090	968 371
2	Share premium	4 600 449	3 502 659
3	Total reserves under Ukrainian legislation	1 332	1 332
4	Intangible assets	(415 225)	(387 897)
5	Amortisation of intangible assets	276 946	240 915
6	Capital investments in intangible assets	(3 979)	(74)
7	Uncovered losses of past years	(3 690 848)	(3 591 150)
8	Uncovered credit risk	-	(47 265)
9	Estimated loss	(163 100)	(108 078)
	Additional capital	**75 839**	**82 839**
10	Provisions for standard indebtedness	75 839	82 839
	Deductions	**(3)**	**(3)**
11	Shares, other securities with a variable interest rate issued by the Bank held for trading and available-for-sale	(3)	(3)
12	**Total regulatory capital**	**1 660 501**	**661 649**

Note 32. Fair value of financial instruments

Fair value of a financial instrument is defined as the amount for which an asset could be exchanged, or a liability settled, between the knowledgeable, willing and independent parties. Fair value estimates are based on the assumption that the Bank will continue its activities in future without any liquidation or essential reduction of transactions or carrying on transactions on unfavourable conditions. Fair value represents credit quality of financial instrument, as it includes the risk of counterparty's default.

Fair value estimates are based on prices received at financial markets in case of financial instruments quoted in an active market or using internal estimation methods in case of other financial instruments. Market is considered to be active when prices are easily quoted and available on the regular basis (by means of stock exchange, dealer, broker, industrial group, price informational service or regulating authority) and represent actual regular arm's length transactions between independent parties.

When the market does not operate on a regular basis, that is, it has no sufficient volatility and constant number of transactions, while the difference between purchase price and selling price is insufficient, fair value measurement is mainly based on valuation techniques aimed at establishing of the price of a hypothetic commercial transaction on an arm's length basis as at the measurement date.

Table 32.1. Analysis of financial instruments at amortised cost by hierarchy level as at 31 December 2018

						(in thousands of Ukrainian hryvnias)
	Item	**Fair value by different measurement methods as at 31 December 2018**			**Total fair values**	**Total carrying amount**
		Quoted market price (Level I)	**Valuation technique using observable inputs (Level II)**	**Valuation technique with significant unobservable inputs (Level III)**		
1	**2**	**3**	**4**	**5**	**6**	**7**
	FINANCIAL ASSETS					
1	Cash and cash equivalents	-	823 213	-	823 213	823 213
2	Loans and advances to banks	-	138 567	-	138 567	138 567
3	Loans and advances to customers	-	-	1 213 359	1 213 359	1 219 305
4	Securities accounted at amortized cost	-	1 704 806	-	1 704 806	1 704 806
5	Securities accounted at fair value through other comprehensive income		3		3	3
6	Other financial assets		-	55 942	55 942	55 942
	FINANCIAL LIABILITIES					
7	Due to banks	-	185	-	185	185
8	Due to customers	-	2 595 978	-	2 595 978	2 372 835
9	Debt securities issued by the Bank	-	5 573	-	5 573	5 573
10	Other liabilities	-	-	110 870	110 870	110 870

Table 32.2. Analysis of financial instruments at amortised cost by hierarchy level as at 31 December 2017 (end of the day)

(in thousands of Ukrainian hryvnias)

	Item	Fair value by different measurement methods as at 31 December 2017			Total fair values	Total carrying amount
		Quoted market price (Level I)	Valuation technique using observable inputs (Level II)	Valuation technique with significant unobservable inputs (Level III)		
1	2	3	4	5	6	7
	FINANCIAL ASSETS					
1	Cash and cash equivalents	-	1,088,693	-	1,088,693	1,088,693
2	Loans and advances to banks	-	142,875	-	142,875	142,875
3	Loans and advances to customers	-	-	569,353	569,353	547,792
4	Securities available for sale	-	2,700,812	-	2,700, 812	2,700,815
5	Other assets			79,383	79,383	79,383
	FINANCIAL LIABILITIES					
6	Due to banks	-	26	-	26	26
7	Due to customers	-	2,917,756	-	2,917,756	2,921,588
8	Debt securities issued by the Bank	-	36,926	-	36,926	36,926
9	Other liabilities	-		1,178,548	1,178,548	1,178,548

The Bank uses the following hierarchy when measuring the fair value of financial instruments and disclosing based on the inputs used in the valuation techniques:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that have a significant effect on the valuation and are observable on the market, either directly or indirectly;

Level 3: inputs that have a significant effect on the valuation and are not based on observable market data (unobservable inputs).

Financial instruments for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having maturity less than one month it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to funds on demand, savings accounts without a specific maturity, variable rate financial instruments, loans issued or deposits placed less than one month before reporting date.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing loans and deposits is based on discounted cash flows using discount rates for assets and liabilities with similar credit risk and maturity.

For quoted shares and debts issued, the fair values are calculated based on quoted market prices on active markets for identical assets or liabilities. For shares and debts issued where quoted market prices on active markets are not available, a discounted cash flow model is used based on yield to maturity for similar financial instruments quoted on active financial markets.

Table 32.3. Significant unobservable inputs used in the measuring instruments categorized as Level 3 in the fair value hierarchy

(in thousands of Ukrainian hryvnias)

Year	Type of financial instrument	Fair value	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Fair value sensitivity to unobservable inputs
1	2	3	4	5	6	7
2018	Loans and receivables	1 213 359	Cash flow discounting	Discount rate	Currency: UAH 15.73 – 32% Other currencies: 3.32 – 18%	Significant increase of discount rate results in lower values of fair value
2017	Loans and receivables	569 353	Cash flow discounting	Discount rate	Currency: UAH 14.93 – 28.94% Other currencies: 3.32 – 18.00%	Significant increase of discount rate results in lower values of fair value

Note 33. Presentation of financial instruments by measurement categories

Table 33.1. Financial assets by measurement category as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Loans and receivables	Assets available for sale	Total
1	2	3	4	5
1	Cash and cash equivalents	823 213	-	823 213
2	Loans and advances to banks	138 567	-	138 567
3	Loans and advances to customers:	1 219 305	-	1 219 305
3.1.	corporate loans	1 073 455	-	1 073 455
3.2.	mortgage loans to individuals	119 370	-	119 370
3.3.	consumer loans to individuals	82 333	-	82 333
3.4.	Other retail loans	62	-	62
3.5.	provision for impairment	(55 915)	-	(55 915)
4	Investments in securities accounted at amortized cost	1 704 806	-	1 704 806
5	Investments in securities accounted at amortized cost	-	34	34

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**Loans and receivables**	**Assets available for sale**	**Total**
1	**2**	**3**	**4**	**5**
5.1	Provision for impairment of securities accounted at fair value through other comprehensive income	-	(31)	(31)
6	Other assets:	56 274	-	56 274
6.1.	Due from customers	11 346	-	11 346
6.2.	Amounts due on accrued income from cash and settlement services and other accrued income	1 819	-	1 819
6.3.	Accounts receivable on credit and debit card operations	18 529	-	18 529
6.4.	Due from banks	932	-	932
6.5.	Accounts receivable on purchase of assets	264	-	264
6.6.	Prepaid services	30 626	-	30 626
6.7.	Taxes payable, other than income tax	191	-	191
6.8.	Other assets	4 469	-	4 469
6.9.	Provision for impairment	(11 902)	-	(11 902)
7	**Total financial assets**	**2 942 165**	**3**	**3 942 168**

Table 33.2. Financial assets by measurement category for 2017

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**Loans and receivables**	**Assets available for sale**	**Total**
1	**2**	**3**	**4**	**5**
1	Cash and cash equivalents	1 088 693	-	1 088 693
2	Loans and advances to banks	142 875	-	142 875
3	Loans and advances to customers:	547 792	-	547 792
3.1.	corporate loans	355 716	-	355 716
3.2.	mortgage loans to individuals	149 194	-	149 194
3.3.	consumer loans to individuals	57 005	-	57 005
3.4.	Other retail loans	493	-	493
3.5.	provision for impairment	(14 616)	-	(14 616)
4	Investments in securities accounted at amortised cost	2 700 812	-	2 700 812
5	Investments in securities measured at FV OCI	-	34	34
5.1	Provision for impairment for investments in securities measured at FV OCI	-	(31)	(31)
6	Other assets:	79 383	-	79 383
6.1.	Due from customers	15 527	-	15 527

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**Loans and receivables**	**Assets available for sale**	**Total**
1	**2**	**3**	**4**	**5**
6.2.	Amounts due on accrued income from cash and settlement services and other accrued income	1 852	-	1 852
6.3.	Accounts receivable on credit and debit card operations	25 026	-	25 026
6.4.	Due from banks	932	-	932
6.5.	Accounts receivable on purchase of assets	3 126	-	3 126
6.6.	Prepaid services	41 042	-	41 042
6.7.	Taxes payable, other than income tax	217	-	217
6.8.	Other assets	2 809	-	2 809
6.9.	Provision for impairment	(11 148)	-	(11 148)
7	**Total financial assets**	**4 559 555**	**3**	**4 559 558**

Note 34. Transactions with related parties

Assets and liabilities valuation methods applied upon recognition of transactions with related parties do not differ from generally accepted methods.
Agreements with the Bank's related parties do not envisage more favourable terms than agreements concluded with other parties.
The Bank's transactions with related parties during year ended 31 December 2018 had no material impact on the Bank's financial results.

Table 34.1. Balances with related parties as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	In other foreign currency	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Major shareholders												
1	Cash and cash equivalents	-	-	-	-	-	-	35 153	-	on demand	167	-	on demand
2	Due from banks	-	-	-	138 572	2.95%	from 2 – to 31 days	-	-	-	-	-	-
3	Provision for loans to other banks	-	-	-	5	-	from 2 – to 31 days	-	-	-	-	-	-
4	Other assets	55	-	on demand to 31 days	-	-	-	-	-	-	-	-	-
5	Funds of Banks	-	-		-	-		-	-				
6	Other liabilities	3 814	-	on demand	-	-	-	6 930	-	on demand	-	-	-
	Key management												

(in thousands of Ukrainian hryvnias)													
Line	**Item**	**UAH**	**Interest rate**	**Maturity**	**USD**	**Interest rate**	**Maturity**	**EUR**	**Interest rate**	**Maturity**	**In other foreign currency**	**Interest rate**	**Maturity**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
6	Loans and advances to customers	204	12%	from 2 days - over 5 years	-	-	-	-	-	-	-	-	-
7	Loan loss provisions	1	-	more than 5 years	-	-	-	-	-	-	-	-	-
8	Due to customers	2,455	0 - 8%	on demand	192	0.25%	on demand	489	0.25 - 0.45%	on demand	-	-	-
9	Other liabilities	688	-	on demand- to 2 years	-	-	-	-	-	-	-	-	-
	Other related parties												
10	Cash and cash equivalents	-	-	-	-	-	-	-	-	-	5,429	-	on demand
11	Other assets	422	-	on demand	-	-	-	-	-	-	-	-	-
12	Other liabilities	219	-	on demand	-	-	-	-	-	-	-	-	-

Related parties comprise entities under common control, members of the Supervisory Board, key management personnel and their immediate family members, companies that are controlled or significantly influenced by shareholders, by key management personnel or by their close family members.

Table 34.2. Income and expenses on transactions with related parties for year ended 2018

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**Major shareholders**	**Key management**	**Other related parties**
1	**2**	**3**	**4**	**5**
1	Interest income	3 752	46	122
2	Interest expense	(7)	(67)	-
3	Net loss on foreign exchange operations	1 229	-	-
4	Net gain (loss) arising from foreign currency translation	(15 951)	59	(3 603)
5	Fee and commission income	242	47	-
6	Fee and commission expense	(2 939)	-	(26)
7	Payroll expenses	-	(29 314)	-
8	Other administrative and operating expenses	(18 414)	(4 842)	(2 348)

Table 34.3. Loans granted to and repaid by related parties during year ended 31 December 2018

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Major shareholders**	**Key management**
1	***2***	***3***	***4***
1	Loans granted to related parties	(11 122 180)	(135)
2	Loans repaid by related parties	11 094 997	223

Table 34.4. Other rights and obligations on operations with related parties as at 31 December 2018

Line	**Item**	**Other related parties**
1	**2**	**3**
1	Guarantees received	253 713

Table 34.5. Balances with related parties as at 31 December 2017

(in thousands of Ukrainian hryvnias)

Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	In other foreign currency	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Major shareholders												
1	Cash and cash equivalents	-	-	-	209 591	-	on demand	142 432	-	on demand	312	-	on demand
2	Due from banks	-	-	-	112 829	0.75 - 1.68%	from 1 to 274 days	-	-	-	-	-	-
3	Other assets	19	-	on demand - to 21 days	-	-		-	-	-	-	-	-
4	Other liabilities	1 113 884	-	on demand – to 92 days	-	-	-	4 124	-	on demand	-	-	-
	Key management												
5	Loans and advances to customers	204	12%	from 2 days - over 10 year	-	-	-	-	-	-	-	-	-
6	Loan loss provisions	3	-	over 10 year	-	-	-	-	-	-	-	-	-

(in thousands of Ukrainian hryvnias)													
Line	**Item**	**UAH**	**Interest rate**	**Maturity**	**USD**	**Interest rate**	**Maturity**	**EUR**	**Interest rate**	**Maturity**	**In other foreign currency**	**Interest rate**	**Maturity**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
7	Due to customers	1 186	0 - 6.06%	on demand - to 1 day	141	0 - 0.5%	on demand - to 1 day	2	0.5 - 1%	on demand - to 1 day	-	-	-
8	Other liabilities	1 080	-	on demand - to 548 days	-	-	-	-	-	-	-	-	-
	Other related parties												
9	Cash and cash equivalents	-	-	-	23 995	-	on demand	-	-	-	2 993	-	on demand
10	Other liabilities	-	-	-	25	-	on demand	329	-	on demand	-	-	-

Table 34.6. Income and expenses on transactions with related parties for 2017

(in thousands of Ukrainian hryvnias)

Line	Item	Major shareholders	Key management	Other related parties
1	2	3	4	5
1	Interest income	2 822	29	-
2	Interest expense	-	(27)	-
3	Net gain from foreign exchange operations	2 098	-	-
4	Net gain arising from foreign currency translation	14 923	49	2 425
5	Fee and commission income	758	27	-
6	Fee and commission expense	(2 293)	-	(422)
7	Other administrative and operating expenses	(15 817)	(27 704)	(590)

Table 34.7. Loans granted to and repaid by related parties during 2017

(in thousands of Ukrainian hryvnias)

Line	Item	Major shareholders	Key management
1	*2*	*3*	*4*
1	Loans granted to related parties	1,559,699	-
2	Loans repaid by related parties	1,450,422	80

Table 34.8. Remuneration to key management

(in thousands of Ukrainian hryvnias)

Line	Item	Expenses for 2018	Accrued liabilities as at 31 December 2018	Expenses for 2017	Accrued liabilities as at 31 December 2017
1	2	3	4	5	6
1	Short-term employee benefits	29 074	610	24 523	1 059
2	Dismissal payments	240	-	-	-

The shareholder of JSC “PRAVEX BANK” is the Italian Intesa Sanpaolo Group.

Note 35. Subsequent events

There were no events after 31 December 2018 that required changes to the financial statements.

Note 36. Additional disclosure in accordance with the applicable laws of Ukraine

To comply with the National Committee for Securities and Stock Market Resolution no. 160 dated 12.02.2013 (as amended), the Bank hereby discloses the following information as at 31 December 2018:

- As at 31 December 2018, the Bank's equity amounted to UAH 2,004,183 thousand, including:
    - share capital: UAH 1,048,726 thousand;
    - share premium/discount: UAH 4,600,754 thousand;
    - accumulated deficit – UAH 3,898,038 thousand
    - revaluation reserves – UAH 251,409 thousand
    - reserves and other funds: UAH 1,332 thousand.

  The Bank net assets value as at 31 December 2018 exceeds the share capital, which complies with art. 155, the Civil Code of Ukraine.

  The list of the shareholders that own 5%+ shares as at 31 December 2018 is as follows: Intesa Sanpaolo SpA, - 10121, Italy - Turin, Piazza San Carlo, 156 is the only Shareholder holding a 100% stake in the Bank (1,686,585,731 of ordinary shares and 1,500,000 of preference registered shares), and the owner of a substantial shareholding.

- The share capital of the Bank as at 31 December 2018 was formed and paid in full exclusively by cash in the amount of UAH 979,090 thousand, except for the effect of applying IAS 29 "Financial Reporting in Hyperinflationary Economies", which is confirmed by the accounting data and available bank documents.

  The effect of applying the requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" in previous periods resulted in the increase in the share capital for the financial statements purposes by UAH 69,636 thousand.

- The cash contributions to the share capital for UAH 968,371 thousand were made during the issue of shares by the Bank, which took place during 1993-2018. During 2013-2018, the share capital was increased by:
    - UAH 7,250,000 (securities sale and purchase agreement No. 1/13 dated 24 May 2013; payment order No. 1 dated 24.05.2013);
    - UAH 1,295,430 (securities sale and purchase agreement No. 1/15 dated 29 January 2015; payment order No. 1 dated 29.01.2015);
    - UAH 304,906 (securities sale and purchase agreement No. 2/15 dated 6 February 2015; payment order No. 1 dated 06.02.2015);
    - UAH 148,074 (securities sale and purchase agreement No. 3/15 dated 9 February 2015; payment order No. 150400006 dated 09.02.2015);
    - UAH 1,122,242 (securities sale and purchase agreement No. 4/15 dated 18 February, 2015; payment order No. 1 dated 18.02.2015);
        - UAH 1,654,044 (securities sale and purchase agreement No. 5/15 dated 19 February 2015; payment order No. 1 dated 19.02.2015);

- UAH 1,275,304 (securities sale and purchase agreement No. 6/15 dated 20 February 2015; payment order No. 1 dated 20.02.2015);
- UAH 3,971,569 72 kopeks (securities sale and purchase agreement No. 7/15 dated 10 September 2015; payment order No. 1 dated 10.09.2015);
- UAH 3,318,928 78 kopeks (securities sale and purchase agreement No. 8/15 dated 30 September 2015; payment order No. 1 dated 30.09.2015);
- UAH 6,110,063 36 kopeks (securities sale and purchase agreement No. 9/15 dated 9 October 2015; payment order No. 1 dated 09.10.2015);
- UAH 10,719,16.12 kopecks (payment order No. 1, securities sale and purchase agreement No. 1/18 dated January 25, 2018).

- The cash contributed for the formation of the Bank capital are used for the statutory activities.
- As at 31 December 2018, the Bank established that it had neither overdue tax liabilities (existence/absence of tax debt), nor outstanding duties or penalties for violations of the financial services legislation, including those on the securities market. The information on the disputes with the public authorities is disclosed in Note 17.

Pursuant to the Strategy and the Profitability Plan for 2017 - 2019 of JSC "PRAVEX BANK" ("the Bank"), approved by Resolution no. 14_16.5 of the Supervisory Board dated 20 December 2016, they initiated a project to increase the capital of the Bank.

On 27 November 2017, the sole shareholder of the Bank issued Resolution No. 3/2017 ("the Resolution") dealing with the private placement of the ordinary registered shares of the Bank and established the following placement period, namely: from 22 January 2018 through 1 February 2018. Shares of the additional issue were offered for private placement to the sole shareholder of the Bank - Intesa Sanpaolo S.p.A. The shares private placement was carried out in one stage of making the contracts with the first owners.

In the course of the private placement period, 1 (one) Contract for the sale and purchase of shares no. 1/18 dated 25.01.2018 was made between JSC "PRAVEX BANK" and its sole shareholder Intesa Sanpaolo S.p.A. for the total of UAH 1,108,878,840 (one billion one hundred and eight million eight hundred and seventy-eight thousand eight hundred and forty hryvnias) for 18,481,314 (eighteen million four hundred and eighty-one thousand three hundred and fourteen) ordinary registered shares, and 88.0062% of the share price was paid in comparison with the expected amount.

The ordinary registered shares planned for the placement amounted to 21,000,000 (twenty one million) shares with a par value of UAH 0.58 (zero hryvnia fifty-eight kopecks) per share. The total par value is UAH 12,180,000.00 (twelve million one hundred and eighty thousand hryvnia, 00 kopeks). Provisional certificate for the share issue registration is dated 28.12.2017, registration number No. 118/1/2017-T.

The shares are issued in the uncertified form.

The additional shares of the Bank were placed at the price of UAH 60.00 (sixty hryvnias 00 kopeks) per share.

The private placement period started 22.01.2018 and ended 01.02.2018 (inclusively).

The funds received from the private placement total UAH 1,108,878,840.00 (one billion one hundred and eight million eight hundred and seventy-eight thousand eight hundred and forty hryvnias) (Payment Order No. 10 dated 25.01.2018).

Actually, 18,481,314 (eighteen million four hundred and eighty-one thousand three hundred and fourteen) ordinary registered shares with a total nominal value of UAH 10,719,162.12 (ten million seven hundred nineteen thousand one hundred and sixty two hryvnias, 12 kopeks) were placed, which amounts to 88.0062% as compared to the expected amount. The shares were paid in accordance with the Decision and the applicable laws requirements.

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" **T.O. Kyrychenko**

Chief Accountant
JSC "PRAVEX BANK" **O.V. Naumenko**

DATE: 21 February 2019

Акціонерне товариство "ПРАВЕКС БАНК" ідентифікаційний код 14360920 Україна м. Київ

Prepared by T.I. Melnyk
(044)-201-17-57

Independent Auditor's Report

On the financial statements of the Joint-Stock Company "PRAVEX-BANK".

Bank EDRPOU: 14360920. Legal address of the Bank: 9/2 Klovsky Uzviz, Kyiv 01021; incorporated on 27 October 2004, latest amendments to the Bank's charter documents made on 28 March 2018; principal activities under KVED-2010: 64.19 Other types of financial mediation.

To Management Board of the Joint-Stock Company "PRAVEX-BANK"

Report on audit of the financial statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material aspects, 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 (IFRS), and Ukrainian statutory requirements on financial reporting.

Basis for Opinion

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

Key audit matters that address the most significant risks of material misstatement, including risk of material misstatement due to fraud

Key audit matters are those matters that, in our professional judgement, 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.

Expected credit losses on loans and advances to customers	
See Note 8 to the financial statements.	
Key audit matter	***How the matter was addressed in our audit***
Loans granted to customers represent 27% of total assets and are stated net of provision for expected credit losses ("the ECL") estimated on a regular basis and sensitive to the assumptions used. On 1 January 2018, the Bank started to use a new model for estimating expected credit losses, which requires from management to apply professional judgment and to make assumptions about the following key areas: - timely identification of a significant increase in credit risk and default events related to loans granted to customers (attributing to Stages 1, 2 and 3 in accordance with IFRS 9); - assessment of the default probability (PD) and loss given default (LGD); - forecast of expected flows from the loans granted to customers, attributed to Stage 3. Due to the significant amount of loans granted to customers, the transition to the new model of ECL, as well as the uncertainty inherent in estimating the reserve for the ECL, the said matter is a key audit matter.	We analyzed the basic aspects of the Bank methodology and policies for assessing its compliance with IFRS 9 requirements, including through the involvement of specialists in the field of financial risk management. In order to analyze the adequacy of the professional judgments applied by management and the assumptions made when calculating the provision for expected loan losses, we also performed the following audit procedures: — Tested the design of controls over timely attribution of loans to the Stages; — Based on a sample of loans, where the potential change in the ECLs evaluation may have a significant effect on the financial statements, we have tested if the Bank attributed the appropriate Stage by analyzing the financial and non-financial information for the selected borrowers, as well as the assumptions and professional judgments made by the Bank; — For the sample of loans that were attributed to the Stage 3 and were individually assessed for impairment, and focusing on those that had the greatest potential impact on the financial statements, we additionally assessed the basis underlying the future cash flows based on our understanding and also taking into account the available market information; — For the loans granted to the customers and attributed to Stages 1 and 2, which ECLs the Bank estimates on a collective basis, we tested the principles of the models operation and their application by checking the mathematical accuracy of the calculations, and also tested input data to those models by reconciliation with the primary documents on a sample basis; — We assessed the overall predictability power of the models used by the Bank to estimate the ECL by comparing the assessment made on 1 January 2018, against the actual results for 2018; — Analyzed the forecast information included in the calculation of ECL.

	We also ensured that the disclosures in the financial statements adequately reflect the Bank exposure to credit risk.

Asset fair value measurement

Please refer to Notes 4 (Accounting policies), 11 (Investment property) and 12 (Property, equipment and intangible assets) to the financial statements.

Key audit matter	*How the matter was addressed in our audit*
Investment property in the amount of UAH 93,293 thousand and certain property and equipment categories, namely buildings in the amount of UAH 252,784 thousand and land plots in the amount of UAH 228 thousand (hereinafter "the non-current assets") are carried at fair value. Evaluation of the non-current assets, including categories: "Investment property", "Land plots" and "Buildings, constructions and transmission equipment" included to the "Property, equipment and intangible assets" caption required significant professional judgement of external experts that were involved in such evaluation. Therefore, fair value measurement of those non-current assets is deemed a key audit matter.	Our audit procedures particularly included: - familiarising with the Bank's significant controls related to fair value measurement of non-current assets; - analysing the competency of the external appraiser engaged by management of the Bank; - engaging internal valuation specialists to analyse the valuation results and critically assess the approaches to valuation of non-current assets and the judgements of the external appraiser engaged by management of the Bank; - analysing the valuation approaches and judgements used in the asset valuation. Analysing the changes in the approaches and their compatibility with those used in the prior year valuation; - assessing the disclosure of fair value of the relevant non-current assets in the financial statements.

Other Information

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

— the Bank's Management Report as at and for the year ended 31 December 2018 (that does not include the financial statements and our independent auditor's report thereon) that became available to us prior to the issue of this independent auditor's report;

— the Annual information disclosed and reported to the National Commission on Securities and Stock Market disclosed and reported to the National Commission on Securities and Stock Market (hereinafter "the Commission") that we expect to obtain subsequent to the date of this independent auditors' report.

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 this 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 on the other information that became available to us prior to the issue date of this independent auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and Ukrainian statutory requirements on 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.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the system of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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 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 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Pursuant to Article 14(4) of the Law of Ukraine *"On Audits of Financial Statements and Auditing Activity"*, we disclosed the following information in our Independent auditor's report in addition to ISA requirements.

The date of appointing the audit firm and total duration of the uninterrupted audit engagement

We were engaged to perform an audit of the Bank's financial statements as at and for the year ended 31 December 2018 by the Supervisory Board of the Bank on 21 September 2018. The total duration of our uninterrupted audit engagement is seven consecutive years, from the year ended 31 December 2012 until the year ended 31 December 2018.

Provision of non-audit services

We have not provided any non-audit services prohibited by Article 6(4) of the Law of Ukraine "*On Audits of Financial Statements and Auditing Activity*".

Furthermore, during the audited period we did not provide any other services to the Bank except as disclosed in the Bank's Management Report.

Additional report to the Supervisory Board and Audit Committee

We hereby confirm that our auditor's report is in conformity with the additional report to the Supervisory Board and the Audit Committee.

Information disclosed pursuant to requirements of the National Commission on Securities and Stock Market

The audit was performed from 25 September 2018 to 21 February 2019. The audit was conducted in accordance with Engagement Contract No. 138-SA/2018 dated 25 September 2018.

Management is responsible for compliance by the Bank with legal and regulatory requirements, including those set by the National Securities and Stock Market Commission ("the Commission"). Pursuant to Commission's Resolution #160 dated 12 February 2013, as part of our audit of financial statements, we are required to report on other legal and regulatory matters, including:

1) Description of the audit matters and auditors' conclusions on the following:

— if the amount of the equity reported in the Bank's financial statements as at and for the period ended 31 December 2018 corresponds to requirements of the Commission's legal and regulatory acts;

- if the amount of the Bank's share capital corresponds to the statutory registration documents (description of the assessment, including the form of contributions);
- share capital structure and payment;
- whether the Bank has no overdue liabilities in paying taxes (availability/absence of tax debt) and duties or unpaid fines for violating the laws in the financial services area, including those dealing with the securities market.

2) Information on the use of contributions to the share capital of the Bank that, in accordance with the Charter, intends to carry out professional activities on the securities market, from the incorporation date or from the date of the amendments to the Charter regarding the Bank's principal activities;

3) Information on the Bank's related parties identified in performing the audit procedures;

4) Information on the amount of contingent assets and/or liabilities, if any, that could be recorded on its balance sheet with a significant degree of probability;

5) Any events subsequent to the balance sheet date that had not been recorded in the financial statements, but might have significant impact on the Bank's financial position;

6) Any other facts and circumstances that may have significant impact on the Bank's operations in the future, and assessment of such impact;

7) Other financial information in accordance with the legislation.

The findings of our procedures are presented below:

As at 31 December 2018, the equity of the Bank amounts to UAH 2,004,183 thousand, including:

- share capital: UAH 1,048,726 thousand;
- share premium/discount: UAH 4,600,754 thousand;
- accumulated deficit: UAH 3,898,038 thousand;
- revaluation reserves: UAH 251,409 thousand;
- reserves and other funds: UAH 1,332 thousand.

The Bank net assets value as at 31 December 2018 exceeds the share capital, which complies with Article 155 of the Civil Code of Ukraine.

- The Sole Shareholder that owns 100% of shares in the Bank (including 1,686,585,731 registered ordinary shares and 1,500,000 registered preference shares), being a significant stakeholder, is Intesa Sanpaolo S.p.A., located at: Piazza S. Carlo, 156, 10121, Torino, Italy.
- The Bank's share capital as at 31 December 2018 was contributed and fully paid in solely in a cash form in the amount of UAH 979,090 thousand, except for the effect of applying IAS 29 Financial Reporting in Hyperinflationary Economies, which is supported by the accounting records and available banking documents.
  Due to the effect of applying the requirements of IAS 29 Financial Reporting in Hyperinflationary Economies in the prior periods, for the purposes of the financial statements the amount of the Bank's share capital exceeded the amount of its outstanding shares by UAH 69,636 thousand.
- The cash contributions to the share capital for UAH 979,090 thousand were made during the issues of shares by the Bank, which took place during 1993-2018. During 2018, the share capital was increased by UAH 10,719,162.12; payment order No. 1 (securities sale and purchase agreement No. 1/18 of 25 January 2018, payment order No. 10 of 25 January 2018).
- As at 31 December 2018, the Bank established that it had no overdue liabilities in paying taxes (availability/absence of tax debt) and duties or unpaid fines for violating the laws in the financial services area, including those dealing with the securities market.

Based on the Commission Decision no. 160 dated 12 February 2013, we disclose the following information:

1) The cash contributed to the Bank share capital are used for the activities envisaged by the Bank Charter.
2) Transactions and balances with related parties are disclosed in note 34 to the financial statements.
3) As at 31 December 2018, the Bank has no contingent assets and/or liabilities with a high probability of their recognition in the balance sheet, except for those reported in the financial statements as at 31 December 2018 and for the year then ended.
4) There were no events subsequent to the balance sheet date until the date of this independent auditor's report that had not been recorded in the financial statements, but might have significant impact on the Bank's financial position.
5) There were no other facts and circumstances that may have significant impact on the Bank's operations.
6) There were no other financial statements prepared in accordance with the Laws of Ukraine and regulations of the Commission except for the annual financial statements and interim financial statements prepared in accordance with International Financial Reporting Standards.

Our consideration of the matters described above was only for the limited purpose described in the second paragraph of this section.

Report on the compliance with the requirements of the National Bank of Ukraine

We performed our audit to form opinion of the financial statements as a whole. In planning the scope of our audit procedures, we did not seek to obtain audit evidence in order to express an opinion on individual components of the financial statements, and, accordingly, we do not express such opinion. Furthermore, we did not perform audit procedures in order to express an opinion on the effectiveness of the Bank internal control and other internal processes and other procedures, and, accordingly, we do not express such opinion. As part of obtaining reasonable assurance about whether the Bank's financial statements are free of material misstatement, we performed tests on compliance with certain requirements of the National Bank of Ukraine ("the NBU"), non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, we did not perform the audit to express our opinion on the compliance with the said requirements, and, accordingly, do not express such opinion.

In the course of the audit mentioned in the previous paragraph we considered, among other things, the following matters:

- **Compliance (fair presentation) of the data on the Bank's assets and liabilities structure by maturities in the file A7X "Data on the structure of assets and liabilities by maturity", containing the statistical reporting figures, prepared by the Bank for submission to the NBU**

  Analysis of assets and liabilities by maturities as at 31 December 2018 (beginning of 1 January 2019) is based on statistical reporting form #A7 *"Data on the structure of assets and liabilities by maturities"* ("File A7"), prepared in accordance with the requirements of the National Bank of Ukraine, approved by the NBU Board Resolution No. 129 dated 1 March 2016.

- **Capital adequacy based on the analysis of the Bank assets quality and transactions with related parties in accordance with the requirements of regulatory acts issued by the NBU, including on the regulation of banks activities and assessment of risks as regards establishment and use of the provisions for possible losses (damages) from asset management transactions due to the credit risk materialisation**

  As at 31 December 2018, the Bank reported in the financial statements prepared in accordance with IFRS (see attached) the provision for cash and cash equivalents in the amount of UAH 1,500 thousand, provision for expected losses on loans and advances to customers in the amount of UAH 55,915 thousand, provision for impairment of securities of UAH 31 thousand, and provision for other financial assets impairment of UAH 12,234 thousand.

  Additionally, in accordance with other regulatory requirements of the NBU, the Bank's internal regulation, developed based on the "Regulation on the assessment of the credit risk from asset management transactions by banks of Ukraine", approved by the NBU Resolution No. 351 dated 30 June 2016, as at 31 December 2018, the Bank estimated the following provisions to assess the credit risk from asset side transactions for the regulatory purposes only, and, consequently, disclosed below provisions are not part of the Bank financial statements, prepared in accordance with IFRS:

  — provision for impairment of loans and advances to customers amounting to UAH 94,175 thousand, which is 7.4% of the total amount of loans and advances to customers;

  — provision for impairment of cash held in other banks in the amount of UAH 6,319 thousand, which is 1.1% of the total amount of cash placed with other banks;

  — provision for impairment of loans and advances to banks amounting to UAH 3,568 thousand, which is 2.6% of the total amount of loans and advances to banks;

  — provision for impairment of investments in securities at fair value through other comprehensive income amounting to UAH 31 thousand, which is 91.2% of the total amount of respective securities.

  The Bank established that its regulatory capital as at 31 December 2018, estimated in line with the regulatory requirements of the National Bank of Ukraine, is UAH 1,660,501 thousand (Note 31 to the annual financial statements), and, therefore, as at 31 December 2018 the Bank established that it complied with the regulatory capital adequacy ratio. In addition, the Bank established that hat it complies with regulatory value set for the maximum credit risk for transactions with the related parties as of 31 December 2018, in accordance with the requirements set by the regulatory acts of the National Bank of Ukraine.

  The Bank prepared the list of its related parties in accordance with requirements of the Law of Ukraine "On Banks and Banking Activities" and regulations of the National Bank of Ukraine. The information on the transactions and balances with related parties is disclosed in Note 34 to the annual financial statements.

- **Compliance of the Bank with the requirements regarding internal control, internal audit and accounting of the Bank in accordance with the requirements of the NBU regulatory acts**

  In planning and performing our audit, we considered the Bank's internal control over the preparation and issue of its financial statements, including the activities of the internal audit, where applicable, in order to determine our audit procedures for the purpose of expressing our opinion on the financial statements. Internal control is the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting in accordance with the applicable Ukrainian legislation and regulations of the National Bank of Ukraine. In the course of our analysis of the internal control, we did not identify any departures of the Bank from the requirements regarding internal control, internal audit and accounting in the Bank in accordance with the requirements of the NBU regulatory acts that may be treated as material weakness. A material weakness is a weakness in internal control that could have a material effect on the financial statements.

The principles of the Bank internal audit practices are set forth in the "Regulation on the Internal Audit Department" adopted by resolution of the meeting of the Supervisory Board (minutes no. 10_16.29 dated 1 August 2016), which is based on the requirements of the Law of Ukraine "On Banks and Banking activity" and Regulation "On Organization of Internal Audit in the Banks of Ukraine" adopted by the NBU's Resolution no. 311 dated 10 May 2016.

Our consideration of the matters described above was performed only for the limited purpose described in the first paragraph of this section. We did not identify any material inconsistencies with the requirements of the National Bank of Ukraine related to the above issues that could have a direct and significant impact on the estimation of the amounts in the financial statements. This report is intended solely for the information and use of the Bank and the National Bank of Ukraine. The report is not intended to be and should not be used by anyone other than these specified parties.

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

Anna Parkhomenko

Certified Auditor

Banking Auditor Certificate # 0085 issued 29 December 2009

Deputy Director, JSC KPMG Audit

25 March 2019