JOINT-STOCK COMPANY WEST FINANCE AND CREDIT BANK

Financial statements

for the year ended 31 December 2018

With the independent auditors' report

Contents

Independent Auditors' Report

STATEMENT OF FINANCIAL POSITION ... 1
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ... 2
STATEMENT OF CASH FLOWS FOR ... 3
STATEMENT OF CHANGES IN EQUITY ... 4

Notes to the financial statements

1. BACKGROUND ... 5
2. ECONOMIC ENVIRONMENT OF THE BANK ... 5
3. BASIS OF PREPARATION ... 6
4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES ... 7
5. SIGNIFICANT ACCOUNTING POLICIES ... 8
6. CASH AND CASH EQUIVALENTS ... 28
7. NBU CERTIFICATES OF DEPOSIT ... 28
8. DUE FROM BANKS ... 28
9. LOANS AND ADVANCES TO CUSTOMERS ... 28
10. INVESTMENT PROPERTY ... 32
11. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS ... 33
12. OTHER ASSETS ... 34
13. DUE TO BANKS ... 34
14. DUE TO CUSTOMERS ... 34
15. OTHER LIABILITIES ... 35
16. DUE TO INTERNATIONAL FINANCIAL INSTITUTIONS ... 35
17. SUBORDINATED DEBT ... 35
18. SHARE CAPITAL ... 36
19. COMMITMENTS AND CONTINGENCIES ... 37
20. INTEREST INCOME AND EXPENSE ... 38
21. COMMISSION INCOME AND EXPENSE ... 38
22. OTHER OPERATING INCOME ... 38
23. ADMINISTRATIVE AND OTHER OPERATING EXPENSES ... 39
24. PROVISION FOR IMPAIRMENT LOSSES ... 39
25. INCOME TAX EXPENSE ... 39

26. DERIVATIVE FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS 40
27. FINANCIAL RISK MANAGEMENT 41
28. CAPITAL MANAGEMENT 52
29. BALANCES WITH RELATED PARTIES 52
30. FAIR VALUE MEASUREMENT 55
31. SUBSEQUENT EVENTS 57

Independent Auditors' Report

To Management Board of Joint-Stock Company WEST FINANCE AND CREDIT BANK

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the of the Joint-Stock Company WEST FINANCE AND CREDIT BANK (hereinafter "the Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity 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 respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of Ukrainian legislation on financial reporting.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the 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.

Entity JSC WEST FINANCE AND CREDIT BANK

Registration No. in the Unified State Register of Legal Entities and Entrepreneurs of Ukraine 34575675

The registered address of the Bank is at A A1 4, Leontovicha Str., 01030 Kyiv, Ukraine

Date of state registration: 4 October 2006 Latest amendments to the Charter: 19 February 2018

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

Registration No. in the Unified State Register of Legal Entities and Entrepreneurs of Ukraine 31032100

Registration No. in the Register of Auditors and Audit Organisations 2397

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

Key Audit Matters Incorporating the Most Significant Risks of Material Misstatements, Including Assessed Risk of Material Misstatements Due to Fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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 9 (Loans and advances to customers) to the financial statements.

The key audit matter	How the matter was addressed in our audit
Loans and advances granted to customers represent 75% of total assets and are stated net of allowance 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 ECL, 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 to customers (allocating 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 cash flows from the loans granted to customers, allocated to Stage 3. Due to the significance of loans to customers, the transition to a new ECL model and the uncertainty inherent to estimation of allowance for estimated credit losses, this	We analysed the basic aspects of the Bank methodology and policies for assessing its compliance with IFRS 9 requirements. To assess the adequacy of professional judgement and assumptions made by management in the calculation of the allowance for expected credit losses, we performed, among the other, the following procedures: — For a sample of exposures with the significant potential impact on the financial statements in case of a change in the ECL estimate, we tested the appropriateness of their classification to the Stages by the Bank by analysis financial and non-financial information on selected borrowers, as well as the assumptions and professional judgements made by the Bank; — For a sample of exposures classified to Stage 3 and purchased or originated credit impaired assets that were subject to an individual impairment assessment, and focusing on those with the most significant potential impact on the financial statements, we specifically challenged the assumptions on the expected future cash flows based on our own understanding and taking into account the available market information; — For loans to customers classified to Stages 1 and 2 that were subject to assessment for ECL by the Bank on a collective basis, we tested appropriateness and the mathematical accuracy of the models applied, and tested the inputs to the model by their reconciliation with source documents on a sample basis; — We assessed the predictive power of the models used by the Bank to calculate ECL by comparing the estimate as at 1 January 2018 with actual

matter is deemed a key audit matter.	results for 2018. We also satisfied ourselves as to whether the disclosures in the financial statements adequately present the Bank's exposure to credit risk and impact of transition to IFRS 9 in respect of expected credit losses.

Other information

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

- the Bank's Management Report as at and for the year ended 31 December 2018 (that does not include the financial statements and our independent auditors' report thereon);
- the Annual information for 2018 disclosed and reported to the National Securities and Stock Market Commission (hereinafter "the Commission").

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of Ukrainian legislation on financial reporting, and for such internal control as management determines is necessary to enable the preparation of 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's 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 Bank's internal control.

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

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 auditors' report in addition to ISA requirements.

The date of appointing the auditing entity and total duration of the uninterrupted audit engagement

We were engaged to conduct 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 12 September 2018. Our total uninterrupted period of audit engagements is 2 years, covering the years ended 31 December 2017 to 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*".

In addition, for the period to which our statutory audit relates, we have not provided any services to the Bank, which have not been disclosed in the Bank's Management Report.

Additional Report to the Supervisory Board

We hereby confirm that this auditors' report is in conformity with the additional report to the Supervisory Board.

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

Anna Parkhomenko

Certified Auditor

ACU Certificate # 0085 dated 29 October 2009

Deputy Director

JSC KPMG Audit

26 April 2019

	Notes	2018	2017*
Assets			
Cash and cash equivalents	6	187,882	215,969
NBU certificates of deposit	7	156,225	290,625
Due from banks	8	3,129	3,172
Loans and advances to customers	9	1,260,813	1,080,066
Investment property	10	1,926	1,347
Property, equipment and intangible assets	11	14,354	14,264
Deferred tax asset	25	318	225
Other assets	12	52,225	2,792
Total assets		**1,676,872**	**1,608,460**
Liabilities			
Due to banks	13	160,111	141,614
Customer accounts	14	881,545	900,874
Due to international financial institutions	16	191,375	167,722
Income tax payable		3,243	2,359
Other liabilities	15	3,379	2,887
Subordinated debt	17	38,474	38,268
Total liabilities		**1,278,127**	**1,253,724**
Equity			
Share capital	18	307,424	204,933
Unregistered share capital		4,086	69,086
Share premium		2,902	2,902
Additional paid-in capital		(6,400)	(6,400)
Retained earnings		90,733	84,215
Total equity		**398,745**	**354,736**
Total liabilities and equity		**1,676,872**	**1,608,460**

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

Signed and authorised for issuance

Mr. Igor Tykhonov — Chairman of the Board

Mr. Igor Kuzmenko — Chief Accountant

25 April 2019

JSC WEST FINANCE AND CREDIT BANK
Statement of profit or loss and other comprehensive income for the year ended 31 December 2018

(in thousands of Ukrainian hryvnias)

	Notes	2018	2017*
Interest income calculated using the effective interest method	20	199,362	151,850
Other interest income		3,756	1,377
Interest expense	20	(93,624)	(60,862)
Net interest income	20	**109,494**	**92,365**
Fee and commission income	21	29,930	28,905
Fee and commission expense	21	(5,054)	(4,088)
Gains less losses arising from change in or derecognition of financial assets or liabilities		(4,959)	-
Gains less losses arising from dealing in foreign currencies		11,270	6,910
Gains less losses arising from foreign currency translation		1,139	567
Allocated to provision for impairment of loans and due from banks	24	9,591	(3,633)
Allocated to provision for impairment of other assets	24	(320)	(77)
Other operating income	22	4,256	844
Salary and employee benefits		(46,336)	(39,449)
Depreciation and amortization		(3,819)	(3,758)
Administrative and other operating expenses	23	(30,917)	(30,005)
Profit before tax		**74,275**	**48,581**
Income tax expense	25	(14,086)	(8,761)
Net profit and total comprehensive income		**60,189**	**39,820**

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

Signed and authorised for issuance

Mr. Igor Tykhonov — Chairman of the Board

Mr. Igor Kuzmenko — Chief Accountant

25 April 2019

The notes set out on pages 5 – 57 form an integral part of these financial statements.

(in thousands of Ukrainian hryvnias)

	Notes	2018	2017*
Operating activities			
Interest received		197 615	146 656
Interest paid		(88 644)	(50 800)
Fees and commissions received		29 930	28 905
Fees and commissions paid		(5 054)	(4 088)
Net receipts from dealing in foreign currencies		6 528	4 711
Other operating income received		4 384	844
Administrative and other operating expenses		(82 313)	(69 339)
Income tax paid		(9 744)	(7 653)
Cash flows from operating activities before change in operating assets and liabilities		**52 702**	**49 236**
Changes in operating assets and liabilities			
Change in due from banks		(644)	(786)
Change in loans and advances		(194 792)	(248 651)
Change in other assets		(44 356)	1 205
Securities measured at amortised cost		133 999	(230 000)
Change in due to banks		20 016	(149 836)
Change in due to customers		(16 695)	379 490
Change in other liabilities		492	(295)
Cash flows from / (used in) operating activities		**(49 228)**	**(199 637)**
Investing activities			
Purchase of property, equipment and intangible assets		(9 103)	(466)
Proceeds from sale of investment properties		650	6 575
Cash flows used in investing activities		**(8 453)**	**(6 109)**
Financing activities			
Proceeds from international financial institutions		31 728	166 769
Proceeds from increase of share capital		-	67 082
Repayment of subordinated debt		-	(66 854)
Cash flows from financing activities		**31 728**	**166 997**
Effect of exchange rate fluctuations on cash and cash equivalents		(2 084)	7 478
Net increase / (decrease) in cash and cash equivalents		(26 003)	(26 531)
Cash and cash equivalents as at 1 January		**215 969**	**235 022**
Cash and cash equivalents as at 31 December	6	**187 882**	**215 969**

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

Signed and authorised for issuance

Mr. Igor Tykhonov — Chairman of the board

Mr. Igor Kuzmenko — Chief Accountant

25 April 2019

The notes set out on pages 5 – 57 form an integral part of these financial statements.

	Share capital	Unregistered share capital	Share premium	Additional paid-in capital	Retained earnings	Total
Balance at 1 January 2017	**136,470**	**42,004**	**2,902**	**3,474**	**70,740**	**255,950**
Share capital registration	68,463	(68,463)	-	-	-	-
Share capital increase	-	28,463	-	-	(28,463)	-
Additional paid-in capital	-	67,082	-	(9,874)	2,118	**59,326**
Total comprehensive income for the year	-	-	-	-	39,820	**39,820**
Balance as at 31 December 2017	**204,933**	**69,086**	**2,902**	**(6,400)**	**84,215**	**354,736**
Changes arising from adoption of IFRS 9					(16,180)	**(16,180)**
Adjusted balance at 1 January 2018	**204,933**	**69,086**	**2,902**	**(6,400)**	**68, 035**	**338,556**
Share capital registration	65,000	(65,000)	-	-	-	-
Share capital increase (Note 18)	37,491	-	-	-	(37,491)	-
Total comprehensive income for the year	-	-	-	-	60,189	**60,189**
Balance as at 31 December 2018	**307,424**	**4,086**	**2,902**	**(6,400)**	**90,733**	**398,745**

Signed and authorised for issuance

Mr. Igor Tykhonov — Chairman of the Board

Mr. Igor Kuzmenko — Chief Accountant

25 April 2019

The notes set out on pages 5 – 57 form an integral part of these financial statements.

1. Background

Organisation and operations

JOINNT STOCK COMPANY "WEST FINANCE AND CREDIT BANK" (the Bank) was established as the closed joint stock company according to Ukrainian legislation and registered by the National Bank of Ukraine (the NBU) on 4 October 2006. In January 2009, the Bank was reorganised into open joint-stock company. In January 2011, the Bank was re-registered in the form of a public joint stock company. In November 2018, the Bank was re-registered in the form of a joint stock company.

The principal activities of the Bank are lending, deposits taking, cash and settlement operations, operations with foreign exchange, as well as other services. The Bank's activities are regulated by the National Bank of Ukraine.

The head office is located at A A1, 4, Leontovicha Str., Kyiv, Ukraine.

As at 31 December 2018, the Bank had 87 employees (31 December 2017: 82 employees).

The ultimate controlling party of the Bank is ALTINBAS HOLDING ANONIM SIRKETI that owns 100% of the Bank's shares as at 31 December 2018 (31 December 2017: 100%) and is ultimately controlled by the Altinbas family.

As at 31 December 2018, the Bank's share capital is fully paid in solely via cash contributions in the equivalent of UAH 307,424 thousand. During 2018, there were a reinvestment of the previous year's profits amounted to UAH 37,491 thousand and the part of the subordinated debt were contributed to the share capital in amount of to UAH 65,000 thousand.

The latest issue was conducted in 2017 in the amount of:

- UAH 65,000,001.60 (securities sale-purchase contract #3 dated 6 November 2017 – for 36,111,112 shares, payment order #1 dated 22 December 2017).

The contributions to the share capital of the Bank were used for the activities envisaged by the Bank's Charter.

There were no other financial statements prepared in accordance with the Laws of Ukraine except for annual financial statements and interim quarterly financial statements prepared in accordance with International Financial Reporting Standards.

2. Economic environment of the Bank

The Bank's operations are primarily located in Ukraine. The political and economic situation in Ukraine in recent years is unstable, with the specifics of the 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.

In November 2018, following an incident between the Russian and Ukrainian military around a waterway connecting the Azov Sea and the Black Sea, the Ukrainian authorities introduced martial law for a 30-days period in 10 regions located along the Russian and Moldavian border, the Azov Sea and the Black Sea coast. The martial law was terminated at the end of December 2018, on the elapse of 30 days.

Ukraine's economic situation deteriorated significantly in 2014-2018 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 showed first 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 and general revival in business activity.

In 2016-2018, the NBU made certain steps to provide a relief to the currency control restrictions introduced in 2014–2015. In particular, the share of foreign currency proceeds subject to mandatory sale in the interbank market was gradually reduced, and the settlements period for export-import operations 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 came into force. The new law abolishes a number of restrictions, defines new principles of currency operations, currency regulation and supervision, and results in significant liberalization 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 has continued to support the Ukrainian government under the four-year IMF Extended Financing Program approved in March 2015. In October 2018 the government of Ukraine reached an agreement with the IMF on a new fourteen-month 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.

3. Basis of preparation

Background

These financial statements are 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 the effective regulations on submission of annual reports by issuers.

During year ended 31 December 2018, in preparation of the financial statements, the Bank consistently applied the principal accounting policies set forth below, unless otherwise specified (see Note 5 (b)). These financial statements are based on the historical cost approach, except for derivative financial instruments included in other assets and investment property, measured at fair value, unless otherwise noted (see note 5 (b)).

This is the first set of annual financial statements of the Bank, in preparation of which IFRS 9 "Financial Instruments" and IFRS 15 "Revenues from Customer Contracts" have been applied. Changes in the main accounting policies are described in Note 5 (b).

Functional and presentation currency

Transactions are accounted for in the transaction currency. Items of assets and liabilities, income and expenses arising from dealing in foreign currencies are recognised in the financial statements in UAH equivalent at the official NBU foreign exchange rates ruling at the transaction dates. The financial statements are presented in thousands of Ukrainian hryvnias, unless otherwise indicated.

4. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the presentation of the amount of assets and liabilities in the financial statements, as well as the present value of assets and liabilities for the following fiscal year. Assessments and professional judgments are continually analyzed on the basis of management experience and other factors, including expectations for future events that, in the opinion of management, are justified in the light of current circumstances. In the process of applying accounting policies, the management of the Bank also uses professional judgments. Professional judgments that have the most significant impact on the amounts are reflected in the financial statements, and estimates that may result in significant adjustments to the present value of assets and liabilities during the next fiscal year include the following:

Applied in 2017

Management personnel estimates the impairment by assessing the probability of repayment of loans and customer due diligence on the basis of the analysis of individual borrowers for individual significant loans, as well as in aggregate for loans with similar terms and risk characteristics. Factors taken into account when assessing individual loans include the maturity, the borrower's current financial condition, repayment timeliness and pledge, if any. To determine the amount of impairment, management personnel assesses the amounts and timing of future payments from repayment of principal and interest and proceeds from the sale of the collateral, if any. After that, these cash flows are discounted using the initial effective interest rate on the loan. The actual repayment of principal and interest depends on the borrower's ability to generate cash flows from operations or to obtain alternative financing and may differ from those of management personnel.

Factors taken into consideration when estimating impairment of loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions.

Applied in 2018

- classification of financial assets: valuation of a business model that holds financial assets and an assessment of whether contractual terms of a financial asset are foreseen for the payment of exclusively principal and interest on the outstanding balance of principal – Note 5 (b).
- expected credit losses (impairment) of financial instruments: an assessment of whether there has been a significant increase in the credit risk of an asset since its initial recognition and the inclusion of forecast information in the estimation of expected credit losses - Notes 5 (b).

The Bank recognises loss allowances for expected credit losses (‘ECL’) on the following financial instruments that are not measured at fair value through profit or loss:

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

The Bank recognises 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 have low credit risk at the reporting date;
- other financial instruments on which credit risk has not increased significantly since initial recognition.

5. Significant accounting policies

(a) Foreign currency translation

The Bank's functional currency is Ukrainian hryvnia, as the currency of the Bank's core business environment. Transactions denominated in other currencies are considered foreign currency transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the NBU exchange rate ruling at that date. Foreign currency differences arising on the translation are recognised in profit or loss as gain/loss from foreign currency translation. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The UAH exchange rates used in the preparation of these financial statements are as follows:

Currency	31 December 2018	31 December 2017
USD	27.6883	28.0672
EUR	31.7141	33.4954

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.

Introduction of new or revised standards and interpretations

The Bank adopted IFRS 9 Financial Instruments ("the Standard") (2014) effective 1 January 2018. The Standard replaced IAS 39 Financial Instruments: Recognition and Measurement. In connection with the transitional methods chosen by the Bank in applying IFRS 9, comparative information in these financial statements as a whole was not recalculated in accordance with its requirements.

The effect of the initial application of this standard is primarily due to an increase in impairment losses recognised by financial assets (see below).

The Bank began applying IFRS 15 "Revenue from Customer Contracts" from January 1, 2018. The application of IFRS 15 did not materially affect the financial statements and did not affect the recognition periods or the amount of commission income under customer contracts and the value of the respective assets and liabilities recognised by the Bank.

(b) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant

change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of transition to IFRS 9, the Bank also applied accompanying amendments to IFRS 1 “Presentation of Financial Statements” requiring separate disclosure of interest income calculated using the effective interest method in the profit and loss account and other comprehensive income and separate income representation (loss) arising from the cessation of recognition of financial assets at amortised cost. Previously, the Bank disclosed this amount in the notes to the financial statements.

In addition, the Bank has adopted accompanying amendments to IFRS 7 “Financial Instruments: Disclosures” that apply to disclosure in 2018 but are not generally applicable to comparative information.

The key changes to the Bank’s accounting policies resulting from its adoption of IFRS 9 are summarised below.

(i) Classification

Upon initial recognition, the Bank classifies financial instruments and determines their model for further measurement. The Bank classifies financial assets based on the business model in which assets are managed and their cash flow characteristics under the host contract.

Financial assets are classified into the following categories:

- financial assets carried at amortised cost (AC);
- financial assets at fair value through other comprehensive income (FVOCI);
- financial assets at fair value through profit or loss (FVTPL).

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:

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

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);
- upon initial recognition, designated as at fair value through profit or loss.

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

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

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI, i.e. designate such instruments as at FVOCI. This election is made on an instrument-by-instrument basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

(ii) Recognition

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. On initial recognition, a financial asset is classified as measured at either amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition, except as 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.

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Modified financial assets

The terms of the loan provided by the agreement can be modified for a number of reasons, including changes in market conditions, customer retention and other factors that are not related to the current or potential deterioration of the client's creditworthiness. Recognition of an existing loan, the terms of which have been modified, may be discontinued and recognition of a new loan with modified terms at fair value is recognised in accordance with the accounting policies described in Note 5 (b) (iv).

If the conditions of a financial asset are modified and the modification does not lead to a cessation of recognition, determining whether there has been a significant increase in credit risk on an asset is made by comparison:

- likelihood of default for the remaining balance as of the reporting date based on modified contractual terms; and
- probability of default for the remaining term as of the date of initial recognition on the basis of the original terms of the contract.

When a modification leads to a cessation of recognition, a new loan related to Stage 1 (based on the assumption that it is not a loan-depleted one) is recognised.

(iii) Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing 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 Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Major types of business models in which a financial asset is managed are as follows:

- a business model whose objective is to hold assets to collect contractual cash flows;
- a business model whose objective is achieved by collecting contractual cash flows and selling financial assets;
- other business models, including: trading, management on a fair value basis, and maximization of cash flows through sales.

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows;
- 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:

All financial assets not classified as measured at amortised cost or at FVOCI as described above are measured at FVTPL.

The Bank's financial liabilities include credit related commitments, guarantees, 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.

Bank assesses the business model in which its financial assets are managed on a regular basis for the purposes of generating cash flows. As at the date of business model assessment, the Bank considers all objective evidence/factors observable at that 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.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for de-recognition, are measured at amortised cost.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is credited or charged to profit or loss or to equity (if financial assets or financial liabilities resulted from transactions with shareholders acting as shareholders) as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortization of the gains/losses on origination and the related income/expense is recorded in profit or loss using the effective interest method.

(iv) Fair value measurement principles

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 the effect of its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. 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.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

An estimates of whether the cash flows provided for by the agreement are exclusively due to the payment of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of a financial asset at its initial recognition. "Interest" is defined as consideration for the value of money in time, for a credit risk for a principal outstanding for a certain period of time, and for other basic risks and costs associated with lending (for example, liquidity risk and administrative costs); as well as profit margins.

In assessing whether the contractual cash flows are exclusively due to principal and interest on an outstanding portion of the principal ("SPPI" criterion), the Bank analyzes the contractual terms of a financial instrument, namely whether a financial asset contains a contractual clause that may change the timing or amount of cash flows provided for by the agreement so that the financial asset will not meet the requirement. In conducting the assessment, the Bank analyzes:

- contingencies that may change the timing or amount of cash flows;
- conditions that have leverage effect on cash flows;
- conditions for early repayment and prolongation of validity;
- conditions that limit the Bank's cash flows from contingent assets - for example, non-recourse financial assets;
- conditions that cause changes in the reimbursement of the temporary value of money - for example, periodic revision of interest rates.

The prepayment condition meets the SPPI criterion in the event that the amount paid at prepayment is essentially an outstanding portion of the principal and interest on the outstanding portion and may include reasonable additional compensation for early termination of the contract.

In addition, the prepayment clause is considered to be in compliance with this criterion in the event that a financial asset is acquired or created with a premium or a discount on the nominal amount specified in the contract; the amount payable at early repayment is, in essence, the nominal amount specified in the contract plus the accrued (but not paid) interest stipulated by the contract (and may also include reasonable additional compensation for early termination of the contract); and when the initial recognition of a financial asset is a fair value, its terms of early repayment are insignificant.

Reclassification of financial assets is carried out prospectively only in case of changing the business model within which they are held.

Financial liabilities and equity instruments, as well as financial assets that were at the discretion of the Bank are classified as at fair value through profit or loss, are not subject to reclassification

Accounting policy applicable until 1 January 2018

The Bank classifies its financial assets in the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- rated by FVTPL, and within this category as:
  - held for trading operations; or
  - ranked as being rated by the FVTPL.

Initial recognition of financial instruments

Financial instruments at fair value through profit or loss on initial recognition are carried at fair value. The costs of acquiring such financial instruments are recorded on expense accounts at the date they are incurred.

All other financial instruments at initial recognition are measured at fair value plus transaction costs added / deducted. The transaction costs and other payments directly related to the recognition of a financial instrument are shown on the discount account (premium) for this financial instrument.

The transaction costs include fees paid to agents, consultants, brokers and dealers, regulatory bodies, stock exchanges, taxes and state taxes, etc.

The transaction costs and commission income, which are an integral part of the financial instrument's return (excluding financial instruments at fair value through profit or loss) are

recognised in the initial value of the financial instrument and are accounted for when calculating the effective interest rates on such a financial instrument.

Termination of recognition of financial instruments

Financial assets

Termination of recognition of financial assets occurs if:

- the validity period of the rights to cash flows determined by the terms of a financial asset agreement expires;
- the transfer of a financial asset meets the criteria for termination;
- write-off of a financial asset at the expense of the reserve.

The transfer of a financial asset occurs if one of the following conditions is met:

- transferred the rights to receive cash flows from a financial asset, which are stipulated by the agreement;
- the rights to receive cash flows from a financial asset that are stipulated by the transfer agreement are retained, but there is an obligation to pay cash flows to one or more recipients under an agreement that meets the following conditions:
  - there is no obligation to pay amounts to final buyers until the date of receipt of equivalent amounts from the original asset;
  - the terms of the agreement prohibit the Bank from selling or pledging an original financial asset, except for its transfer to the final beneficiaries as a provision for the obligation to pay cash flows;
  - there is an obligation to transfer any cash flows received on behalf of the final recipients without significant delay. Interest on such investments is passed on to final recipients.

When transferring a financial asset, the limits are estimated, in which all risks and rewards of ownership of an asset are kept, taking into account the following:

- if, basically, all risks and rewards of ownership of the financial asset are transferred, then the recognition of the financial asset is discontinued and the rights and obligations created or retained during the transfer, separately as an asset or liability, are recognised;
- if, basically, all risks and rewards of ownership of the financial asset are preserved, then the recognition of the financial asset continues;
- if, basically, all risks and rewards of ownership of the financial asset are not preserved or transferred, then it is determined whether the control over the financial asset is retained.

The control of the transferred asset is not available if the party to whom the asset is transferred has the real ability to sell it to an unrelated third party and may sell this sale unilaterally without the need to impose additional restrictions on such transfer.

If the control over a financial asset is not retained, the recognition of such an asset is terminated, otherwise, if the control over the financial asset is retained, its recognition continues to be recognised within the further participation therein.

When a financial asset is derecognised, the difference between the carrying amount of the asset (or the carrying amount attributed to the part of the asset that was derecognised) and the amount (i) of the consideration received (including all new assets received, minus all new liabilities accepted), and (ii) any accumulated gain or loss that has been recognised in other comprehensive income is recognised in profit or loss.

From 1 January 2018, any accumulated amount of profit / loss recognised in other comprehensive income on equity investment securities classified at the discretion of the Bank in the category of fair value through other comprehensive income is not subject to reclassification into net profit or loss on termination of recognition of such securities. Any portion of participation in the transferred

financial assets that are subject to the recognition requirements established or retained by the Bank is recognised as a separate asset or liability.

In operations in which the Bank does not retain and does not transfer virtually all risks and rewards of ownership of a financial asset and retains control over an asset, the Bank continues to recognise the asset subject to the continuing involvement of the Bank in the management of this asset, determined by the extent to which it is vulnerable to changes in the value of the transferred asset.

(v) Loss allowance for expected credit losses

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

- financial assets measured at amortised cost;
- financial assets at fair value through other comprehensive income;
- outstanding credit related commitments and financial guarantees;
- financial receivables.

No allowance is recognised for equity instruments. Loss allowance should be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1’ financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

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

(vi) Measurement of ECLs

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

(vii) 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. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk stage.

For financial assets that have become credit-impaired (recognised as at Stage 3) 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.

Significant increase in credit risk

When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Bank primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime probability of default (PD) as at the reporting date with the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

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 backstop based on delinquency.

In certain instances, using its expert credit 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 backstop, 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 will determine 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.

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.

Definition of default

The financial asset is classified by the Bank as financial assets for which the default event occurred, in the following cases:

- it is unlikely that the borrower's loan commitments to the Bank will be fully settled without the Bank's application of such actions as the implementation of the security (if any);
- the borrower's debt on any of the Bank's material liabilties exceeds 90 days (for default balances in other banks the default event occurs if the financial asset is past due for 30 days). Overdrafts are considered as arrears the next day when the client violated the recommended limit or he was recommended a limit lower than the amount of current outstanding debt.
- changing lending conditions associated with financial difficulties of the debtor.
- initiation of litigation, liquidation or bankruptcy proceedings of the borrower.

In assessing the occurrence of a default event on the obligations of the borrower, the Bank takes into account the following indicators:

- qualitative: for example, violations of the contractual terms of the contract (covenant);
- quantitative: for example, the status of overdue debts and non-payment under another obligation of the same issuer;
- on the basis of data obtained from external sources;
- the beginning of the liquidation or the bankruptcy proceedings of the borrower.

Input data when assessing the occurrence of a default event on a financial instrument and its significance may change over time in order to reflect changes in circumstances.

(viii) Gains and losses on subsequent measurement

The main inputs for the estimation of expected credit losses is the time structure of these variables:

- Default probability (PD);
- loss in default case (LGD);
- The risk of default in the event of default (EAD).

ECL for positions exposed to credit risk at Stage 1 are calculated by multiplying the PD by 12 months for LGD and EAD. ECL for the entire life of a financial instrument is calculated by multiplying PD for the entire duration of the financial instrument on LGD and EAD.

The Bank evaluates LGDs based on information on returns on claims against counterparty defaulters. LGDs provide for the structure, provision, seniority requirements, counterparty industry, and reimbursement of any collateral that is included in the financial asset. For loans secured by real estate individuals, the ratio between the loan amount and the value of the collateral (LTV) will be the main parameter for determining the magnitude of the loss in the event of default. Estimates of the magnitude of the loss in the event of default are calibrated taking into account different economic scenarios, and for lending real estate transactions - taking into account the possible changes in real estate prices. They are calculated on the basis of discounting cash flows using an effective interest rate as a discount factor.

The risk-of-default amount (EAD) is the expected value of a position exposed to credit risk at the date of default. This indicator is calculated by the Bank on the basis of the current value of the exposed position and its possible changes in the contract, including depreciation. For an financial asset, the value of EAD will be its gross carrying value at the time of default. For loan commitments, the EAD is the future amount that can be obtained under a contract, measured on the basis of historical observations and forecast information. For financial guarantee contracts.

As described above, subject to the maximum probability of a 12-month default probability for financial assets in Stage 1, the Bank estimates expected credit losses, taking into account the risk of default within the maximum contractual period (including any borrower's options for

prolongation) during which it is exposed for credit risk, even if for the purposes of risk management, the Bank considers a longer period. The maximum period under the agreement extends until the date when the Bank has the right to demand repayment of the granted loan or has the right to cancel the loan or guarantee obligation.

(c) Impairment applied for 2017

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans, advances and other receivables (loans and advances to customers). Management reviews its loans and receivables to assess impairment on a regular basis. A loan (or group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has had an impact on the estimated future cash flows of the loan (group of loans) that can be reliably estimated.

Management first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant. If management determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, management uses its experience and judgement to estimate the amount of any impairment loss.

The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets applied to 2017 and 2018

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of a non-financial asset is the greater of its fair value less costs to sell or 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 amortization, if no impairment loss had been recognised.

Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Provisions for other credit related commitment are included in other liabilities.

(d) Property, equipment and intangible assets

Property, equipment and intangible assets are carried at cost less accumulated depreciation and amortization and impairment losses. Depreciation and amortization is computed by the straight-line method over the estimated useful lives of the assets. Depreciation commences from the date when property and equipment are ready to use. The estimated useful lives are as follows:

Plant and equipment	5 years;
Motor vehicles	5 years;
Intangible assets	3 years

Expenditures for leasehold improvements are recognised as assets and expensed on a straight-line basis over the shorter of their economic life or the period of the applicable lease.

(e) 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 initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. The fair value of the Bank's investment property is determined based on reports of the internal appraiser with relevant professional qualification and experience in valuation of property of similar location and category.

(f) Lease

Payments for operating leases, where the Bank does not assume substantially all the risks and rewards of ownership are classified as expenses when incurred.

(g) Recognition of income and expense

Interest and similar income and income expense and similar charges are recognised in profit or loss on an accrual basis, taking into account the effective yield/rate of the asset/liability or an applicable floating rate. Interest and similar income and income expense and similar expense include the amortization of any discount or premium or other differences between the initial

carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Commission income and expense is recognised on an accrual basis. Other fees, commission and other income are recognised when the corresponding services are provided/received.

Loan origination fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

(h) Taxation

Income tax 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 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.

(i) Employee benefits

Pensions are provided by the State. Mandatory contributions are made by the Bank and employees based on each individual employee’s earnings. The cost for these contributions is recognised in profit or loss when contributions are due and is included in salaries and employee benefits as part of administrative and other operating expenses.

(j) Cash and cash equivalents

Cash and cash equivalents include cash, balances with the National Bank of Ukraine and balances due from banks with contractual maturity within three months.

(k) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(l) Calculation of interest income and expenses

Interest income on financial assets measured at amortised cost is recognised at the effective interest rate to gross book value, except:

- purchased or created depreciated financial assets. For such financial assets, the effective interest rate adjusted for credit risk is applied to the amortised cost of the financial asset from the date of initial recognition. The calculation of interest income on such assets is not carried out based on the gross carrying amount, even if the credit risk on them will decrease further;
- financial assets that are not acquired or created by impaired financial assets, but which subsequently became depreciated financial assets. In the case of such financial assets,

the Bank shall apply the effective interest rate to the amortised cost of the financial asset in subsequent years after the date of recognition in the impaired reporting periods. If the financial asset is no longer loan-denominated, then the calculation of interest income is again based on gross book value.

More detailed information about when a financial asset becomes a credit-impaired is disclosed in Note 5 (b).

The effective interest rate is revised as a result of the periodic revaluation of cash flows for interest bearing instruments in order to reflect changes in market interest rates.

Submitting of information

Interest income calculated using the effective interest method presented in the statement of income and other comprehensive income includes interest income calculated using the effective interest method for financial assets measured at amortised cost.

Interest expense presented in the statement of income and other comprehensive income includes financial liabilities measured at amortised cost.

(m) Segment reporting

An operating segment is a component of a 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 segment and assess its performance, and for which discrete financial information is available.

For management reporting purposes, the Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy. There are no customers from which revenues exceed 10% of total external revenue.

(n) New accounting pronouncements

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 intends to adopt these standards, if necessary, when they become effective.

The following standards are expected to have a material impact on the Bank’s financial statements in the period of initial application.

IFRS 16 Leases

IFRS 16 replaces the current lease accounting requirements in IAS 17 Leases, IFRIC 4 Determine whether a lease agreement is in place, PKT-15 Operational Lease-Promotion and PTC-27, "Estimation of the essence of transactions that are legal the form of the lease agreement ".

This Standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted.

IFRS 16 introduces a single model for leasing leaseholders' accounting, which provides for their presentation on the lessee's balance sheet. In accordance with this model, the lessee must recognise the asset in the form of the right of use, which is the right to use the underlying asset, and the lease obligation, which is the obligation to make lease payments. Optional exemptions from the standard for short-term lease and rental of low-value wearables. The accounting rules for landlords remain similar to existing, that is, lessors will continue to classify the lease as a finance lease or operating lease.

As a tenant, the Bank may apply a standard using:

- retrospective approach; or

- a modified retrospective approach with the optional exemption from the requirements of a standard of a practical nature.

The lessee applies the chosen option consistently to all lease agreements in which he acts as a tenant.

The Bank plans to first apply IFRS 16 as of January 1, 2019, using a modified retrospective approach using the option to recognise an asset for use in an amount equal to a lease, adjusted for the amount of any advance paid or leased charges related with this lease, recognised in the statement of financial position just before the date of the first application. This approach allows the presentation of financial statements without the transfer of comparative information for the previous period. When applying a modified retrospective approach to lease agreements previously classified as operating leases in accordance with IAS 17, the lessee may choose for each lease agreement whether or not to apply any practical simplification. The Bank is in the process of assessing the possible impact of the use of simplifications of a practical nature.

The Bank is not obliged to make any adjustments under the lease agreements in which the Bank acts as a lessor, except for cases when the Bank is an intermediate lessor under a sublease agreement.

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

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

Previously, the Bank recognised the operating lease costs on a straight-line basis over the entire lease term and recognised assets and liabilities only to the extent that there was a difference between the actual payouts for the lease and the recognised expense.

Based on the information available at present, the Bank estimates that as of 1 January 2019, lease obligations will amount to UAH 17,045 thousand. As of 1 January 2019, the Bank plans to recognise the right to use an asset in the amount of UAH 17,045 thousand, which is equal to the lease obligation adjusted for the amount paid in advance or assessed lease payments related to this lease recognised in the statement of financial position right before the date of first application.

Reclassification not related to changes in IFRS 9

The Bank has reclassified the reflection of transactions in securities that are accounted for at amortised cost. The effect of these changes on the procedure for reporting information in the statement of cash flows for the year ended 31 December 2017 is as follows:

	According to the previous one reporting	**Impact of reclassification**	**After reclassification**
Operational activity	**-**		
Securities held at amortised cost	**-**	**(230 000)**	**(230 000)**
Investment activity			
Securities held at amortised cost	**(230 000)**	**230 000**	**-**

Transition provisions

Changes in the accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The data for comparative periods are not recalculated. The differences between the former carrying amount of the instruments and their carrying amount in accordance with IFRS 9 are recognised in retained earnings and equity reserves as at 1 January 2018. Accordingly, the information submitted as of and for the year ended 31 December 2017 do not reflects the requirements of IFRS 9, and therefore, it is not comparable with the information presented in accordance with IFRS 9 as at and for the year ended 31 December 2017.
  The Bank exercised the exemption, which allows not to restate comparative periods, but amendments made by IFRS 9 to IAS 1 introduced a requirement to provide "interest income calculated using the effective interest method" as a separate item in the statement of income and other comprehensive income, the Bank has reclassified comparative figures accordingly: interest income on non-derivative financial assets measured at fair value through profit or loss and net investment in financial lease re-classified from the article "interest income" and is included in the item "other interest income", the title "interest income" has been changed to "interest income calculated using the effective interest method". Other changes have also been made to the format of financial statements.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
  - The determination of the business model within which a financial asset is held. The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

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

In thousands of hryvnias	**Measurement categories - IAS 39**	**Measurement categories - IFRS 9**	**Carrying value - IAS 39**	**Carrying value - IFRS 9**
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	215,969	214,851
Due from other banks	Loans and receivables	Amortised cost	3,172	3,172
Loans and advances to customers	Loans and receivables	Amortised cost	1,080,066	1,061,452
NBU deposit certificates	Financial assets available for sale	Fair value through other comprehensive income	290,625	290,625
Total financial assets			**1,589,832**	**1,570,100**
Financial liabilities				
Due to other banks	Amortised cost	Amortised cost	141,614	141,614
Customer accounts	Amortised cost	Amortised cost	900,874	900,874
Due to other financial institutions	Amortised cost	Amortised cost	167,722	167,722
Subordinated debt	Amortised cost	Amortised cost	38,268	38,268
Total financial liabilities			**1,248,478**	**1,248,478**

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

In thousands of hryvnias	**31 December 2017 IAS 39**	**Measurement changes**	**1 January 2018 IFRS 9**	**Impact on retained earnings**
Financial assets				
Cash and cash equivalents	215,969	(1,118)	214,851	(765)
Due from other banks	3,172	-	3,172	-
Loans and advances to customers	1,080,066	(18,614)	1,061,452	(15,415)
Investment securities available for sale IAS 39 / Investment securities at fair value through other comprehensive income IFRS 9	290,625	-	290,625	-
Total financial assets	**1,589,832**	**-**	**1,570,100**	**-**
Financial liabilities				
Due to other banks	141,614	-	141,614	-
Customer accounts	900,874	-	900,874	-
Due to other financial institutions	167,722	-	167,722	-
Subordinated debt	38,268	-	38,268	-
Total financial liabilities	**1,248,478**	**-**	**1,248,478**	**-**

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

In thousands of hryvnias	**31 December 2017 IAS 39/ IAS 37**	**Includes accrued interest income adjustments for impaired loans**	**Reclassifi-cation**	**Measuremen t changes**	**1 January 2018 IFRS 9**	**Impact on accumula ted deficit**
Financial assets						
Cash and cash equivalents	60	-	-	(1,118)	1,178	1,118
Loans and advances to customers	5,670		-	(18,613)	24,284	18,613
Total financial liabilities	**5,730**	**-**	**-**	**(19,731)**	**25,462**	**19,731**

The overall impact of applying IFRS 9 to equity components, net of changes in deferred tax assets as at 1 January 2018, is presented below:

In thousands of hryvnias	**Accumulated deficit**
Balance as at 31 December 2017	**5,731**
Recognition of provision for expected loan losses	
Cash and cash equivalents	1,118
Loans and advances to customers	18,613
Balance as at 1 January 2018	**25,462**

Influence of the First Application of IFRS 9 "Financial Instruments" to the Statement of Financial Position as of 1 January 2018

IFRS 39			**IFRS 9**			**Difference**	
	Value net of provisions	**Provisions**	Impairment stage	**Value net of provisions**	**Provisions**	**Value net of provisions**	**Provisions**
Cash and cash equivalents	**215,969**	**(60)**	**Cash and cash equivalents**	**215,969**	**(1,178)**	**-**	**(1,118)**
Productive indebtedness	65,199	(58)	Level 1	65,199	(352)		(294)
Neither impaired nor past due	150,770	(2)	Level 1	150,770	(826)		(824)
Loans and receivables	**1,085,736**	**(5,670)**	**Loans and receivables**	**1,085,736**	**(24,284)**		**(18,614)**
Loans without specifically identified impairment	981,615	(770)	Stage 1	494,244	(268)	(24,396)	384
Loans with specific impairment	104,121	(4,900)	Stage 2	462,975	(118)	24,396	(18,997)
			Stage 3 (Loans with specific impairment)	102,071	(18,092)		
			POCI assets	26,446	(5,806)		
	1,301,705	**(5,730)**	**Total**	**1,301,705**	**(25,462)**		**(19,732)**

IFRS 15 Revenue from Contracts with Customers

IFRS 15 published in May 2014 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programs*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank has adopted IFRS 15 *Revenue from Contracts with Customers* on 1 January 2018. Adoption of IFRS 15 *Revenue from Contracts with Customers* did not have significant impact on the figures of the financial statements.

Other standards

New or changed standards and interpretations presented below are not expected to have a significant effect on the Bank's financial statements.

- Interpretation of the CTMF 23 "Uncertainty regarding the rules for calculating the income tax";
- Long-term investments in associates or joint ventures (changes to IAS 28);
- Making changes to the plan, reducing it or settling a liability for it (amendments to IAS 19);
- Annual Improvements to IFRS, Cycle 2015-2017 - Different Standards.
- Amendments to references in IFRS standards to the Conceptual Framework for Financial Statements;
- IFRS 17 Insurance Contracts.

6. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2018 are as follows:

	2018	2017
Cash on hand	15,863	13,928
Balances with the NBU	31,086	51,271
Current accounts placed with other banks	140,933	150,770
Total	**187,882**	**215,969**

Effective 25 December 2017, the NBU amended the requirements regarding the mandatory reserve on the correspondent account with the NBU. In accordance with Resolution No. 752-рш of the Management Board of the National Bank of Ukraine dated 23 December 2017 "On creation and maintenance of mandatory reserves", the control over the balance of the mandatory reserve on the correspondent account with the National Bank of Ukraine on a daily basis was cancelled. As at 31 December 2017, the statutory amount of the mandatory reserve was UAH 45,203 thousand.

The following table represents an analysis of current amounts due from banks by rating agency designation based on Standard and Poor's ratings (S&P) or their equivalents as at 31 December:

	2018	2017
Current accounts placed with other banks:		
BBB- to A+	130,398	139,373
BB- to BB+	10,328	5,886
CC- to CC+	207	5,511
	140,933	**150,770**

As at 31 December 2013, the two largest balances on current accounts placed with other banks comprised UAH 130,398 thousand or 92.5% of total balances on current accounts with other banks (2017: UAH 139,373 thousand or 92.4%).

7. NBU certificates of deposit

Investment securities are represented by the NBU certificates of deposit. NBU certificates of deposit bear the interest rates within the range of 16-18% and mature in January 2019. Certificates of deposit of the National Bank of Ukraine were neither impaired nor past due as at 31 December 2018 and 31 December 2017.

8. Due from banks

As at 31 December 2018, due from banks are represented by guarantee secured deposit with maturity exceeding three months placed in one bank having rating "B- to B+" assigned by Standard and Poor's (S&P) or equivalent ratings (2017: one bank, "B- to B+"). Certificates of deposit of the National Bank of Ukraine were neither impaired nor past due as at 31 December 2018 and 2017.

9. Loans and advances to customers

Loans and advances to customers as at 31 December are as follows:

	2018	2017
Corporate	1,274,616	1,085,417
Individuals	889	319
Total loans, gross	**1,275,505**	**1,085,736**
Provision for impairment of loans and advances to customers (Note 24)	(14,692)	(5,670)
Total	**1,260,813**	**1,080,066**

Provision for losses on loans to customers at amortised cost

The changes in the provision for expected credit losses on loans to customers at amortised cost during 2018 are presented as follows:

	Level 1	Level 2	Level 3	Purchased or originated credit-impaired assets	Total
ECL as at 31 December 2017	650	370	2,965	1,685	5,670
Changes arising from adoption of IFRS 9	(382)	(252)	15,127	4,121	18,614
ECL as at 1 January 2018	**268**	**118**	**18,092**	**5,806**	**24,284**
Accrued/(disposed) for the year	512	60	5,520	(4,523)	9,592
ECL as at 31 December 2018	**780**	**58**	**12,572**	**1,283**	**14,692**

The changes in the provision for expected credit losses on loans to customers at amortised cost during 2017 are presented as follows:

	Corporate customers	Individuals	Total
As at 1 January 2017	**1,513**	**524**	**2,037**
Charge/(release) for the year	4,109	(476)	3,633
As at 31 December 2017	**5,622**	**48**	**5,670**
Specific impairment	5,622	-	**5,622**
Collective impairment	-	48	**48**
Total	**5,622**	**48**	**5,670**

Significant credit risk concentration

As at 31 December 2018, loans and advances to the ten largest borrowers total UAH 623,073 thousand or 48.8%% of the total net loans and advances to customers (2017: UAH 565,386 thousand or 52.1%).

(a) Loan impairment

At 31 December 2018, loans impairment was as follows:

		Standard	*Under observation*	*Impairmented*	*Total*
Loans to customers at amortised cost					
Loans to legal entities	Stage 1	1 023 063	-	-	**1 023 063**
	Stage 2	-	168 379	-	**168 379**
	Stage 3	-	-	59 382	**59 382**
	POCI assets	-	-	23 792	**23 792**
	Total	**1 023 063**	**168 379**	**83 174**	**1 274 616**
Loans to individuals	Stage 1	250	-	-	**250**
	Stage 2	-	30	-	**30**
	Stage 3	-	-	609	**609**
	Total	**250**	**30**	**609**	**889**
Total		**1 023 313**	**168 409**	**83 783**	**1 275 505**

At 31 December 2017, loans impairment was as follows:

	Gross loans	**Impair-ment**	**Net loans**	**Impairment to gross loans**
Corporate loans				
Loans with specific impairment	104,073	(4,853)	99,220	4.66%
Loans without specifically identified impairment	981,344	(770)	980,575	0.08%
Total corporate loans	**1,085,417**	**(5,623)**	**1,079,794**	**0.52%**
Retail loans				
Loans with specific impairment	48	(48)	-	100%
Loans without specifically identified impairment	271	-	271	-
Total retail loans	319	(48)	271	15.05%
Total corporate and retail loans	**1,085,736**	**(5,670)**	**1,080,066**	**0.52%**

(b) Collateral

The following table provides information on collateral as at 31 December, by type of collateral. The table shows the amounts of secured loans rather than the fair value of collateral.

	2018	2017
Real estate	762,982	792,705
Motor vehicles	136,048	133,190
Equipment	291,144	86,594
Deposits	77,469	48,896
Unsecured	6,973	24,351
Total	**1,274,616**	**1,085,736**

The Bank lending activities are conducted in Ukraine. The ability of the borrowers to repay their debt is dependent on a number of factors including the overall financial health of the individual borrowers and the continued development of the Ukrainian economy.

Although collateral can be an important mitigation of credit risk, it is the Bank's policy to lend on the basis of the customer's capacity to repay, rather than rely primarily on the value of collateral offered. Depending on the customer's standing and the type of product, loans may be provided without collateral.

(c) Quality of loans

As at 31 December 2018, estimated difference between the Bank's actual impairment losses on corporate loans and what they would have been without any collateral is UAH 24,331 thousand (2017: UAH 64,255 thousand).

At 31 December 2018, loans impairment was as follows:

	Gross loans	Impairment	Net loans	Impairment to gross loans
Loans and advances to customers - corporate				
Not past due	1,194,344	(853)	1,193,491	0.07%
Past due	80,272	(13,192)	67,080	16.43%
Total loans and advances to customers - corporate	**1,274,616**	**(14,046)**	**1,260,571**	**1.10%**
Loans and advances to customers - individuals				
Not past due	250	(8)	242	3.35%
Past due	639	(639)	-	100%
Total loans and advances to customers - individuals	**889**	**(647)**	**242**	**72.78%**

Quality of loans and advances to customers as at 31 December 2017 is presented as follows:

	Gross loans	Impairment	Net loans	Impairment to gross loans
Loans and advances to customers - corporate				
Not past due	1,028,412	(769)	1,027,643	0.07%
Past due	57,005	(4,853)	52,152	8.51%
Total loans and advances to customers - corporate	**1,085,417**	**(5,622)**	**1,079,795**	**0.52%**
Loans and advances to customers - individuals				
Not past due	271	-	271	-
Past due	48	(48)	-	100%
Total loans and advances to customers - individuals	**319**	**(48)**	**271**	**15.05%**

(d) Corporate loans by industry

Corporate loans by industry as at 31 December are as follows:

	2018	2017
Trade	214,399	269,917
Agriculture	349,955	332,315
Manufacturing	425,252	301,852
Financial intermediaries	147,180	112,062
Real estate	60,194	5,963
Construction	877	4,478
Car rent	29,375	23,619
Other	47,384	35,210
Total	**1,274,616**	**1,085,416**

10. Investment property

Movement in investment property during the year ended 31 December is as follows:

	2018	2017
Fair value as at 1 January	1,347	1,402
Sales	(650)	-
Purchase	1,200	-
Revaluation	29	(55)
Fair value as at 31 December	**1,926**	**1,347**

Gains from revaluation of investment properties comprised UAH 29 thousand in 2018 and were recognised within administrative and other operating expenses (Note 22). Losses from revaluation of investment properties comprised UAH 55 thousand in 2017 and were recognised within administrative and other operating expenses (Note 23).

11. Property, equipment and intangible assets

Movement of property, equipment and intangible assets for the year ended 31 December 2018 is as follows:

	Repaired leased premises	Furniture and equipmen t	Motor vehicles	Intangible assets	Total
Cost					
1 January 2018	5,650	11,827	1,946	8,073	27,496
Additions	-	869	2,551	663	4,083
Disposals	(82)	(55)	(1,271)	-	(1,408)
Transfers	-	-	-	-	-
31 December 2018	**5,568**	**12,641**	**3,226**	**8,736**	**30,171**
Accumulated depreciation and amortization					
1 January 2018	2,005	7,121	1,644	2,462	13,232
Depreciation and amortization	795	1,792	362	870	3,819
Disposals	(82)	(55)	(1,097)	-	(1,234)
31 December 2018	**2,718**	**8,858**	**909**	**3,332**	**15,817**
Net book value as at 31 December 2018	**2,850**	**3,783**	**2,317**	**5,404**	**14,354**

Movement of property, equipment and intangible assets for the year ended 31 December 2017 is as follows:

	Repaired leased premises	Plant and equipment	Motor vehicles	Intangible assets	Total
Cost					
1 January 2017	5,650	11,479	1,946	7,957	27,032
Additions	-	350	-	116	466
Disposals	-	(2)	-	-	(2)
Transfers	-	-	-	-	-
31 December 2017	**5,650**	**11,827**	**1,946**	**8,073**	**27,496**
Accumulated depreciation and amortization					
1 January 2017	1,210	5,361	1,358	1,547	9,476
Depreciation and amortization (Note 23)	795	1,762	286	915	3,758
Disposals	-	(2)	-	-	(2)
31 December 2017	**2,005**	**7,121**	**1,644**	**2,462**	**13,232**
Net book value as at 31 December 2017	**3,645**	**4,706**	**302**	**5,611**	**14,264**

12. Other assets

Other assets as at 31 December are as follows:

	2018	2017
Real estate foreclosed by the Bank	49,393	1,200
Prepayments	2,043	1,426
Supplies and consumables	5	9
Other	1,245	298
Provision for impairment losses (Note 24)	(461)	(141)
Total	**52,225**	**2,792**

13. Due to banks

Balances due to banks as at 31 December are as follows:

	2018	2017
Deposits and balances due to banks:		
OECD countries	140,071	141,614
Domestic	20,040	-
Total	**160,111**	**141,614**

As at 31 December 2018, deposits from three banks total UAH 160,111 thousand or 100% of total due to banks (31 December 2017: deposits from six banks total UAH 141,614 thousand or 100% of total due to bank).

As at 31 December 2018, the Bank was in compliance with all of the above covenants.

14. Due to customers

Due to customers as at 31 December 2018 are as follows:

	2018	2017
Current accounts:		
Corporate customers	272,395	227,230
Individuals	25,404	23,718
Total current accounts	**297,799**	**250,948**
Deposits:		
Corporate customers	343,533	453,198
Individuals	240,213	196,728
Total deposits	**583,746**	**649,926**
Total	**881,545**	**900,874**

As at 31 December 2018, balances on current accounts of the five largest customers total UAH 141,204 thousand or 48% of total balances on current accounts (31 December 2017: UAH 79,821 thousand or 32%).

As at 31 December 2018, deposits from the five largest customers total UAH 216,925 thousand or 37% of total deposits (31 December 2017: UAH 280,925 thousand or 43%).

15. Other liabilities

Other assets as at 31 December are as follows:

	2018	2017
Provision for unused vacations	1,781	1,437
Accounts payable	121	93
Taxes payable, other than income tax	825	782
Expenses accrued	134	183
Other	518	392
Total	**3,379**	**2,887**

16. Due to international financial institutions

As at 31 December 2018, the funds of international financial organizations are represented by loans denominated in Euro two organizations:

	Amount	Interest rate type	Effective interest rate as at 31.12.2018	Maturity
European Fund for South-Eastern Europe	95,329	Floating rate	5.50%	15.11.2020
German-Ukrainian Fund	96,046	Fixed rate	4.25%	20.04.2020
Total	**191,375**			

Amounts due to international financial institutions were represented by the EUR-denominated loans from two entities as at 31 December 2017:

	Amount	Interest rate type	Effective interest rate as at 31.12.2017	Maturity
European Fund for South-Eastern Europe	100,217	Floating rate	5.50%	15.11.2020
German-Ukrainian Fund	67,506	Fixed rate	4.25%	20.04.2020
Total	**167,722**			

17. Subordinated debt

In 2008, the Bank received from the shareholder, JSC “ALTINBAŞ HOLDİNG ANONİM ŞIRKETİ”, a subordinated loan denominated in US dollars amounting to USD 5,000 thousand with a nominal interest rate of 5.5%. The principal amount of this loan was initially repayable in August 2013. In 2011, the maturity of the loan was extended until July 2017. In 2014, the maturity of the loan was extended until July 2020. In 2016, the maturity of the loan was extended until July 2022. In December 2016, a part of the subordinated debt (USD 1,075 thousand) was transferred to the investment account of the Bank shareholders. In accordance with the decision made by the shareholders, the currency was sold to increase the Bank to comply with the decision of the National Bank of Ukraine. In December 2017, a part of the subordinated debt (USD 2,400

thousand) was transferred to the investment account of the Bank shareholders. In accordance with the decision made by the shareholders, the currency was sold to increase the Bank to comply with the decision of the National Bank of Ukraine.

The loans were initially recognised at fair value determined by management as the present value of future payments under the loan discounted using a market rate of interest for similar instruments.

18. Share capital

As at 31 December 2018, the share capital of the Bank includes 149,962,764 ordinary registered shares with a nominal value of UAH 2.05 per share (31 December 2017: 113,851,652 ordinary shares with a nominal value of UAH 1.80 per share). All shares have equal voting rights. As at 31 December 2018, all shares were fully paid and registered.

No dividends were declared and paid in 2018 and 2017.

In accordance with Ukrainian legislation, the allocation of the reserves is limited to the balance of retained earnings determined in accordance with legislative and regulatory requirements.

In February 2018, based on the decision taken by the shareholder of the Bank, the share capital of the Bank was increased by UAH 65,000 thousand by forwarding cash received from the shareholder to the share capital of the Bank.

In May 2018, based on the decision taken by the shareholder of the Bank, the share capital of the Bank was increased by UAH 37,491 thousand by forwarding cash received from the last year earnings to the share capital of the Bank.

In compliance with a resolution of the Bank’s shareholders dated 24 April 2017, in May 2017, the Bank’s share capital was increased by UAH 28,463 thousand at the expense of transfer of a portion of the profit for 2016, by way of increase of the Bank’s shares nominal value from UAH 1.55 per share to UAH 1.80 per share.

In compliance with a resolution of the Bank’s shareholders taken in December 2017, a portion of the subordinated debt was prepaid by the Bank and used by the shareholders to increase the share capital of the Bank (Note 17). The above act resulted in the adjustment of the unamortised discount recognised per the subordinated debt, and its respective reduction by UAH 7,755 thousand was recognised in equity under transactions with shareholders caption, and as at 31 December 2017 a negative additional paid capital arose equal to UAH 6,400 thousand.

19. Commitments and contingencies

(a) Operating lease commitments

The Bank leases operational premises in the normal course of business. Future payments on non-cancellable leases as at 31 December are as follows:

	2018	2017
Less than one year	1,378	1,397

(b) Guarantees and other loan commitments

The Bank has outstanding commitments to extend credit. Those commitments are the approved loans and loan facilities. The total outstanding loan commitments do not necessarily represent future needs in cash, as those commitments may expire or be terminated without being funded. As at 31 December 2018, the irrevocable loan commitments amount to UAH 6,994 thousand (2017: UAH 1,024 thousand).

Loan commitments were as follows:

	As at 31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Irrevocable credit lines	**6 994**	**-**	**-**	**6,994**
Provision for expected credit losses	(154)	-	-	**(154)**
Financial guarantees	**8 540**	**-**	**-**	**8,540**
Provision for expected credit losses	17	-	-	**17**

(c) Insurance

The insurance industry in Ukraine is in a developing stage and many forms of insurance protection common in other countries are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of damage arising from accidents on Bank property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the operations and financial position.

(d) Taxation contingencies

The Ukrainian tax system can be characterised by numerous taxes and frequently changing legislation. Tax regulations are often unclear, open to wide interpretation, and in some instances are conflicting. Instances of inconsistent opinions between local, regional and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enabled by law to impose significant penalties and interest charges. These facts create tax risks substantially more significant than typically found in countries with more developed systems.

Management believes the Bank has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessments has been made in these financial statements.

(e) Litigations

The Bank is involved in various legal proceedings in the ordinary course of business. According to the management, the result of the litigations will not have a significant impact on the financial position of the Bank.

20. Interest income and expense

Interest income and expense for the year are as follows:

	2018	2017
Loans and advances to customers	187,143	145,606
Deposit certificates of the National Bank of Ukraine	12,219	6,244
Due from banks	3,756	1,377
Total interest income	**203,118**	**153,227**
Deposits	(51,507)	(28,950)
Current accounts	(19,406)	(11,785)
Due to banks	(10,487)	(10,021)
Due to international financial institutions	(8,981)	(2,295)
Subordinated debt	(3,243)	(7,811)
Total interest expense	**(93,624)**	**(60,862)**
Net interest income	**109,494**	**92,365**

21. Commission income and expense

Commission income and expenses for the year ended 31 December is as follows:

	2018	2017
Commission income:		
Currency exchange	9,308	9,550
Cash payments and withdrawals	11,193	11,621
Other	9,429	7,734
Total fee and commission income	**29,930**	**28,905**
Commission expense:		
Cash payments and withdrawals	(4,200)	(3,827)
Other	(854)	(261)
Total fee and commission expense	**(5,054)**	**(4,088)**

22. Other operating income

	2018	2017
Proceeds from previously written-off loans	-	191
Penalties and fines	3,162	568
Proceeds from investment property revaluation of (Note 10)	29	-
Income from other assets revaluation	16	-
Proceeds from property and equipment sale	837	-
Other	212	85
Total other operating income	**4,256**	**844**

23. Administrative and other operating expenses

Administrative and other operating expenses for the year ended 31 December are as follows:

	2018	**2017**
Rent and maintenance of premises	11,502	11,325
Communication and information	3,222	3,310
Legal and consulting services	1,885	2,082
Repairs and maintenance of property and equipment	2,950	2,080
Taxes other than on income and other charges	2,054	2,022
Loss from repossessed collateral	-	1,285
Travel expenses	1,456	1,154
Stationary and office consumables	1,262	781
Security	418	318
Advertising and marketing	85	209
Transportation costs	40	-
Losses from investment property revaluation of (Note 10)	-	55
Other operating expenses	6,043	3,805
Total	**30,917**	**30,005**

24. Provision for impairment losses

The following is a schedule of movements in provision for impairment for the year ended 31 December 2018.

	Loans and advances to customers	Other assets
Balance as at 1 January 2017	**(2,037)**	**(3,439)**
Recovery of provision for impairment	(3,633)	77
Sale of other assets transferred to the Bank's property	-	3,516
Balance as at 31 December 2017	**(5 ,670)**	**(141)**
Change in reserve due to transition to IFRS 9	(18,614)	-
Balance as at 1 January 2018	**(24,284)**	**(141)**
Net change in provision for impairment	9,592	(320)
Balance as at 31 December 2018	**(14,692)**	**(461)**

25. Income tax expense

The corporate income tax expense comprises:

	2018	**2017**
Current tax expense	14,179	9,071
Deferred tax benefit	(93)	(310)
Total income tax expense	**14,086**	**8,761**

The statutory income tax rate in 2018 was 18% (2017: 18%). Below is the reconciliation of theoretical tax expenses against the actual ones:

	2018	2017
Profit before income tax	**74,275**	**48,580**
Computed expected income tax expense at statutory rate of 18%.	13,370	8,744
Non-deductible expenses	716	17
Effective income tax expense	**14,086**	**8,761**

(a) Movements in recognised temporary differences during the year

Deferred tax assets and liabilities as at 31 December 2018 are attributable to the items detailed as follows:

	1 January 2018	Recognised through profit or loss	31 December 2018
	Asset (liability)	_Benefit (charge)_	_Asset (liability)_
Loans and advances to customers	-	-	-
Property and equipment	225	93	318
Other liabilities	-	-	-
Total	**225**	**93**	**318**

Deferred tax assets and liabilities as at 31 December 2017 are attributable to the items detailed as follows:

	1 January 2017	Recognised through profit or loss	31 December 2017
	Asset (liability)	_Benefit (charge)_	_Asset (liability)_
Loans and advances to customers	(217)	217	-
Property and equipment	-	225	-
Other liabilities	132	(132)	225
Total	**(85)**	**310**	**225**

26. Derivative financial instruments at fair value through profit or loss

Derivative financial instruments are represented mainly by forward foreign currency exchange contracts and interbank swaps.

Management believes that these transactions are in substance foreign exchange swaps and accounts for these transactions in accordance with the Bank’s accounting policy in respect of derivative financial instruments.

The table below sets out gross amounts of receivable and payable upon settlement of amounts of forward foreign currency exchange derivative contracts and of loans due from and deposits due to banks. Because these contracts are short-term, the net amount of receivable or payable upon settlement also approximates the positive (net receivable) or negative (net payable) fair value of the financial instruments:

	2018	2017
	Forward currency exchange contracts	**Forward currency exchange contracts**
UAH receivable	27,533	-
USD receivable	-	-
USD payable	(27,688)	-
EUR payable	-	-
Fair value of assets	**-**	**-**
Fair value of liabilities	**(155)**	**-**
Maximum exposure to credit risk (gross amount receivable)	**27,533**	**-**

27. Financial risk management

Management of risk is fundamental to the business of banking and is an essential element of operations. The major risks faced by the Bank are those related to credit exposures, market risk (which includes risk of movements in foreign exchange rates and in interest rates) and liquidity risk.

(a) Risk management structure

The risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls and to continuously monitor risk levels and adherence to limits.

The risks are managed in an integrated manner and are evaluated in terms of the policy of the Bank, which is reviewed and approved by the Supervisory Board on an annual basis. Risk limits are established for credit, market and liquidity risks and the level of exposure is then maintained within these limits.

(b) Credit risk

Credit risk is the risk of a financial loss for the Bank if a customer or counterparty fails to meet its contractual obligations. Credit risk arises principally from loans and advances made and investment securities. The maximum credit risk exposure is generally net carrying amounts of instruments as at end of the reporting period.

Management monitors concentration of credit risk. For the analysis of concentration of credit risk in respect of loans and advances refer to note 9.

The Bank has to comply with varying NBU regulations that limit exposure to companies, groups of companies and related parties. To manage credit risk, the Bank deals with counterparties of good credit standing and when appropriate obtains collateral.

Corporate Lending

In making its lending decisions, the Bank evaluates potential borrowers on the basis of their financial condition as reflected in their financial statements, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower, using a rating scale. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan, provided the Bank receives sufficient information to assess the borrower's business and financial condition. However, when the Bank lends to a borrower with no

credit history, it sets conditions such as a requirement to transfer a certain part of the customer's banking operations to the Bank for a certain period and charging a higher interest rate, or requiring additional collateral or guarantees from such borrower.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower's business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, likely return on the loan, the liquidity of the proposed collateral and whether it is sufficient in view of the credit risk. The Bank also considers the weighted average credit risk associated with the industry in which the borrower operates.

Retail Lending

The Bank provides loans to individuals only in exceptional cases and focuses on the collection of existing loans issued to individuals.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on an analysis of the customer earnings overdue payments and other information obtained by the Bank. In light of this information the borrower's internal credit rating may be revised.

Analysis of impairment

Until 1 January 2018, the Bank determined whether there was any objective evidence of impairment of financial assets or groups of financial assets at each reporting date. It was considered that a decline in the usefulness of a financial asset or a group of financial assets occurs when and only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("occurrence of losses"), and such or the occurrence of losses had an impact on the expected future cash flows of a financial asset or a group of financial assets that could be reliably determined. Objective evidence of impairment should have included indications that the borrower or group of borrowers suffered material financial difficulties, violated the obligation to pay interest or principal, the probability of their bankruptcy or other financial reorganization, and based on observable market information as to modest reduction of expected future cash flows, for example, changes in the level of overdue payments or in economic conditions that correlate with asset losses.

Provision for impairment losses on individually valued loans

The Bank has determined the amount of the allowance for impairment losses separately for each material loan on an individual basis. Issues considered in determining the amount of the reserve include the possibility of implementing the business plan of the counterparty, its ability to increase labor productivity in the event of financial difficulties, cash receipts and expected dividend payments in the event of bankruptcy, the availability of other financial support and the possible cost of collateral, and also the timeframe for expected cash flows. Impairment losses were valued at each reporting date if any unforeseen circumstances did not require more attention.

Provision for impairment losses on loans that are valued on a collective basis

The Bank has determined the amount of the impairment loss that is not individually significant, provided to customers, as well as certain significant loans for which there were no objective evidence that they were individually impaired. The Bank has analyzed provisions for impairment losses for each reporting date, with each loan portfolio being separately audited.

In the analysis of the provision for impairment losses on a collective basis, the Bank took into account the impairment that might have occurred in the portfolio, even if there were no objective signs of impairment of individual loans. Impairment losses were determined on the basis of the following information: historical loss in the portfolio, current economic conditions, the appropriate time interval between the moment of possible impairment loss and the moment when the impairment loss was recognised as requiring the creation of a provision for the analysis of impairment of individual assets , as well as expected revenues and reimbursements in case of impairment. Management personnel were responsible for deciding on the length of such a period, which should not have exceeded one year. Subsequently, the allowance for impairment losses was audited by the management personnel responsible for lending operations to ensure compliance with the Bank's overall policy.

Starting from 1 January 2018, the Bank calculates OCPs based on several scenarios that include a weighted loan loss probability estimate for expected non-cash cash flows discounted at an approximate effective interest rate. Lack of cash is the difference between the cash flows owned by the entity in accordance with the contract and the cash flows that the entity expects to receive. Below is the mechanics of calculations OKZ, the key elements of which are:

- Default probability (PD) The probability of default is the estimate of the probability of default on this time horizon.
- A default event may occur only at a certain point during the analyzed period if, at that time, the Bank will not terminate recognition of the loan, and the loan will remain in the portfolio.
- Risk-based default risk (EAD) The risk-bearing amount in case of default is the estimate of the amount of the loan for the future default date, taking into account expected changes in the loan amount after the reporting date, including repayment of principal and interest, and the expected sample of borrowers under the loan obligation Amounts, as well as accrued interest on missed payments.
- Default loss (LGD) The Loss Index in the event of default is an estimate of the loss incurred in the event of a default at a specified time. It is calculated on the basis of the difference between the amount of payments to be received under the contract and the amount expected to be received by the creditor, including the funds from the sale of any collateral. Usually it is presented as a percentage of risk in default (EAD).

Provision for expected loan losses is calculated on the basis of credit losses that are projected to be incurred during the life of the asset (expected credit losses for the entire period of the instrument), except for cases of significant increase in credit risk after the conclusion of the relevant agreement (in such cases, the provision is calculated on basis of expected credit losses for 12 months). Expected credit losses for 12 months is part of the expected credit loss for the entire period of the instrument incurred within 12 months after the reporting date as a result of the default events under the financial instrument contract. Both the expected credit losses for the entire duration of the instrument and the expected credit losses for 12 months are calculated either individually or for asset groups, depending on the characteristics of the relevant portfolio of financial instruments.

The Bank has adopted a policy that provides for an assessment at the end of each reporting period to identify possible significant increases in credit risk after initial recognition by analyzing the changes in the level of default risk occurring throughout the remaining period of the financial instrument. As a result of the process described above, the Bank divides its loans into risk groups ("stages"), referred to as "Stage 1", "Stage 2", "Stage 3" and "Acquired or Created Depreciated Financial Assets" (POCI Assets) :

Stage 1 — At the moment of initial recognition of loans, the Bank recognises a provision for losses on the basis of the amount of expected loan losses for 12 months. In addition, Phase 1 includes loans that are characterised by a reduction in credit risk, resulting in a corresponding loan being transferred to Stage 1 of Stage 2.

Stage 2 — If the level of credit risk on a loan increases significantly after the loan agreement is signed, the Bank recognises the provision for expected loan losses for the entire duration of the instrument. In addition, Stage 2 includes loans that are characterised by a reduction in credit risk, resulting in a corresponding loan being transferred to Stage 2 of Stage 3.

Stage 3 — Loans are considered to be loan-denominated. The Bank recognises the provision for expected loan losses for the entire duration of the instrument.

POCI Assets Acquired or created impaired financial assets (POCI assets) are assets that are impaired at the date of initial recognition. POCI assets are initially recognised at fair value and interest income is subsequently recognised on the basis of an adjusted effective interest rate. Expected credit losses are recognised or reversed only in the event of a subsequent change in the amount of expected loan loss during the entire life of the instrument.

The main factors taken into account in the analysis of impairment of loans include the determination of whether overdue principal or interest payments on the loan are more than 90 days, or if there are any difficulties in view of the counterparty's cash flows, the decrease credit rating or breach of the original terms of the relevant agreement. The Bank analyzes impairment in two ways: provisioning for impairment losses for individually assessed loans and provision for impairment losses on loans that are valued on a collective basis.

The Tables below shows the value of financial assets by classes of quality as at 31 December 2018 and 31 December 2017.

31 December 2018

		Standard	***Watch***	***Impaired***	***Total***
Cash and cash equivalents, except for cash on hand	Stage 1	187 882	-	-	**187,882**
Loans to customers at amortised cost					
Loans to corporate customers	Stage 1	1 023 063	-	-	**1 023 063**
	Stage 2	-	168 379	-	**168 379**
	Stage 3	-	-	59 382	**59 382**
	POCI assets	-	-	23 792	**23 792**
	Total	**1 023 063**	**168 379**	**83 174**	**1,274,616**
Loans to retail customers	Stage 1	250	-	-	**250**
	Stage 2	-	30	-	**30**
	Stage 3	-	-	609	**609**
	POCI assets	-	-	-	**-**
	Total	**250**	**30**	**609**	**889**
Irrevocable credit lines	Stage 1	6 994	-	-	**6 994**
	Stage 2	-	-	-	**-**
	Stage 3	-	-	-	**-**
	Total	**6 994**	-	-	**6,994**
Financial guarantees	Stage 1	8 540	-	-	**8 540**
	Stage 2	-	-	-	**-**
	Stage 3	-	-	-	**-**
	Total	**8 540**	-	-	**8,540**
Total		**1 226 729**	**168 409**	**83 783**	**1 478 921**

The credit quality of financial assets is managed by the Bank internal credit ratings. The tables above show the credit quality by the asset class for the credit lines in the statement of financial position based on the Bank credit rating system.

	31 December 2017					
	Not past due	**_Less than 30 days_**	**_31 to 60 days_**	**_60 to 90 days_**	**_More than 90 days_**	**_Total_**
Cash and cash equivalents, except for cash on hand	215,969	-	-	-	-	**215,969**
Individually impaired						
Corporate customers	1 028 412	255	890	30 772	25 088	**1 085 417**
Individuals	271				48	**319**
Total	**1 028 683**	**255**	**890**	**30 772**	**25 136**	**1 085 736**

Off-balance sheet exposure

The maximum exposure to off-balance sheet credit risk at 31 December is as follows:

	2018	**2017**
Irrevocable credit lines	6,994	1,024
Guarantees	8,540	11,001
Total off-balance sheet exposure	**15,534**	**12,025**

(c) Market risk

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor’s/issuer’s credit standing) will affect income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) Currency risk

Currency risk is the risk that movements in foreign exchange rates will affect income or the value of its portfolios of financial instruments.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and constantly monitors foreign currency positions in accordance with the regulations of the NBU and internally developed methodology. The policy with regard to open foreign currency position is restricted to certain thresholds under regulatory provisions of the NBU, however, the calculation of open currency position under regulatory provisions may differ from the below table.

Currency positions as at 31 December 2018 are as follows:

	USD	EUR	Other currencies
Assets			
Cash and cash equivalents	116,410	30,615	287
Due from banks	3,129	-	-
Loans and advances to customers	391,477	204,080	-
Other assets	-	-	-
	511,016	**234,695**	**287**
Liabilities			
Due to banks	(140,071)	-	-
Due to international financial institutions	-	(190,285)	-
Due to customers	(299,278)	(43,450)	(360)
Subordinated debt	(38,474)	-	-
Other liabilities	-	-	-
	(477,823)	**(233,735)**	**(360)**
Net balance sheet position	**33,193**	**960**	**(73)**
Derivatives: forward foreign currency exchange contracts (note 26)	(27,688)	-	-
Net (short) long position	**5,505**	**960**	**(73)**

Currency positions as at 31 December 2017 are as follows:

	USD	EUR	Other currencies
Assets			
Cash and cash equivalents	26,984	128,859	1,088
Due from banks	3,172	-	-
Loans and advances to customers	411,843	77,680	-
Other assets	84	251	-
	442,083	**206,790**	**1,088**
Liabilities			
Due to banks	(141,614)	-	-
Due to international financial institutions	-	(167,722)	-
Due to customers	(260,770)	(38,962)	(461)
Subordinated debt	(38,268)	-	-
Other liabilities	-	-	-
	(440,652)	**(206,684)**	**(461)**
Net balance sheet position	**1,431**	**106**	**627**
Derivatives: forward foreign currency exchange contracts (note 26)	-	-	-
Net (short) long position	**1,431**	**106**	**627**

Other currencies are mainly represented by Turkish lira.

The table shows currencies in which the Bank has significant positions as at 31 December. The analysis is to measure the effect of possible changes in the exchange rates of foreign currencies

against hryvnia, with the unchangeable value of all other variables, on the profit and loss statement of the Bank. The effect on the capital is not different from the effect on the profit and loss statement. The negative value in the table reflects a potential net decrease in the profit and loss statement or equity, and the positive values reflect the potential net increase.

Currency	*Strengthening of exchange rate against Ukrainian hryvnia, % 2018*	*Effect on profit before tax 2018*	*Weakening of exchange rate against Ukrainian hryvnia, % 2018*	*Effect on profit before tax 2018*
USD	+20.00	1,101	-20.00	(1,101)
EUR	+20.00	192	-20.00	(192)

Currency	*Strengthening of exchange rate against Ukrainian hryvnia, % 2017*	*Effect on profit before tax 2017*	*Weakening of exchange rate against Ukrainian hryvnia, % 2017*	*Effect on profit before tax 2017*
USD	+20.00	286	-20.00	(286)
EUR	+20.00	21	-20.00	(21)

The currency risks specified in IFRS 7 arise from the financial instruments denominated in a currency that is not the functional currency and has a monetary nature; the risks associated with the translation are not taken into account.

(ii) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. To manage interest rate risk, management continually assesses market interest rates for different types of interest bearing assets and liabilities.

Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates. In practice, management resets interest rates on both assets and liabilities based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement, which sets forth the new interest rate.

The average effective interest rates of major interest bearing assets and liabilities as at 31 December 2018 are as follows:

	USD	EUR	Ukrainian hryvnia, %
Assets			
Cash and cash equivalents	1.77%	-	-
Deposit certificates of the National Bank of Ukraine			14.30%
Due from banks	2.69%	-	-
Loans and advances to customers	10.30%	9.14%	23.58%
Liabilities			
Due to banks	8.12%	-	19.69%
Due to international financial institutions	4.80%	2.04%	-
Due to customers	-	5.24%	10.47%
Subordinated debt	8.80%	-	-

The average effective interest rates of major interest bearing assets and liabilities as at 31 December 2017 are as follows:

	USD	EUR	Ukrainian hryvnia, %
Assets			
Cash and cash equivalents	0.05%	-	0.06%
Deposit certificates of the National Bank of Ukraine			13.50%
Due from banks	1.46%	-	-
Loans and advances to customers	10.53%	10.26%	22.30%
Liabilities			
Due to banks	6.88%	-	-
Due to international financial institutions	-	5.00%	-
Due to customers	4.96%	4.89%	13.52%
Subordinated debt	8.80%	-	-

(d) Liquidity risk

Liquidity risk arises in the general funding of activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank’s reputation.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

To maintain its short-term liquidity, the Bank takes short-term deposits, enters into repurchase transactions and buys and sells foreign currency, securities and precious metals. To maintain its long-term liquidity, the Bank takes medium and long-term deposits, sells assets such as securities, regulates its interest rate policy and strives to reduce expenses.

The financial assets and financial liabilities maturity periods under the contracts as at 31 December 2018 are as follows:

	Within one month	**From one to three months**	**From three months to one year**	**1-5 years**	**More than five years**	**Total**
Assets						
Cash and cash equivalents	187,882	-	-	-	-	187,882
Deposit certificates of the National Bank of Ukraine	156,225	-	-	-	-	156,225
Due from banks	-	-	3,129	-	-	3,129
Loans and advances to customers	236,304	347,107	597,154	80,428	-	1,260,813
	580,411	**347,107**	**600,283**	**80,428**	**-**	**1,608,225**
Liabilities						
Due to banks	20,040	-	140,071	-	-	160,110
Due to international financial institutions	1,011	-	48,254	142,110	-	191,375
Due to customers	367,596	184,221	274,541	55,187	-	881,545
Subordinated debt	-	-	200	38,274		38,474
	388,647	**184,221**	**463,066**	**235,571**	**-**	**1,271,505**
Liquidity (gap) surplus for the period	191,764	162,886	137,217	(155,143)	-	**336,720**
Cumulative liquidity (gap) surplus	**191,764**	**354,650**	**491,867**	**336,720**	**-**	**336,720**

The financial assets and financial liabilities maturity periods under the contracts as at 31 December 2017 are as follows:

	Within one month	From one to three months	From three months to one year	1-5 years	More than five years	Total
Assets						
Cash and cash equivalents	215,969	-	-	-	-	**215,969**
Deposit certificates of the National Bank of Ukraine	290,625	-	-	-	-	**290,625**
Due from banks	-	-	-	3,172	-	**3,172**
Loans and advances to customers	204,997	310,362	527,183	37,524	-	**1,080,066**
	711,591	**310,362**	**527,183**	**40,696**	**-**	**1,589,832**
Liabilities						
Due to banks	-	-	141,614	-	-	**141,614**
Due to international financial institutions	712	-	691	166,319	-	**167,722**
Due to customers	590,513	93,662	94,181	122,518	-	**900,874**
Subordinated debt	-	-	419	37,849		**38,268**
	591,225	**93,662**	**236,905**	**326,686**	**-**	**1,248,478**
Liquidity (gap) surplus for the period	120,366	216,700	290,278	(285,990)	-	**341,354**
Cumulative liquidity (gap) surplus	**120,366**	**337,066**	**627,344**	**341,354**	**-**	**341,354**

The item “Due to customers” include term deposits of individuals providing for the early withdrawal thereof. The Bank management believes that most individuals deposits will not be withdrawn before the maturity thereof, so the customers funds are reported by their contractual maturities.

The analysis of maturities of the undiscounted financial liabilities (including interest payments that will be accrued in the future) of the Bank as at 31 December 2018 is presented in the table below:

	Within one month	From one to three months	From three months to one year	1-5 years	More than five years	Total
Due to banks	20,963	1,847	145,152	-	-	**167,962**
Due to customers	373, 802	185,883	286,668	61,954	-	**908,307**
Credit related commitments	-	556	566	-	-	**1,122**
Due to international financial institutions	1,694	4,968	50,554	145,295	-	**202,512**
Subordinated debt	-	-	2,354	48,293	-	**50,647**
Total	**396,459**	**193,254**	**485,295**	**255,543**	-	**1,330,550**

The analysis of maturities of the undiscounted financial liabilities (including interest payments that will be accrued in the future) of the Bank as at 31 December 2017 is presented in the table below:

	Within one month	From one to three months	From three months to one year	1-5 years	More than five years	Total
Due to banks	794	1,588	146,210	-	-	**148,592**
Due to customers	595,272	98,657	114,432	136,136	-	**944,497**
Credit related commitments	-	517	507	-	-	**1,024**
Due to international financial institutions	712	-	7,658	178,805	-	**187,175**
Subordinated debt	-	-	2,593	51,356	-	**53,949**
Total	**596,778**	**100,762**	**271,400**	**366,297**	-	**1,335,237**

28. Capital management

(i) Regulatory capital

Under the current capital requirements set by the NBU, banks have to maintain a ratio of capital to risk weighted assets (regulatory capital adequacy ratio) above the prescribed minimum level. If the Bank does not maintain or sufficiently increase its capital base in line with the increase in its risk weighted assets, it may be non-compliant with the NBU capital adequacy regulations, which could lead to the imposition of sanctions by the NBU. This could have a material adverse effect on results of operations and financial condition. As at 31 December 2018, the minimum level set by the NBU is 10.0% (31 December 2017: 10.0%).

The Bank complied with the requirements of the National Bank of Ukraine regarding the value of the regulatory capital adequacy ratio as at 31 December 2018 and 2017.

The following table shows the elements of the capital position calculated in accordance with the requirements of Basel Accord I, as at 31 December:

	2018	2017
Tier 1 capital		
Statutory capital	311,510	274,019
Retained earnings, share premium and additional paid in capital	91,260	80,717
Total Tier 1 capital	**402,770**	**354,736**
Subordinated debt	38,474	38,268
Total capital	**441,244**	**393,004**

29. Balances with related parties

The Bank grants loans and advances to customers, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the party when making financial and operational decisions. Terms of transactions with related parties are established at the time of the transaction. Related parties comprise entities which are under common control with the Bank, members of the Supervisory Board, key management personnel and their close family members, companies that are controlled or significantly influenced by shareholders, by key management personnel or by their close family members.

As at 31 December 2018 and 2017, the ultimate controlling party of the Bank is JSC "ALTINBAŞ HOLDING ANONIM ŞIRKETI", which is ultimately controlled by members of Altinbaş family.

The Bank balances and transactions with its related parties as at 31 December 2018 and 2017 are presented in the table below.

	2018	2017
Balances and transactions with the Parent company		
Statement of financial position (as at 31 December):		
Subordinated debt	38,474	38,268
Statement of comprehensive income:		
Interest expense	3,243	7,811
Balances and transactions with the key management personnel		
Statement of financial position (as at 31 December):		
Loans and advances to customers	-	-
Due to customers	6,783	9,834
Statement of comprehensive income:		
Interest income	1	3
Interest expense	478	403
Salary and salary related charges payable	12,694	11,041
Balances with related parties		
Statement of financial position (as at 31 December):		
Due to customers	65	61
Statement of comprehensive income:		
Interest expense	-	-

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2018 are as follows:

	UAH	Interest rate	USD	Interest rate	EUR	Interest rate
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	38,474	5.5%	-	-
Balances with key management personnel						
Deposits from customers	-	-	6,180	2-5%	-	-
Current accounts	398	6-8%	126	0%	79	0.0%
Balances with related parties						
Current accounts	-	-	65	0%	-	-

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2017 are as follows:

	UAH	Interest rate	USD	Interest rate	EUR	Interest rate
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	38,268	5.5%	-	-
Balances with key management personnel						
Deposits from customers	53	15%	9,287	3-6%	-	-
Current accounts	220	0.25-6%	257	0.25-0.5%	17	0.25%
Balances with related parties						
Current accounts	-	-	61	0.25%	-	-

The contractual remaining maturities of balances with related parties as at 31 December 2018 are as follows:

	Within one month	From one to three months	From three months to one year	1-5 years	More than five years	Total
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	200	38,274	-	**38,474**
Balances with key management personnel						
Due to customers	738	4,585	646	814	-	**6,783**
Balances with related parties						
Due to customers	65	-	-	-	-	**65**

The contractual remaining maturities of balances with related parties as at 31 December 2017 are as follows:

	Within one month	From one to three months	From three months to one year	1-5 years	More than five years	Total
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	-	38,268	-	**38,268**
Balances with key management personnel						
Due to customers	720	3,047	6,067	-	-	**9,834**
Balances with related parties						
Due to customers	61	-	-	-	-	**61**

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly, and includes members of the Board of Management.

30. Fair value measurement

(a) Fair value of financial assets and financial liabilities that are not measured at fair value

The table below presents the carrying amounts and fair values of financial assets and financial liabilities at amortised cost. The fair value of the non-financial assets and non-financial liabilities is not presented in the table.

	2018		2017	
	Total carrying amount	**Fair value**	**Total carrying amount**	**Fair value**
Cash and cash equivalents	187,882	187,882	215,969	215,969
Deposit certificates of the National Bank of Ukraine	156,225	156,225	290,625	290,625
Due from banks	3,129	3,129	3,172	3,172
Loans and advances to customers	1,260,813	1,280,260	1,080,066	1,092,340
Total	**1,608,049**	**1,627,496**	**1,589,832**	**1,602,106**
Due to banks	160,111	160,111	141,614	141,614
Customer accounts	881,545	885,299	900,874	904,710
Due to international financial institutions	191,375	191,375	167,722	167,722
Subordinated debt	38,474	39,022	38,268	38,813
Total	**1,271,505**	**1,275,807**	**1,248,478**	**1,252,859**

The methods and assumptions used to fair value the financial instruments not reported at fair value in the financial statements are described below.

Assets which fair value is approximately equal to their carrying amount

For the financial assets and financial liabilities being liquid or short-term (less than three months), it is assumed that their carrying amount is approximately equal to their fair value. The said assumption also applies to the deposits on demand, savings accounts with no fixed maturity, and floating rate financial instruments.

Financial assets and financial liabilities at amortised cost

For the instruments carried at amortised cost, the discounting model of cash flows using current market rates for similar financial instruments with a similar status, similar to credit risk and maturity is applied.

(b) Financial assets at fair value

All assets and liabilities which fair value is measured or disclosed in the financial statements are classified by the level of the fair value measurement hierarchy presented below at the lowest level that is material for the fair value measurement as a whole:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: valuation methods for which all the inputs with a significant effect on fair value are at the lowest level of the hierarchy and can be obtained directly or indirectly from market sources; and
- Level 3: valuation methods for which all the inputs with a significant effect on fair value are at the lowest level of the hierarchy and cannot be obtained directly or indirectly from market sources.

For the assets and liabilities reported in the consolidated financial statements on an ongoing basis, at the end of each reporting period, the Bank analyzes whether there has been a transition between levels of the hierarchy by reassessing the distribution by categories (based on the lowest-level data, which is generally important for the fair value measurement).

For disclosure purposes at fair value, the Bank determines the classes of assets and liabilities based on the nature, characteristics, and risks of the asset or liability, and the fair value hierarchy.

		Fair value		
31 December 2018	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets reported at fair value				
Cash and cash equivalents		187,882		**187,882**
Deposit certificates of the National Bank of Ukraine	-	156,225	-	**156,225**
Due from banks	-	3,129	-	**3,129**
Loans and advances to customers	-	1,260,813	-	**1,260,813**
Financial liabilities reported at fair value				
Due to banks	-	160,111	-	**160,111**
Due to customers	-	881,545	-	**881,545**
Due to international financial institutions	-	191,375	-	**191,375**
Subordinated debt	-	-	38,474	**38,474**

		Fair value		
31 December 2017	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets reported at fair value		-	-	-
Cash and cash equivalents	-	215,969	-	**215,969**
Deposit certificates of the National Bank of Ukraine	-	290,625	-	**290,625**
Due from banks	-	3,172	-	**3,172**
Loans and advances to customers	-	980,846	99,220	**1,080,066**
Financial liabilities reported at fair value				
Due to banks	-	141,614	-	**141,614**
Due to customers	-	900,874	-	**900,874**
Due to international financial institutions	-	167,722	-	**167,722**
Subordinated debt	-	38,268	-	**38,268**

31. Subsequent events

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

Signed and authorised for release by and on behalf of the Management Board of the Bank

I.Yu. Tykhonov	Chairman of the Board
I.M. Kuzmenko	Chief Accountant

25 April 2019