JSC «BANK CREDIT DNEPR»
Financial Statements

for the year ended 31 December 2018
with Independent Auditors' Report

Translation from Ukrainian original

CONTENTS

STATEMENT OF RESPONSIBILITIES OF MANAGEMENT

FINANCIAL STATEMENTS
Statement of financial position ... 1
Statement of profit and loss and other comprehensive income ... 2
Statement of changes in equity ... 4
Statement of cash flows ... 5

NOTES TO FINANCIAL STATEMENTS

1. Background information ... 6
2. Operating environment ... 6
3. Basis of preparation of financial statements ... 8
4. Summary of accounting policies ... 8
5. The standards and interpretations that are issued, but not yet effective ... 23
6. Significant accounting assumptions and estimates ... 26
7. Cash and cash equivalents ... 30
8. Due from other banks ... 30
9. Loans and advances to customers ... 31
10. Investments in securities ... 35
11. Investment property ... 35
12. Other financial and other assets ... 36
13. Property and equipment and intangible assets ... 37
14. Income tax ... 38
15. Non-current assets held for sale ... 40
16. Due to customers ... 40
17. Other financial liabilities and other liabilities ... 41
18. Equity and provisions ... 41
19. Contractual and contingent liabilities ... 42
20. Interest income and expense ... 43
21. Net commission income ... 44
22. Other income ... 44
23. Administrative and other operating expenses ... 45
24. Basic and diluted earnings/(loss) per share ... 45
25. Management of financial risks ... 45
26. Related parties’ transactions ... 53
27. Information by segments ... 56
28. Fair value measurement ... 58
29. Financial instruments by categories of measurement ... 60
30. Equity management ... 61
31. Subsequent events ... 63

Statement of responsibilities of management for preparation and approval of financial statements for the year ended December 31, 2018.

The statement here below, which should be read in conjunction with description of independent auditor's responsibilities, contained in attached Independent Auditor's Report, is presented to separate responsibilities of management and those of independent auditor in relation to financial statements of JOINT STOCK BANK CREDIT DNEPR, (hereinafter – the Bank).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2018 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- using of justified estimates and assumptions;
- compliance with requirements of IFRSs or disclosure and explanation of all material departures from IFRSs in financial statements;
- Preparation of financial statements of the Bank based on assumption that the Bank will continue as a going concern, except for cases, when the assumption is not justified.

Management of the Bank is responsible for:

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

The financial statements for the year ended on December 31, 2018, were signed on behalf of the Board by:

Chairman of the Management Board Olena Malynska

Deputy Chairman of the Management Board - Director of Finance Sergiy Volkov

Chief accountant Ruslan Chudakivskyi

April 26, 2019

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

STATEMENT OF FINANCIAL POSITION

As at December 31, 2018

	Note	*2018*	*2017*
Assets			
Cash and cash equivalents	7	1 515 074	1 433 969
Due from other banks	8	320 910	486 854
Loans and advances to customers	9	3 963 056	4 118 982
Investments in securities	10	408 182	279 874
Deposit certificates of National Bank of Ukraine		1 201 973	1 001 196
Investment property	11	1 518 665	1 335 439
Financial assets	12	52 647	5 930
Other assets	12	168 362	87 735
Property, equipment and intangible assets	13	287 211	232 260
Deferred tax assets	14	263 099	263 099
Non-current assets held for sale	15	22 847	40 827
Total assets		**9 722 026**	**9 286 165**
Liabilities			
Due to other banks		45	46
Due to customers	16	8 875 107	8 336 560
Debt securities issued by the Bank		-	9 993
Provisions for financial and non-financial liabilities	19	170	1 330
Other financial liabilities	17	80 251	84 958
Other liabilities	17	40 924	34 997
Total liabilities		**8 996 497**	**8 467 884**
Equity	18		
Share capital		2 743 666	1 544 666
Unregistered share capital		488 454	1 199 000
Share premium		17 577	17 678
Accumulated loss		(2 614 467)	(2 041 113)
Revaluation reserves		90 299	98 050
Total equity		**725 529**	**818 281**
Total liabilities and equity		**9 722 026**	**9 286 165**

Signed on behalf of the Management Board on April 26, 2019.

Chairman of the Management Board Olena Malynska

Deputy Chairman of the Management Board -
Director of Finance Sergiy Volkov

Chief accountant Ruslan Chudakivskyi

Notes on pages 6-63 are integral part of this financial statement

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2018

	Note	*2018*	*2017*
Interest income	20	**711 613**	**723 879**
Loans to customers		621 893	634 975
Securities		85 290	86 791
Due from other banks		4 430	2 113
Interest expense	20	**(514 771)**	**(582 728)**
Due to customers		(514 683)	(575 770)
Debt securities issued by the Bank		(88)	(6 958)
Net interest income		**196 842**	**141 151**
Commission income		253 129	179 069
Commission expense		(105 674)	(67 280)
Net commission income	21	**147 455**	**111 789**
Result of transactions with securities measured at fair value through profit or loss		-	113
Result of transactions with derivatives		(36 400)	29 621
Result of foreign currency transactions		93 262	78 919
Result of revaluation of foreign currency		(2 043)	19 289
Result of revaluation of investment property	11	142 747	(61 084)
Income from derecognition of financial instruments		255 131	-
Other income	22	86 827	18 807
Administrative and other operating expenses	23	(594 175)	(498 272)
Operating income /(loss) before allowances for impairment		**289 646**	**(159 667)**
Allowance for impairment of loans and due from other banks	7, 8, 9	(814 413)	(359 050)
Allowance for impairment of securities	10	-	(74)
Allowance for impairment of other financial and other assets	12	(27 050)	(49 786)
Provision for financial and non-financial liabilities	19	527	(1 763)
Loss before income tax		**(551 290)**	**(570 340)**
Income tax (expense)/benefit	14	(175)	103
Loss for the year		**(551 465)**	**(570 237)**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME (continued)

For the year ended December 31, 2018

	Note	*2018*	*2017*
Other comprehensive income:			
Items not to be reclassified into profit or loss:			
Revaluation of fixed assets		(5 749)	-
Disposal of fixed assets		-	(272)
Revaluation of equity instruments		(56)	-
Other comprehensive income not to be reclassified into profit or loss after taxes		**(5 805)**	**(272)**
Items to be reclassified into profit or loss:			
Revaluation of debt financial instruments		(1 841)	629
Other comprehensive income to be reclassified into profit or loss after taxes		**(1 841)**	629
Total comprehensive income for the year		**(559 111)**	**(569 880)**
Net earnings (loss) per share:			
Net basic earnings / (loss) per share (measured in UAH per share)	25	(0,28)	(0,37)

Signed on behalf of the Management Board on April 26, 2019.

Chairman of the Management Board Olena Malynska

Deputy Chairman of the Management Board - Director of Finance Sergiy Volkov

Chief accountant Ruslan Chudakivskyi

(in thousands of UAH, if not stated otherwise)

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2018

	Share capital	*Unregistered share capital*	*Share premium*	*Revaluation reserves*	*Accumulated loss*	*Total equity*
January 1, 2017	**1 544 666**	**-**	**17 678**	**97 693**	**(1 471 148)**	**188 889**
Loss for the period	-	-	-	-	(570 237)	**(570 237)**
Other comprehensive income	-	-	-	357	-	**357**
Total comprehensive income for the period	**-**	**-**	**-**	**357**	**(570 237)**	**(569 880)**
Revaluation of fixed assets	-	-	-	-	272	**272**
Contributions to share capital	-	1 199 000	-	-	-	**1 199 000**
December 31, 2017	**1 544 666**	**1 199 000**	**17 678**	**98 050**	**(2 041 113)**	**818 281**
Effect of adopting IFRS 9	-	-	-	(105)	(21 889)	**(21 994)**
Adjusted balance	**1 544 666**	**1 199 000**	**17 678**	**97 945**	**(2 063 002)**	**796 287**
Loss for the period	-	-	-	-	(551 465)	**(551 465)**
Other comprehensive income	-	-	-	(7 646)	-	**(7 646)**
Total comprehensive income for the period	**-**	**-**	**-**	**(7 646)**	**(551 465)**	**(559 111)**
Registered share capital	1 199 000	(1 199 000)	(101)	-	-	**(101)**
Contributions to share capital	-	488 454	-	-	-	**488 454**
December 31, 2018	**2 743 666**	**488 454**	**17 577**	**90 299**	**(2 614 467)**	**725 529**

Signed on behalf of the Management Board on April 26, 2019.

Chairman of the Management Board Olena Malynska

Deputy Chairman of the Management Board - Director of Finance Sergiy Volkov

Chief accountant Ruslan Chudakivskyi

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

	Notes	*2018*	*2017*
Operating cash flows			
Interest income received		475 319	394 279
Interest expenses paid		(491 780)	(611 862)
Commission income received		252 432	179 279
Commission expenses paid		(105 758)	(66 996)
Transactions with securities		-	113
Transactions with derivatives		(36 400)	32 920
Transactions with foreign currency		93 262	78 919
Income/(loss) from derecognition of financial instruments		255 131	-
Other operating income		71 587	16 372
Provisions utilization		(631)	(773)
Administrative and other operating expenses		(538 667)	(463 947)
Cash flows from operating activities before changes in operating assets and liabilities		**(25 505)**	**(441 696)**
Changes in operating assets and liabilities			
Net (increase) / decrease of due from other banks		150 530	(306 654)
Net (increase) / decrease of loans and advances to customers		(715 237)	(182 956)
Net (increase) / decrease of other financial assets		(48 366)	(1 865)
Net (increase) / decrease of other assets		(2 108)	(13 124)
Net (increase) / decrease of non-current assets held for sale	15	56	3 290
Net increase / (decrease) of due to other banks		-	(1)
Net increase / (decrease) of due to customers		599 916	727 061
Net increase / (decrease) of debt securities issued by the Bank		(9 545)	(123 020)
Net increase / (decrease) of other financial liabilities		660	8 147
Net increase / (decrease) of other liabilities		(609)	(4 125)
Net operating cash flows		**(50 208)**	**(334 943)**
Cash flows from investing activities			
Investments in securities		(260 316)	(269 651)
Sale of investments in securities		130 437	(84)
Acquisition of fixed assets		(20 988)	(27 521)
Sale of fixed assets		-	8
Acquisition of intangible assets		(3 555)	(7 496)
Acquisition/reconstruction of investment property	11	(280)	(84)
Sale of investment property	11	16 124	-
Net cash received from/(used in) investing activities		**(138 578)**	**(304 744)**
Cash flows from financing activities			
Unregistered contributions into share capital	18	488 454	1 199 000
Net cash received from/(used in) financing activities		**488 454**	**1 199 000**
Effect of official exchange rate of National Bank of Ukraine fluctuations on cash and equivalent		(18 556)	87 797
Net increase of cash and cash equivalents		**281 112**	**647 110**
Cash and cash equivalents – opening balance	7	**2 433 959**	**1 786 849**
Cash and cash equivalents – closing balance	7	**2 715 071**	**2 433 959**

Signed on behalf of the Management Board on April 26, 2019.

Chairman of the Management Board Olena Malynska

Deputy Chairman of the Management Board - Director of Finance Sergiy Volkov

Chief accountant Ruslan Chudakivskyi

Notes on pages 6-63 are integral part of this financial statement

1. Background information

Joint Stock Company “BANK CREDIT DNEPR” (the “Bank”) was established on July 7, 1993 according to the decision of the General Meeting of Shareholders of the Bank and in accordance with the laws of Ukraine.

The change in the legal name and organizational form of the Bank from a closed joint-stock company to a public joint-stock company was officially registered on July 16, 2009.

On September 15, 2018 the new edition of the charter of the Bank was registered following increase of the authorized capital to UAH 2.72bn. The Bank also changed legal address and changed the form of organization from Public Joint Stock Company “BANK CREDIT DNEPR” to Joint Stock Company “BANK CREDIT DNEPR” due to the recent amendments to legislation.

The Bank operates under the general banking license No 70 renewed by the National bank of Ukraine (NBU) on October 13, 2011, which allows the Bank to conduct banking operations, including foreign currency transactions. The Bank also has licenses for securities operations and custody services from the National Commission for Securities and Stock Market of Ukraine, which were renewed on October 17, 2012 for an unlimited period.

The Bank accepts deposits from individuals and grants loans, transfers payments across Ukraine and abroad, exchanges foreign currencies and provides banking services to its corporate customers and individuals. The Bank also develops programs to support small and medium businesses, provides financing for agricultural producers, expanding the list of services for business customers who conduct foreign economic activity.

Legal address of the Bank and its head office location is 32 Zhylanska str., Shevchenkivskiy district, Kyiv, Ukraine 01033. Country of residence is Ukraine. As at December 31, 2018, the Bank has 37 offices all over Ukraine (2017: 42 offices).

As at December 31, 2018 and 2017, 100% of the Bank’s shares were owned by Brancroft Enterprises Limited (hereinafter - the Shareholder), a company incorporated in a non-OECD country. As at December 31, 2018, the owner of 100% indirect significant holding in the Bank is Mr. Viktor Pinchuk.

These financial statements were authorized for issue and signed by and on behalf of the Board on April 26, 2019.

2. Operating environment

Despite the fact that the Ukrainian economy deemed to be of market status, it continues to display certain characteristics consistent with that of a growing economy. The further prospects of development will depend on efficiency of reforms implemented in the country, economic policy of the government and positive changes in legal, tax and political spheres.

The volume of international reserves grew by USD 2.2bn reaching USD 20.8bn (12.1%) in 2018. Ukraine spent UAH 351bn for service of sovereign debt in 2018, while in 2019 expenses on sovereign debt service will total to UAH 392bn.

During 2018 NBU gradually increased its reference rate from 14.5% to 18% due to growth of inflation risks. The National Bank will resume to soften monetary policy if inflation risks demonstrate sustainable decline and expectations improve, which is possible only at implementation of structural reforms and reasonable fiscal policy. Although the political factor can become less favorable for structural reforms on the eve of the upcoming elections in Ukraine in 2019.

The exchange rate of Ukrainian Hryvnia increased by 1.1% in 2018. New external financing through placement of Eurobonds and loans from international financial institutions and also positive dynamics on international raw-materials markets, in particular, increase in export prices on agricultural and mining-and-smelting products, and growth of agricultural exports volume, too. However, Ukraine’s economy remains dependent on the development of global economy influencing demand from importers of Ukrainian export goods and prices of major exported goods.

Economic growth remains low. Continued military conflict in Donbass was accompanied by suspension of trade relations with the uncontrolled territories. These events have negative impact on enterprises of energy sector and steel industry through drop in output and decrease of export potential.

As at December 31, 2018, the Bank had loans and advances to customers associated with the territories not controlled by the government of Ukraine in Donetsk and Lugansk regions, amounting to UAH 1 067 576 thousand. As at December 31, 2018, the Bank had loans and advances to customers associated with the Autonomous Republic of Crimea, in the amount of UAH 190 256 thousand. The amount of provision on the above loans totaled UAH 1 023 550 thousand in 2018 (UAH 920 524 thousand in 2017). The above amount includes loans secured by assets located in the territory of the Crimea and loans issued to the borrowers in these areas. Bank management took into account all known and measurable risks to assess impairment of the above loans as at the date of preparation of these financial statements.

In 2018, strenuous political and economic relations of Ukraine and Russian Federation were followed by introduction of sanctions to Ukrainian companies and individuals by Russian Federation. In particular, resolution #1300 dated November 1, 2018, provides for freezing noncash money, noncash securities and property on the territory of Russia and together with prohibition on money transfer (withdrawal of capital) outside of Russia. The Bank, EastOne Group Ltd and Victor Pinchuk, the beneficial owner of 100% shares of the Bank, were included to the sanctions list. Impact of introduced sanctions on the Bank's financial statement is additionally disclosed in Note 8.

As at December 31, 2018, certain loans were provided to the Bank's borrowers – producers with exports sales to the Russian Federation, too. The Bank considered known and measurable risk factors as at the date of these financial statements in assessing the impairment of such loans.

Further exacerbation of political and economic relations between Ukraine and the Russian Federation, establishing new restrictions on exports of Ukrainian companies to Russian Federation, can significantly affect the ability of such borrowers to service their loans. The negative effects of such events on the financial position and performance of the Bank cannot be currently determined.

Stabilization of the Ukrainian economy in the near future will depend on the success of actions taken by the government, and continuous financial support of Ukraine by international donors and international financial institutions, as well as the ability of the Ukrainian economy to respond adequately to the market changes.

Bank's development strategy includes the following objectives:

- increase of the volume of lending to households in the segments of Mass- and Mass. Focus on parameters of quickness, flexibility and automation of credit solutions. Quick deployment of sales on open market through lead generation utilizing contact-center channels together with the Bank's points of sales;
- expansion in clientele of corporate and SME businesses to increase of trade and commission income and short-term funding;
- increase of lending volumes in agricultural business by development of products and partnership network to form stable clientele and create ecosystem in value added chain of agribusiness.

Continuing systematic efforts to increase efficiency and business scope as mentioned above, continuing collection or sales of non-performing assets, improvement of operational financial performance of the Bank, together with simultaneous support of the Shareholder at the background of improvement of macro environment will help the Bank to achieve sustainable profitability.

The Bank took into account known and measurable results of the above events, impacting financial position and performance of the Bank in the reporting period. Management believes that it takes adequate measures, required under the circumstances, to maintain the stable activity of the Bank, although further instability in the business environment may cause a negative impact on performance and financial position of the Bank, the nature and consequences of which cannot be currently determined. These financial statements reflect management's current assessment regarding the impact of business environment in Ukraine on operations and financial position of the Bank. The future business environment may differ from management's assessments.

3. Basis of preparation of financial statements

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The financial statements are prepared under the historical cost convention except for buildings (classified as fixed assets), investment property, investment securities at fair value, assets, held for sale disclosed at the lowest of cost net of selling cost.

Going concern

These financial statements have been prepared on the assumption that the Bank operates as a going concern and will remain active for the foreseeable future. Note 6 discloses the main factors considered by the management when assessing the Bank's ability to continue as going concern.

Functional and presentation currency

The functional currency for these financial statements is Ukrainian hryvnia. These financial statements are presented in thousands of Ukrainian hryvnias (UAH), if not stated otherwise.

Inflation accounting

The Ukrainian economy was considered hyperinflationary until December 31, 2000. Accordingly, the Bank has applied IAS 29 "Financial accounting in hyperinflationary economies". The effect of applying IAS 29 is that non-monetary items of the financial statements were restated to the measuring units current at December 31, 2000 by applying the consumer price indices, and that these restated values were used as a basis for accounting in the subsequent accounting periods.

Impact of hyperinflation is given below:

	Before impact of hyperinflation as at December 31, 2018	*Impact of hyperinflation*	*After impact of hyperinflation as at December 31, 2018*
Statement of financial position:			
Share capital	2 720 000	23 666	2 743 666
Accumulated loss	(2 590 801)	(23 666)	(2 614 467)

4. Summary of accounting policies

4.1. Changes in accounting policies and disclosure guidelines

The following new standards and interpretations became effective and mandatory for the use by the Bank as of January 1, 2018 or after. The Bank did not use earlier application of standards, clarifications or amendments that have been issued but not effective yet.

The nature of the impact of these changes is presented below. While some standards and amendments were applied for the first time in 2018, they had no material impact on the annual financial statements. The nature and impact of every new standard or amendment are disclosed below:

Interpretation of IFRIC 22 – Foreign Currency Translation and Advance Consideration. Interpretations clarify that date of transaction used to determinate exchange rate used for recognition of respective asset, cost and income at advance consideration should be the date, when nonmonetary asset or liability stemming from receipt of transfer of advance payment was initially recognized. Such interpretation did not impact financial statement, as current operations comply with requirements of interpretation.

Amendments to IAS 40 Investment property – Reclassification of Investment Property. Amendments clarify, when it's necessary to reclassify property (including property under construction) into investment property. The amendments notify that change in use happens, when property begins to comply or no longer complies with definition of investment property, and evidence of such change is available. Change in intentions of the management on use of property does not evidence actual change in use. The above amendments are applied in prospect to change in use, which happen as of the date of the beginning of annual period, when respective amendments are applied initially or after this date. Amendments are valid for annual periods starting from January 1, 2018, or at a later date. The current operations of the Bank comply with requirements of the amendment, and there is no impact on financial statement of the Bank.

Amendments to IAS 28 – Investments in Associates and Joint Ventures clarify that investment or similar company should decide on valuation of investment objects at fair value through profit or loss for every investment separately. The above amendments do not impact the Bank's financial statements.

Amendments to IFRS 2 Share-based Payment – the Bank does not make share-based payments.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting and IFRS 4 Introduction of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts – are not applicable.

IFRS 15 Revenue from Contracts with Customers. New standard supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, SIC-31 Revenue - Barter Transactions Involving Advertising. The standard applies to all agreements except for lease agreements covered by IAS 17 Lease, insurance contracts covered by IFRS 4 – Insurance Contracts, financial instruments covered by IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statement, IFRS 11 Joint Venture, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

IFRS 15 provides for new 5-stage model to be applied to revenue from contracts with customers. Under IFRS 15, revenue is recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Bank applied the standard to new agreements concluded after January 1, 2018, and agreements, which didn't expire as at the date, when IFRS 15 became valid. The Bank assessed effect of IFRS 15 application on: (1) the requirements of the standard do not apply to recognition of the large part of revenue – interest income, result from FX operations, derivatives, securities, result from revaluation of non-current assets of the Bank, income from lease operations, etc.; (2) the standard impacts recognition of revenue from sale of non-current assets – as at January 1, 2018, all agreements of the bank on sale of non-current assets are completed; (3) other revenues covered by the standard are recognized within requirements of IFRS 15.

IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure taking into account amendments introduced by IFRS 9.

IFRS 9 supersedes IAS 39. The Bank did not recalculate 2017 comparative information for financial instruments covered by IFRS 9. The information, disclosed in this statement for 2017, is presented in accordance to IAS 39 and is not comparative with the information for 2018. Differences stemming from application of IFRS 9 were recognized in retained earnings as at January 1, 2018.

Changes of classification principles

In accordance with IFRS 9, for classification and assessment purposes, all financial instruments except for equity instruments and derivatives should be valued based on business models used by the Bank to manage financial assets and contractual cash flows.

Evaluation categories provided by IAS 39 (valuation at fair value through profit or loss, assets for sale, assets held to maturity at the amortized cost) were replaced by the following categories:

- financial assets measured at fair value through profit or loss (FVTPL);
- debt instruments measured at amortized cost basis (AC);
- debt instruments measured at fair value through other comprehensive income (FVOCI) with accumulated profit and loss reclassified to profit or loss at derecognition;
- equity instruments measured at fair value through other comprehensive income (FVOCI), when profit or loss through change of fair value of an instrument are not reclassified through net income or loss in case of derecognition although they may be reclassified between equity items.

Recognition of financial liabilities remained unchained except for profit or loss from credit loss of the Bank under liabilities classified as those valued at FVTPL. Changes in own credit risk are recognized in other comprehensive income and not reclassified into profit or loss at derecognition.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

In accordance with IFRS 9, embedded derivatives are not separated from the core financial asset and are classified in line with business model and contractual cash flows. Recognition of derivatives, embedded into financial liabilities and agreements recognized as non-financial assets, did not change.

The table below presents the impact of IFRS 9 adopting on classification of financial instruments as at 01.01.2018:

Financial assets/liabilities	***Initial classification IAS 39***	***Initial classification IFRS 9***	***Book value as at 31.12.2017***	***Book value as at 01.01.2018***
Assets				
Cash and cash equivalents	Loans and receivables	AC	1 433 969	1 432 287
Due from other banks	Loans and receivables	AC	486 854	486 704
Loans and advances to clients	Loans and receivables	AC	4 118 982	4 098 820
Investment to securities			279 874	279 874
Securities refinanced by the National Bank of Ukraine	*Financial assets available for sale*	*FVOCI*	*279 488*	*279 488*
Equity instruments	*Financial assets available for sale*	*FVOCI (by Bank decision)*	*386*	*386*
Deposit certificates of the National bank of Ukraine	Financial assets held to maturity	AC	1 001 196	1 001 196
Liabilities				
Due to other banks	AC	AC	46	46
Due to customers	AC	AC	8 336 560	8 336 560
Debt securities issued by the Bank	AC	AC	9 993	9 993

As at January 1, 2018, the Bank analyzed financial instruments for classification in accordance to IFRS 9:

- assets earlier classified as Loans and advances to customers and Financial assets held to maturity comply with criteria of classification of asset as recognized at amortized cost. The Bank did not decide to reclassify such assets to other categories;
- liquidity portfolio classified as Financial assets available for sale complies with the Bank's business model regarding cash flows and sale of assets – the Bank classified the above assets as valued at fair value through other comprehensive income;
- the Bank took decision to classify equity instruments (without any subsequent derecognition) as those valued at amortized cost through other comprehensive income;
- the portfolio of assets held to maturity, comprising deposit certificates, complies with criteria and the Bank's business model, focused on holding of assets for contractual cash flows, with the assets disclosed at amortized cost after initial recognition;
- classification of financial liabilities remained unchanged – recognition at amortized cost;
- as at January 1, 2018, embedded derivatives and credit commitments under lower than market interest rates are not available.

Changes in principles of assessment of asset impairment

IFRS 9 replaces model of recognition of actual credit losses through asset impairment, introduced by IAS 39, by the model of expected credit losses. In accordance with IFRS 9, provisions for expected credit loss should be set for all loans and debt financial assets, except for those valued at FVTPL, and for all credit commitments under lower than market interest rates and financial guaranties. Provision for impairment is based on the expected credit risk related to default probability within 12 months, if credit risk does not change significantly after initial recognition. If credit risk increases significantly, or signs of default are evident, amount of provision is based on change of expected credit loss during whole period of financial asset maturity. Provisions for purchased or created impaired financial assets (POCI) are also based on estimate of credit loss during whole period of maturity of such asset.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Impact of IFRS 9 adoption on allowance for impairment of assets as at January 1, 2018:

	Allowance for impairment under IAS 39 as at 31.12.2017	***Change in loan loss allowance for impairment***	***Change in fair value reserves***	***IFRS 9 allowance for expected credit loss as at 01.01.2018***
Allowance for impairment of cash and cash equivalents	-	1 682	-	1 682
Allowance for impairment of amounts Due from other banks	2 114	150	-	2 264
Allowance for impairment of loans to customers	2 501 900	20 162	-	2 522 062
Allowance for impairment of securities	105	(105)	105	105
	2 504 119	**21 889**	**105**	**2 526 113**

As at 01.01.2018 the Bank made evaluation of expected credit losses for impairment according to IFRS 9:

- additional allowance for assets, recognized at amortized cost, were recognized in the amount of UAH 21 889 thousand;
- allowance for equity instruments, recognized at fair value through other comprehensive income, was reversed and impairment of fair value was recognized;
- evaluation of provision for financial guaranties did not result in change of provision;
- financial credit commitments at lower than market interest rates are not available as at 01.01.2018.

Impact of IFRS 9 adoption on equity as of January 1, 2018:

	Closing balance under IAS 39 as at 31.12.2017	***Effect of adopting IFRS 9***	***Opening balance under IFRS 9 as at 01.01.2018***
Fair value reserves	629	(105)	524
Retained earnings/(loss)	(2 041 113)	(21 889)	(2 063 002)
Effect of adopting		**(21 994)**	

Disclosure of information

Changes, coming into force simultaneously with IFRS 9 as of January 1, 2018, were introduced into IFRS 7 *Financial Instruments: Disclosures*. The changes relate to disclosure during transition from IAS 39 to IFRS 9, and requirements to quantitative and qualitative information on classification of financial instruments, assessment of expected credit loss, assumptions applied and resulting data.

4.2. Significant accounting policies

Foreign currency translation

Transactions in foreign currencies are translated to UAH at the NBU exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to UAH at the NBU exchange rate as at the date of the transaction. Exchange rate differences, arising on translation, are recognized as profit or loss in *Revaluation of foreign currency* item. Non-monetary assets and liabilities denominated in foreign currencies are translated to UAH at the NBU exchange rate as at the date of the transaction.

The principal UAH exchange rates used in the preparation of these financial statements as at 31 December are as follows:

Currency	***2018***	***2017***
USD	27,688264	28,067223
EUR	31,714138	33,495424

4.2.1. Financial instruments

Initial recognition

Financial assets and liabilities are recognized as at the date of transaction when the Bank becomes a party in a contract on purchase or sale of a financial instrument or as at the date of settlement when the Bank factually receives or transfers an asset. The selected method is consistently applied to all purchases or sales of the financial instruments of the same category. Loans are recognized when they are transferred to customer accounts, while deposits and funds of customers are recognized, when funds are credited to an account in the Bank.

Classification of financial assets

The Bank classifies financial assets as those valued at:

- amortized cost (AC);
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL).

A financial asset is classified to the category of assets valued at AC, if both following conditions are met: (a) held within business model to receive contractual cash flows; (b) held to receive scheduled cash flows, which are only payments under contract to redeem principal and interest payments on outstanding principal.

A financial asset is classified to the category of assets valued at FVOCI, if both following conditions are met: (a) held within business model to receive contractual cash flows and to sell; (b) held to receive scheduled cash flows, which are only payments to redeem principal and interest payments on outstanding principal.

A financial asset is classified to the category of assets valued at FVOCI, if: (a) it does not comply with requirements to AC or FVOCI categories; (b) at the initial recognition (without further reclassification), if inconsistency of approaches to valuation or recognition (inconsistency of accounting) from use of differed bases for valuation assets and liabilities or recognition of related profit and loss is mitigated or significantly reduced.

Classification is based on:

- business model of the Bank for management of financial assets;
- contractual characteristics of cash flows under a financial asset.

Business-models. The Bank applies the following business-models:

Model of assets held within business-model to receive contractual cash flows intended to hold assets to generate contractual cash flows; sell assets due to deterioration of credit quality of assets to minimize losses of expected cash flows; sell to manage credit risk (such sales may be uncommon, even if their scope is significant, or their scope is not significant (even if they happen often)); sale of assets shortly before maturity of financial assets and proceeds from sale are approximately equal to remaining cash flows. Financial assets under this business model are valued at amortized cost;

Model of assets held to receive contractual cash flows or sell the asset intended to manage the Bank's liquidity, while assets under this model are held to receive contractual cash flows or to sell. Financial assets under this business-model are evaluated at fair value through other comprehensive income;

Management of trading assets model intended to hold assets for sale or buyback in near future; management of assets is based on fair value. Financial assets under this business model are valued at fair value through profit or loss. This business model also includes financial assets, which do not comply with criteria of classification as asset at amortized cost or fair value through other comprehensive value.

SPPI-test. For classification purposes, the Bank used SPPI-test to analyze contractual cash flows, if they are cash flows from redemption of principal and interest payment on outstanding principal only. SPPI-test includes in-depth analysis of contractual terms, in particular: (a) time value of money; (b) contractual terms changing term or amount of contractual cash flows; (c) agreement-related instruments.

During SPPI test the Bank groups financial assets to three portfolios:

- *Portfolio 1* – SPPI-test is obvious for this group of assets from the general contractual terms (redemption of principal and interest payments only, only standard fees for asset generation, other contractual payments are penalties for breach of contractual terms);
- *Portfolio 2* – collective analysis is possible for this subgroup of similar assets (standardized bank products);

- *Portfolio 3* – assets analyzed on individual basis.

The Bank classifies all financial assets, which passed SPPI-test, at amortized cost and at fair value through other comprehensive income. The financial assets, which did not pass SPPI-test, by the special decision of the Bank are classified at fair value through profit or loss.

At initial recognition of some investments to equity instruments valued at FVTPL the Bank can take decision to recognize the further change of fair value of these investments as other comprehensive income. Such investments are not to be reclassified.

Classification of financial liabilities

All financial liabilities except for credit commitments and financial guarantees are valued at amortized cost or at fair value through profit or loss, if they are tradable or derivatives, or at fair value through profit or loss by the decision of the Bank.

Derivatives

Derivative is an instrument or agreement, which has simultaneously three following criteria: (1) its value changes due to changes of exchange rate, index or rate, good price or other variable; (2) no initial investments are required to purchase it, or initial investment is nonsignificant; (3) settlements on instrument will be made in future.

Derivatives are initially recognized at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized immediately in profit or loss.

Embedded derivative is a component of hybrid (combined) agreement, which also includes non-derivative main agreement, resulting in change of some cash flows from combined instrument.

Embedded derivative, if it is a financial asset, is not disclosed separately. Such hybrid agreement is classified as financial asset at fair value through profit or loss.

Instruments, embedded to financial liabilities and nonfinancial main agreements, are analyzed by the Bank on their separation and recognition at fair value through profit or loss, while the main agreement is recognized in such cases in accordance with respective accounting policies. The Bank can classify all hybrid agreement at fair value with revaluation through profit or loss, except for the cases, when (a) embedded derivative does not significantly change contractual cash flows or (b) separation of embedded instrument is prohibited.

Reclassification

The Bank does not reclassify financial assets after initial recognition except for cases when business model changes commencement or suspension of some activities. Financial assets are reclassified in the first day of the year after the Bank changed business model. In the period from the date of decision to the date of reclassification, previously classified assets continue to be recognized without taking into consideration of change in business-model, but new assets are classified under the new business model. Financial assets are reclassified in prospect.

Financial liabilities cannot be reclassified.

Initial recognition of financial assets and financial liabilities

Financial instruments are initially recognized at fair value adjusted by direct costs related to purchase or generation of a financial asset or financial liability except for financial instruments at fair value through profit or loss. If fair value of a financial instrument differs from contractual price at the moment of initial recognition, the Bank recognizes this difference as profit or loss of the first day.

Profit or loss of the first day is recognized immediately in operating income or expenses, if fair value is based on market data. When fair value is based on the model, where comparative data in public access are not available, profit or loss of the first day is postponed to future periods and recognized in profit or loss by straight-line method during maturity of the instrument.

Subsequent valuation of financial assets

Financial assets at fair value through profit and loss

The Bank values debt financial assets at fair value through profit and loss for tradable instruments (profit generated in the short term), financial assets, which don't comply with requirements for classification at amortized costs or at fair value through other comprehensive income. Revaluation of instruments at amortized cost is recognized as net trade result, interest income and expenses are recognized separately, not as part of fair value changes, while dividends are recognized, when the Bank established the right to receive dividend. The Bank does not assess impairment of financial assets at fair value through profit or loss.

The Bank classifies securities, capital instruments and FX swaps to this category.

Financial assets at fair value through other comprehensive income

The Bank values debt financial assets at fair value through other comprehensive income only if they comply with the purpose of business model regarding contractual cash proceeds or proceeds from sale, while cash flows undergo SPPI-test. Interest income result from FX revaluation is recognized by the Bank in profit and loss, while result of revaluation to fair value is recognized in other comprehensive income to be reclassified to profit or loss at derecognition of financial asset.

The Bank classifies liquid debt securities under such category.

The Bank took decision on equity instruments, purchased rather as obligatory inputs to capital of stock exchanges, clearing centers, etc., then acquired for trade, to classify them at fair value through other comprehensive income. This decision is not cancellable. At derecognition of capital instruments, revaluation accumulated in other comprehensive income is never reclassified to profit or loss, it can be reclassified only between capital items. Dividends are recognized by the Bank to profit or loss only when right for it is established.

For debt financial assets the Bank assesses expected credit risk. Expenses on provisions are recognized in profit or loss, while provisions do not decrease balance value of an asset, being recognized in other comprehensive income.

Financial assets valued at amortized cost

The Bank applies recognition at amortized cost to the instruments, which underwent SPPI test and comply with the business model of cash flows of principal and interest payments. Amortized cost is calculated taking into account costs and fees directly related to issue of an instrument and included to calculation of effective interest rate (EIR). The Bank recognizes interest income, using EIR, in profit or loss, while provision decreases balance value of an asset.

The Bank classifies amounts Due from other banks, loans to customers, deposit certificates of the national Bank of Ukraine as those to be classified at amortized cost.

Subsequent valuation of financial liabilities

After initial recognition the Bank classifies all financial liabilities as those recognized at amortized cost, except for:

(a) *tradable and derivative financial liabilities* - valued at fair value through profit or loss;

(b) *financial guarantee agreements and credit commitments to customers* – valued at the largest of: (i) amount of estimated provision, (ii) initially recognized amount adjusted by recognized cumulative amortization (if acceptable).

The Bank recognizes interest expenses on financial liabilities valued at amortized cost in profit or loss using EIR and discounting expenses and fees directly related to recognition of financial liability. The Bank classifies amounts Due to other banks and customers at current and deposit accounts as financial liabilities at amortized cost.

Revaluation of financial liabilities to fair value is recognized in profit or loss.

For financial liabilities, recognized by the Bank at fair price through profit or loss, change of fair value, resulting from change in credit risk of the Bank, is recognized in other comprehensive income, the rest – in profit or loss.

The Bank issues financial guaranties and has financing commitments on unsecured letters of credit, credit lines and avals. Initially the Bank values them in the amount of received remuneration, recognized in fee & commission income, on straight-line basis during the maturity of guaranty or liability. Expenses on provisions are recognized in profit or loss, while provisions are disclosed in statement of financial position as provisions for liabilities. Nominal value of financial guaranties and unused credit line commitments are disclosed in notes.

Effective interest rate Method

Interest income/expenses on interest financial instruments are calculated using the method of effective interest rate. EIR is calculated on basis of costs incurred by the Bank at operation and commissions received for issue of an instrument. Effective interest rate is the rate, used to discount future cash flows during expected maturity of financial asset or liability, providing constant rate of income or expenses.

For financial assets and liabilities at floating interest rate, the Bank revises cash flows using market interest rates resulting in change of EIR. Change of interest rate related to change of credit spread does not cause change of EIR.

The Bank doesn't perform calculation of EIR on financial assets and liabilities, where scope of cash flows and date of origination cannot be determined. Such financial instruments include loans and deposits overdraft, revolving credit lines.

For financial assets impaired at the date of initial recognition, the Bank calculates EIR adjusted by credit risk (EIRpd). The Bank includes credit losses, expected during whole period of maturity of an asset, to asset cash flows for calculation of EIRpd.

Revision of contractual cash flows. Modification

The Bank revises balance value of financial asset or liability, when expectation of cash flows on an instrument changes or at confirmation of agreement modification.

In case of revision of expected cash flows, the gross book value or amortized cost of financial instruments are recalculated as present value of future flows discounted at initial EIR or EIRpd. Volume of revision is recognition in interest income or expense.

In case of revision of cash flows, when customer confirms agreement modification, the gross book value or amortized cost of financial instrument is recalculated as present value of modified cash flows discounted by EIR or EIRpd. The revision volume is recognized as modification income or loss. When modification of contractual conditions results in difference not less than 10% between present cash flows at new conditions and residual flows at initial conditions or change in currency of financial instrument happens, the Bank derecognizes existing financial instrument and recognizes the new one. In such case, the date of modification is a date of initial recognition of a new instrument.

Derecognition of financial assets and financial liabilities

Financial assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when: (1) the rights to receive cash flows from the asset have expired; or (2) the financial asset is transferred to other party and this transfer complies with requirements for derecognition.

The transfer of financial asset complies with requirements for derecognition, if: (1) the Bank has transferred substantially all the risks and rewards of the asset, or (2) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control over the asset.

Financial liabilities. A financial liability is derecognized when the obligation under the liability is redeemed: (a) when the Bank repaid all debt to creditor; (b) when the Bank is legally relieved from initial liability either through court decision or by creditor; (c) when one debt instrument is exchanged for another one, terms of which differ at least by 10% from discounted present value of initial financial liability.

Impairment of financial assets

Principles of evaluation of expected credit loss

The Bank calculates expected credit loss for financial assets and respective provisions starting from the date of recognition until the date of derecognition. The amount of expected credit losses is recognized as estimated provision depending on the level of impairment of credit quality after initial recognition.

The Bank recognizes provisions for expected credit loss for debt financial assets at amortized cost and debt financial assets at fair value through other comprehensive income.

Calculation of provision for expected credit loss is based on evaluation of financial situation of a borrower, debt service taking into account type and conditions of a transaction. Provision for expected credit loss is estimated in the amount of losses, which are expected to be incurred during the maturity of an asset, if credit risk significantly increased after initial recognition. Otherwise, provisions for expected loss will be set in the amount of 12-month expected loss.

Expected credit loss for 12-month period is a part of expected loss for the whole period of maturity, that can arise during 12 months after reporting date.

As at the end of every reporting period, the Bank estimates existence of evidence of impairment of financial asset of group of financial assets taking into account losses expected as a result of future events adjusted by probability of their occurrence during the life cycle of a financial instrument taking into account dependences on forecasted dynamics of scenario macroeconomic indicators weighted by probability of occurrence.

At initial recognition of a loan and before appearance of evidence of higher credit risk, the Bank recognizes provision equaling expected loss during 12-month period (the first stage of impairment).

Evidence of higher credit risk (the second stage of impairment). The attributes of higher credit risk on counterparts, in particular: payment overdue from 31 days to 90 calendar days (for financial institutions – from 7 to 30 calendar days); increase of default probability (PD) by more than 20% compared to the date of their initial recognition and other (additional) factors hinting on increase of credit risk within the limits of monitoring on financial resilience of the Bank's borrowers, approved by the Bank.

Evidence of default (the third stage of impairment). As default definition is the key one for application of forecasting models and for rebut of assumptions below through calibration of statistic data of the Bank (own experience), taking into account historical confirmation or rebut of assumptions below, and also with intention of avoidance of differences with the Basel requirement within more complicated calculation of regulatory capital, the bank applies the following definitions of default: default occurs not later than financial asset (payment or its part) is overdue for more than 90 days for individuals and legal entities and more than 30 days for banks. Such assumption can be rebutted only if need for application of other default criteria is confirmed. In addition to number of days overdue, the Bank uses the following indicators evidencing default of financial instrument, namely:

- borrower announces bankruptcy;
- borrower is declared bankrupt;
- bank-borrower is included into category of non-solvent banks by decision of National bank of Ukraine;
- procedure of legal entity liquidation (termination) is initiated;
- banking license is revoked;
- the Bank filed a bankruptcy case against borrower as required by law;
- amendments, other than restructuring, increasing maturity of a debt for a borrower, who is not able to redeem debt without pledge despite absence of overdue payments as of the date of evaluation, are introduces to the agreement.

The above default signs confirm the fact that borrower/counterpart is not able to meet in full its liabilities to the Bank, its parent company and affiliates within contractual term without collateral foreclosure, if available assumptions do not state otherwise. The respective assumptions are stated in report on possibility of credit transaction in credit application or in opinion of credit expert. Debt load of a customer and prospects of further debt servicing in future are assessed when assumption is made. If long-term prospects on debt settlement exist, for example, available base of stable customers and buyers is identified, solvent guarantors are attracted, etc., they can be prioritized over current levels of debt load during analysis.

The Bank returns to recognition of estimated provision for expected credit loss on the basis of losses expected during the next 12 months 0 stage 1, if credit quality of financial asset at stage 2 or 3 improves in such way, when material increase of credit risk does not exist and financial asset does not comply to criteria of material increase of credit risk.

Calculation of expected credit loss

For calculation of expected credit loss and expected cash flows the Bank took into consideration all contractual conditions of financial instrument (including options of advance payment, renewal of repayments terms, call options and other similar options), which are expected during the maturity of this financial instrument. If reliable evaluation of expected maturity on financial instrument is impossible, the Bank uses the residual maturity in accordance of contractual conditions. Besides the Bank includes cash flows from sales of foreclosed collateral or other tools of credit enhancement being integral part of contractual terms.

The Bank does not make provisions for:
- financial instruments recognized at fair value through profit or loss;
- equity instruments;
- amounts due to the National Bank of Ukraine;
- lottery transactions;
- indexation of money savings;
- securities issued by the government and the National Bank of Ukraine;
- investments in shares of stock exchanges, depositories, payment systems and credit history agencies;
- revolving and risk-free credit commitments and financial guaranties.

The Bank sets expected credit loss as the average weighted of credit loss adjusted by respective risks of default as adjustment coefficients, reflecting:
- objective amount adjusted by probabilities;
- assessment of the range of possible results;
- time value of money;
- substantiated and reasonable information, available without extra cost or efforts as at the reporting date, on past events, current situation and prognosticated future economic conditions.

The Bank recognizes expected credit loss during maturity of a financial instrument as expected credit loss, generated by all possible events which may cause a default during expected life of a financial instrument.

The Bank recognizes expected credit loss during the expected maturity of a financial instrument, if the Bank expects to receive contractual cash flows under agreement later than determined by the agreement. At the same time, overdue contractual cash flows at the moment of evaluation are recognized as those to be received at the end of maturity.

For assets, assessed individually, the Bank uses binary model of customer behavior including expectations on proceeds of contractual cash flows and evidences of impairment, expectation of the Bank on sales of collateral within respective terms adjusted by liquidity coefficient taking into account probability of occurrence of such scenario from impact of macroeconomic forecast.

In such case, future cash flows are discounted for the period of maturity of a financial instrument, but for loans of:
- stage 1 of impairment, expected credit risk (ECL) is discounted for 12 months or until the maturity, if the date of redemption if closed than 12 months.
- stage 2 and 3 of impairment, expected credit risk (ECL) is discounted until the maturity.

If expected cash flows cannot be forecasted (revolving credit lines, overdrafts) or at assessment of an asset is made on collective basis, the Bank uses approach of weighting of exposure to risk by default probability (PD) and level of loss at default.

Scenario analysis: when assessing expected credit loss, the Bank considers four scenarios of default probability in accordance with forecasts of changes of macro indicators (from the very pessimistic to optimistic). The forecast indicators are calculated by the model separately for every scenario of dynamics pf macro indicator included to at least one information unit. Calculations are made on quarterly basis for 5 year forecast term. Beyond the 5-year period, extrapolation can be used in accordance with Standard for long-term forecasts. Two types of extrapolations are used: on the basis of the stable level of indicator to be determined in the last period of forecast horizon, or on the basis of the moving average.

The Standard requires to take into account scenarios of macro development of Ukraine with respective probabilities of occurrence. The expected credit losses are calculated as indicator weighted by those probabilities complying to math definition of discretely distributed random value.

Assessment of collateral, foreclosure of collateral

In accordance with credit policy and risk appetite the Bank uses collateral on assets, if relevant. Collateral may have different forms: cash (deposit, coverage), movable/immovable property, property rights and guaranties, etc.

The fair value of collateral is used for calculation of expected credit loss and is determined in accordance with regular property revaluations, in particular: immovable property, integral property complex, land lots, vehicles and equipment – not less than once per twelve months; stock in trade or processing and biological asses - not less than once per one month; other property/ property rights (except for property rights for cash) - not less than once per six months. The Bank uses the market (fair) value of collateral, determined by the appraiser or the authorized employee, who has qualification certificate of appraiser, or the value, stated in an agreement – if assets are purchased not earlier than three months before the date of collateral agreement.

The collateral property can be used by the Bank as instrument for satisfaction of credit agreement requirements through foreclosure. Assets, assessed as useful for the Bank's operation, are recognized as investment property or fixed assets. Assets for sale are transferred to the respective asset category. The both types of assets are recognized at fair value.

Loan restructuring and modification

Purchased or recognized impaired loans are assets, impaired as at the moment of initial recognition. At initial recognition, financial assets are recognized at fair value and interest income from such assets is respectively recognized on the basis of EIR adjusted by credit risk. Provision for expected credit loss under such asset is recognized or derecognized only in the amount of decreased expected credit loss.

When calculating provisions, the purchased (created) impaired financial asset or pool of purchased assets is considered as the single financial instrument, and the model of expected cash flows is developed, and calculation of initial adjusted by credit risk efficient interest rate is made at the moment of recognition by the Bank. If volume of cash collection differs by more than 10% more or less than planned by the model, the planned cash flows should be revised. Compliance with this condition is checked by the end of the reporting year, 12 months after application of the current model. After development

Write-off

The Bank writes off an asset (or its part) only when value of such asset is not expected to be compensated by borrower/financial surety or sale of collateral anymore.

Write-off can result in derecognition of an asset as of the date of write-off (if there are no reasonable prospects and expectations of value compensation) or before derecognition in future (the Bank continues to work on foreclosure of debt under written-off assets).

If the value of and asset is higher than provision, the Bank initially increases the provision, to cover gross book value of an asset. If steps of the Bank towards foreclosure of written-off debt result in redemption, these amounts are used to decrease provision.

4.2.2. Principles of fair value measurement

The fair value of financial instruments is based on their market quotations as at the reporting date without deduction for transaction costs. If market quotations are not available as at the reporting date, the fair value of an instrument is estimated by appropriate valuation models. The models may contain modeling based on net present value, comparison with similar instruments, priced on the observable market, options pricing models and other valuation methods.

When discounted cash flow method is applied, estimated future cash flows are based on the management's best estimates using a discount rate, equal to market rate at the reporting date for an instrument with similar terms and conditions. For pricing models, inputs are based on market values as at the reporting date. If there are no appropriate methods to determine the fair value of the equity instruments, for which there are no quoted market price, the instruments are carried at historical cost less the impairment provision.

Besides, when financial statements are prepared, fair value measurements are classified by levels depending on observable data and their materiality for the assessment:

- I Level inputs: quotations (unadjusted) on active markets for identical assets or liabilities;
- II Level inputs: observable data for an asset or liability, directly or indirectly;
- III Level inputs: non-observable data for an asset or liability.

4.2.3. Cash and cash equivalents

Cash and cash equivalents are the most liquid assets of the Bank with the least risk of change of value; they include cash in bank cash at correspondent accounts in National Bank of Ukraine and other banks, short-term loans and deposits with repayment period of up to three months, easily convertible into cash.

Cash and cash equivalents include balances on correspondent accounts, loans and deposits in other banks with investment rating, established by international rating agencies, with credit risk assessments at the 1st stage.

Balances on corresponding accounts with restricted use and guarantee deposits on settlement and documentary transactions are included into other items of balance sheet.

4.2.4. Amounts Due from other banks

Amounts Due from other banks are balances on correspondent accounts in other banks and loans and deposits, which do not comply with classification criteria of cash and cash equivalents. The Bank classifies the following assets as amounts Due from other banks: sight deposits, term deposits and loans. Amounts Due from other banks are classified by the Bank to respective business-models taking into consideration SPPI-test.

Sight deposits, term deposits, overnight and overdraft loans are related to assets of Portfolio 1, which does not undergo SPPI-test and is classified to business model "an asset held to collect contractual cash flows" with valuation at amortized cost. Other assets are included into assets of Portfolio 3 and classified to respective business model based on results of SPPI-test and individual decisions.

The Bank recognizes interest income from amounts Due from other banks and the amount of differences in valuation of expected credit risk.

4.2.5 Loans and advances to customers

Loans and advances to customers are recognized at fair value as at the date of settlement including expenses. Subsequently, loans and advances to customers are recorded at amortized or fair value, depending on business model, chosen as a result of SPPI-test, and respective decision.

As at every reporting date, the Bank assesses expected credit losses and makes provision. Differences in expected credit losses are recognized in profit or loss.

The bank recognizes interest income in profit or loss, using EIR method, to gross book value of assets valued at stages 1 and 2 of valuation of expected credit losses and to amortized cost of assets valued at stage 3 and also the POCI-assets.

The Bank recognizes changes in fair value of loans and advances to customers in profit or loss (FVTPL) and in other comprehensive income for assets accounted at FVOCI.

The Bank sells loans and advances to customers, which materially suffered from deterioration of credit quality, to manage concentration of credit risks and to minimize losses from expected cash flows. Profit or loss from sale of such assets are recognized by the Bank as profit or loss from derecognition of financial instruments.

4.2.6. Investments in securities

The Bank initially recognizes investments in securities as at the date of settlement and measures them at fair value. The further valuation is based on results of SPPI-test (for debt securities) and classification of the respective business model.

The debt securities, which underwent SPPI-test, are classified by the Bank to the business model *Assets held to collect contractual cash flows*, recognized at amortized cost, or the business model *Assets held to receive contractual cash flows or to sell*, recorded at fair value through other comprehensive income, to manage liquidity of the Bank.

The Bank recognizes interest income by EIR method in profit or loss. The amount of changes of fair value is recognized in profit or loss, if investments are recognized at FVTPL, or in other comprehensive income, if investments are recognized at FVOCI. At derecognition, provision for revaluation, accumulated in other comprehensive income, is reclassified to profit or loss.

As at every reporting date, the Bank assesses expected credit risk on debt securities, recognized at AC or FVOCI. The amount of changes of expected credit risk are recognized in profit or loss.

Capital instruments are classified by the Bank at FVTPL, and if investments are made in non-tradable instruments, the Bank classifies them at FVOCI (such decision is irrevocable in future). Dividends are recognized in profit or loss, when right for dividends is established.

4.2.7. Derivative financial instruments

The Bank uses the following derivative financial instruments: forward foreign exchange contract, FX swaps to manage foreign currency risk, interest risk and other risks. Such instruments are initially recognized at fair value as at the date of transaction. The further valuation is also at fair value with recognition of revaluation result in profit or loss. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The Bank does not make hedging transactions.

4.2.8. Investment property

At initial recognition, the Bank measures investment property at its cost adjusted by transaction expenses before initial valuation. After initial recognition, investment property is valued at fair value, reflecting market conditions as at the date of valuation. The fair value is measured as at the date of financial statements by independent appraisers, accredited by the Bank. Profit or loss from revaluation of investment properties are included in the profit or loss as *Revaluation of investment property*.

The Bank reclassifies property as investment property only when changes in use of property occur.

The Bank derecognizes investment property at withdrawal, or when no economic benefits are expected. The date of withdrawal of investment property is the date, when the recipient gains control over property in accordance with IFRS 15 requirements.

4.2.9. Property, plant and equipment and intangible assets

Following initial recognition at cost, buildings are carried at a revalued amount, representing fair value as at the revaluation date less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

The Bank believes that the revaluation model is more relevant to disclose the value of the buildings, as revalued cost of buildings, owned by the Bank, reflects their current value more accurately compared to historical value.

To determine the fair value of buildings, management engages independent professionally qualified appraisers. Revaluations of buildings are made with sufficient regularity to avoid significant differences between their book value and the value, measured as fair value as at the revaluation date.

The accumulated depreciation as at the revaluation date is eliminated with simultaneous decrease in gross carrying value of the asset, and the net amount is restated based on revalued amount. A revaluation surplus on buildings is recognized in other comprehensive income, except for cases, when it reverses a previous revaluation decrease, recognized in the profit or loss. Decrease in buildings value due to revaluation is recognized in the profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the buildings’ revaluation reserve. On the retirement or disposal of the asset, the remaining buildings revaluation reserve is immediately transferred to the retained earnings.

Other property, plant and equipment and intangible assets are carried at cost less accumulated depreciation and amortization and impairment losses. The carrying amount of equipment is measured for impairment in case of events or circumstances indicating probable inability to recover carrying value of an asset. As at the end of each reporting date, the Bank assesses whether there is any indication of impairment of equipment and intangible assets. If any indications exist, the Banks measures the recoverable amount, which is determined as the higher of fair value less costs to sell and value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the profit or loss. An impairment loss, recognized for an asset in prior years, is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Costs of current repairs and maintenance are expensed when incurred. Expenditures for capital repairs and cost of replacing major parts or components of property, plant and equipment are capitalized and further depreciated over the useful lives.

Depreciation and amortization

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets. Depreciation and amortization commence as of date when the acquired assets become ready for use or, in respect of internally constructed assets, as of time when an asset is completed and ready for use.

The estimated useful lives are as follows:

Buildings	50 years
Furniture and equipment	5 years
Computers	3 years
Vehicles	5 years

Costs on capital leasehold improvements are recognized as assets and, while their depreciation is recorded in the profit or loss as "Administrative and other operating expenses" within depreciation of property, plant and equipment and amortization of intangible assets on a straight-line basis over the shorter of applicable lease or the economic life of the leasehold improvement.

Intangible assets are amortized over the useful lives of up to 10 years.

4.2.10. Assets held for sale

The Bank classifies non-current assets (or a disposal group) as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use. In this case, the non-current assets (or disposal group) must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets (or disposal groups), while the sale is highly probable.

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

The Bank measures an asset (or disposal group), classified as held for sale at the lower of carrying amount and fair value less costs to sell. The Bank recognizes an impairment loss as other expenses through decrease of usefulness, if events or circumstances indicate that carrying amount of the asset (or disposal group) may be impaired.

4.2.11. Leases

Financial lease – Bank as a lessor

The Bank recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Financial income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating lease – Bank as a lessee

Leases of assets, when the risks and rewards of ownership are effectively retained by the lessor, are classified as operating leases. Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included into the profit or loss as "Administrative and other operating expenses" within expenses for operating lease (rent).

Operational lease – Bank as a lessor

The Bank discloses assets under operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized on a straight-line basis over the lease term in the profit or loss as "Other income". The aggregate cost of incentives, provided to lessees, is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs, incurred in relation to operating lease agreement, are added to the carrying amount of the leased asset.

4.2.12. Borrowings

The Bank attracts funds from banks, individuals and legal entities for sight and term deposits, initially recognized as at the date of settlement. These instruments are initially valued at fair value and, subsequently, at amortized cost.

The Bank recognizes interest expenses on borrowings using EIR method. The interest expense is recognized in profit or loss in Interest expense.

The Bank derecognizes borrowings at repayment, relief of liabilities to pay to creditor, or when one debt instrument is replaced by another one under different conditions. The different conditions mean difference not less than 10% between the current value of cash flows under new terms, discounted by initial EIR, and residual cash flows under initial financial liability.

4.2.13. Provisions for liabilities

Provisions are recognized, when, as a result of certain event in the past, the Bank has legal or voluntary liabilities to be settled with possible outflow of economic resources, containing future economic benefits, which can be measured with high reliability.

4.2.14. Share capital

Ordinary shares are recorded as share capital. Costs of services of third parties, directly attributable to the issue of new shares, are shown in equity as decrease from proceeds, gained due to issue. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

The book value of the share capital takes into account the influence of hyperinflation accumulated before 2001.

4.2.15. Recognition of income and expense

The Bank recognizes income simultaneously with increase of assets or decrease of liabilities (provision of loans and services), and expenses – with increase of liabilities and decrease of assets (deposits, depreciation of fixed assets). The Bank recognizes income and expenses on accrual basis. On once-off services (FX conversion, remittances, preparation of verification letters, etc.) the bank recognizes income and expense without accrual, if funds are received/paid in the period, when services are actually provided. In profit or loss statement the Bank groups income by their nature.

Interest income

The Bank calculates interest income, applying EIR method to gross book value of financial assets except for credit impaired assets. Interest income from assets impaired (stage 3) is recognized by the Bank using EIR to amortized cost of such asset, and the Bank again applies EIR to gross book value, when an asset is no longer credit impaired.

At purchase or creation of credit impaired assets (POCI-assets), the Bank calculates interest income applying EIRpd to amortized cost of such assets.

The Bank does not use EIR for financial assets on demand or instruments with unpredictable cash flows and recognizes income at contractual interest rate.

Interest expense

The Bank recognizes interest expense applying EIR method to amortized cost of financial liability as of its initial recognition. For financial liabilities on demand, the bank recognizes interest expense at contractual interest rate.

Commission income

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

- *Commission income from services provided over a certain period of time*

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

- *Commission income from transaction services*

Commission income from negotiating or participating in the negotiation of a transaction in the name of a third party, e.g., the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized after completion of the underlying transaction. Commissions or their part, linked to a certain performance, are recognized when respective criteria are met.

Dividend income

Income is recognized when the Bank's right to receive the payment is established.

Taxation

The income tax for the year comprises current and deferred taxes. The income tax is recognized in the profit or loss as Income tax expenses, except when it relates to items of other comprehensive income, or to items of the statement of changes in equity; in this case it is recognized respectively in other comprehensive income or in the statement of changes in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or prevailing as at the reporting date, and any adjustment to tax payable in respect of previous years. Current income tax expenses are calculated in accordance with the legislation of Ukraine.

Deferred tax is calculated using the liability method for all temporary differences between the carrying amounts of assets and liabilities in financial accounting and the amounts used for taxation purposes. Deferred tax is calculated depending on the expected way of realization or settlement of the carrying amount of assets and liabilities, using tax rates effective in the periods of possible realization of temporary differences between tax and financial accounting.

Deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences may be utilized. Deferred tax asset is reduced, when it

Ukraine also has various operating taxes applicable to the Bank activities. These taxes are disclosed in other operating expenses.

5. The standards and interpretations that are issued, but not yet effective

The following new standards and interpretations were issued that will be mandatory for the Bank in the reporting periods starting on or after 1 January 2019. The Bank has not applied these standards and interpretations before their effective date.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts, regardless of the type of entities that issue them. IFRS 17 creates one accounting model for all insurance contracts.

IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts. The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims.

Insurance contracts are required to be measured based only on the obligations created by the contracts. An entity will be required to recognize profits as an insurance service is delivered, rather than on receipt of premiums.

This standard is applicable for annual periods beginning on or after 1 January 2021, with early application permitted.

This standard is expected to have no effect on the financial statements of the Bank.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Since Ukrainian tax laws is open for different interpretations, the Bank thinks that it may affect its financial statements and disclosure of information.

IAS 1 Presentation of financial statements and IAS 8 Accounting principles (policy), changes in estimates and correction of errors

Amendments to IAS 1 and IAS 8 clarify the definition and increase consistency across standards.

They are effective for annual periods beginning on or after 1 January 2020. These amendments will not have a significant impact on financial statement.

Amendment to IFRS 9 Financial Instruments Prepayment right with negative compensation

The narrow-scope amendment explains that a debt financial asset meets SSPI test criteria irrespective of which party compensates or collects the compensation. It is effective for annual periods beginning on or after 1 January 2019. This amendment is expected to have no effect on the financial statement of the Bank.

Amendment to IFRS 3 Business combinations

As a result of the amendments to IFRS 3, the definition of a "business" has been modified, thus, improving understanding, what companies acquire – business or a group of assets, that do not form a business. Under new definition, business means sale of goods or services to customers. It is effective for annual periods beginning on or after 1 January 2020. This amendment is expected to have no effect on the financial statement of the Bank.

IAS 19 Plan Amendment, Curtailment or Settlement

Amendments to IAS are effective for annual periods beginning on or after 1 January 2019. They specify how an entity determines pension expenses when changes, such as curtailment or settlement, to a defined benefit pension plan occur. IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendments are expected to have no effect on the financial statements of the Bank.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures come into force as of January 1, 2019 and apply to long-term interests in an associate or joint venture, being the result of introduction of another standards – IFRS 9 Financial instruments, meaning that part of long-term investments in the associate or joint venture. to which the equity method is not applied, are to be accounted in accordance with IFRS 9. These amendments are expected to have no effect on the financial statements of the Bank.

Annual Improvements 2015-2017 Cycle (published in December 2017)

These improvements include:

IFRS 3 *Business Combinations*
Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business.

IFRS 11 *Joint Arrangements*
Clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 *Income Taxes*
Clarification that all income tax consequences of dividends should be recognized in profit or loss, regardless how the tax arises.

IAS 23 *Borrowing Costs*
The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

These annual improvements are effective for periods beginning on or after 1 January 2019. These improvements are not expected to have any impact on the financial statements of the Bank.

IFRS 16 Leases

IFRS 16 is published and effective for annual periods beginning on or after 1 January 2019. IFRS 16 supersedes IAS 17; IFRIC 4; SIC-15 and SIC-27. IFRS 16 introduces principles of recognition, presentation and disclosure of lease to provide for presentation of respective information by lessors and lessees, reliably presenting these transactions, using a uniform model in accounting similar to that, set by IAS 17 for financial lease.

IFRS 16 uses model, based on control to identify lease to differentiate between lease transactions and service contracts, depending on whether an asset is controlled by a lessee.

IFRS 16 provides for two cases of non-recognition by lessees – lease of low-value assets and short-term lease (no longer than 12 months). At the commencement of the lease, a lessee recognizes liabilities under lease payments (lease liabilities) and an asset, representing the right to use the basic asset during lease term (asset as a right of use). Even operating lease expenses are replaced by interest expenses and even depreciation charges for the asset, thus causing disclosure of higher expenses at the beginning of the lease and lower expenses at the end of the lease.

IFRS 16 may be applied either (i) retrospectively, or (ii) without recalculation of information of the comparative period with recognition of aggregated effect of initial application of the standard as adjustment of opening balance of retained earnings as at the date of initial application. If option (ii) is used, a lessee must measure the liabilities, based on interest rate for additional borrowings as at the date of initial application. Asset as a right of use may be measured in an amount equal to liability under the lease, or as the book value of the asset, calculated retrospectively based on interest rate for additional borrowings as at the date of initial application.

The Bank plans to apply IFRS 16 as of January 1, 2019. In 2018, the Bank made a detailed assessment of the effect of the standard, using the then available information.

As of January 1, 2019, the Bank reassesses whether a contract is the lease, or whether it contains the lease. The Bank as a lessee plans to use modified retrospective approach without recalculation of comparative information.

The Bank shall apply the following simplifications of practical nature to each individual lease contract:

(a) Simplification of practical nature to contract, where lease term is over within 12 months as of the date of initial application;
(b) Assumptions on the term of lease, based on later knowledge (e.g., when a lease contract includes an option to extend or terminate the lease).

As at the date of initial application, the Bank assesses:

- Lease liability at current value of non-paid lease payments, discounted at the rate, representing rates of additional borrowings of the Bank as a lessee, in an amount of UAH 130 043 thousand;
- Asset as a right to use in an amount equal to lease liability, adjusted by any advance lease payments, made or accrued, and recognized in the statement of financial position before the date of initial application, and adjusted by the amount of recognized provision in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* under onerous lease contracts, in an amount of UAH 125 903 thousand.

The Bank did not apply new and amended IFRSs, which are not effective yet:

Conceptual Framework for Financial Reporting

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

• Chapter 1 – The objective of financial reporting
• Chapter 2 – Qualitative characteristics of useful financial information
• Chapter 3 – Financial statements and the reporting entity
• Chapter 4 – The elements of financial statements
• Chapter 5 – Recognition and derecognition
• Chapter 6 – Measurement
• Chapter 7 – Presentation and disclosure
• Chapter 8 – Concepts of capital and capital maintenance.

The Conceptual Framework is accompanied by a Basis for Conclusions. The Board has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 *Business Combinations* and for those applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

The revised Conceptual Framework is effective immediately for the IASB and the IFRS Interpretations Committee. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

The amendment will not have a significant impact on financial statements of the Bank.

6. Significant accounting assumptions and estimates

The Bank applies assumptions and estimates, influencing the amounts, disclosed in the financial statements, book value of assets and liabilities during subsequent financial year. Assumptions and estimates are regularly reviewed and based on previous experience of management and other factors, including effect of future events, reasonable in current situation. In addition to assumptions based on accounting estimates, management of the Bank uses professional judgements for accounting policies applied. Professional judgements, materially influencing amounts, disclosed in financial statements, and estimates, which may result in significant adjustments of book values of assets and liabilities in the subsequent financial year, include:

Going concern

Factors, mentioned in Note 2 to the financial statements, continued to affect financial position and performance of the Bank. In 2018, the Bank incurred net loss of UAH 551 465 thousand mostly related to accruing allowances for expected credit losses from loans and advances to customers in an amount of UAH 814 413 thousand. As at December 31, 2018, as stated in *Liquidity Risk* section of Note 25, cumulative liquidity gap with the term of up to one year and general cumulative liquidity gap were negative in an amounts of UAH 2 918 108 thousand and UAH 1 203 010 thousand respectively. Excess of short-term Bank assets over short-term liabilities based on assumption of stable part of customers' funds as liabilities with undefined term of repayment, is UAH 246 668 thousand.

The Bank management prepared these financial statements based on going concern basis. When forming this professions judgement, management took into account the consistency of steps on financial support of the Bank by the Shareholder, implementation of Plan of Restructuring of Capitalization Program and Plan of measures to eliminate violations of economic ratios of the Bank, approved by Supervisory Board and agreed with National Bank of Ukraine. Within the above Plan in 2016-2018 the Shareholder made contributions totaling to UAH 2 373.5 million into share capital, and, as at December 31, 2018, placed USD 13.7 million to cover debts under non-performing loans, said amount being used in January 2019, to increase the share capital by equivalent of UAH 378 107 thousand (Note 31). The management also took into account improvement of 2018 operating results of the Bank by UAH 280 million due to sale of non-performing loans, stabilization of political and economic situation in Ukraine, suspension of hostilities in Ukraine, financial position of the Bank, planned access to financial resources, and analyzed effect of current political and economic satiation on future Bank activities.

When doing these assumptions, Bank management took into account the above factors and concluded that use of going concern concept as basis for preparation of the financial statements is reasonable.

Equity. In order to support the equity, based on evaluation of Bank resilience in accordance with NBU Board Regulations *Regulation on the Evaluation of the Resilience of Banks and the Banking System of Ukraine* № 141 of December 22, 2017, and *On Details of the Evaluation of the Resilience of Banks and the Banking System of Ukraine in 2018* №94 of 14.08.2018, takin into consideration estimated need in equity under basic macroeconomic scenario in an amount of UAH 739 million, the Shareholder of the Bank on November 5, 2018, decided to increase share capital of the Bank by UAH 1 173 million through private placement of additional shares of actual par value and made partial payment for shares issued in an amount of UAH 488,5 million in December 2018. Besides, in December 2018, the Bank improved its operating performance by UAH 280 million due to sale of non-performing loans. The Shareholder of the Bank continues financially support the Bank in 2019 (Note 31).

On December 19, 2018, Supervisory Board of the Bank approved Plan of restructuring of JSC BANK CREDIT DNEPR with Program of capitalization (hereinafter – the Plan) for the period of up to 01.02.2019, agreed by the Decision of the National Bank. The Plan provides for capitalization of the Bank in accordance with the amounts and periods, approved by respective decree of the Board of the National Bank of Ukraine.

Both support of the Shareholder and steps, taken by Bank management made in possible for the Bank to meet its obligations under the Plan ahead of schedule. As at January 1, 2019, the capital adequacy ratio (H2) grew up to 13,8% (regulatory requirement ratio - 10%), core capital adequacy ratio (H3) – up to 12,63% (regulatory requirement ratio - 7%). Regulatory capital (H1) increased by UAH 768.5 million, reaching UAH 1 035 million.

Factors, described in Note 2, provide for existence of significant uncertainty that may put ability of the Bank to continue as going concern under significant doubt. Still, management of the Bank believes that continuing financial support of the Shareholder, mentioned above, and his approval of the Plan, provide for reasonable assurance of the management regarding ability of the Bank to continue as going concern.

Quality of loan portfolio. When assessing quality of credit transactions, the Bank adheres to the principle of prevalence of essence of transactions over their form, meaning that the Bank makes complete and adequate assessment of credit risk in calculation of credit risk under an asset both individually and as a group, based on own experience, through application of management judgements regarding materiality of influence of different factors on the quality of the asset.

Calculation of future cash flows is based on assessments, using confirmed predictions, taking into account past experience of losses under assets with similar characteristics of credit risk and objective signs of impairment of groups of credits. Methods and assumptions, used for calculation of amounts and terms of future cash flows, are regularly reviewed to decrease the difference between estimated and actual losses. Mass loan portfolio of retail business is assessed by use of ratios, calculated by statistical methods of assessment of default probability (PD) and estimated losses in case of default (LGD). Calculation of ratios is based on the experience of the Bank, namely, statistics of default for the portfolio defaults for the last 5 years, applying the method of prediction of changes in quality if assets of a financial institution in an environment, influenced by different macroeconomic factors.

Future cash flows, calculated during evaluation of quality of Bank assets, which may be created by sale of mortgaged assets, are calculated based on existing legal ability of the Bank to realize its rights as a mortgagee, taking into account quality of debt servicing by the borrower and stage of litigations under problem assets and ratio of liquidity of mortgaged property, as well as its experience regarding term of sale of certain type of mortgaged property with certain general features and characteristics. Any potential or factual limitations over realization of rights of mortgagee, viewed as temporary rather than constant, together with details, stated here above, are taken into account during evaluation of an asset, based on the Bank experience. If the above limitations turn to become permanent, meaning that the Bank loses its rights over the pledged asset, they may increase losses of the Bank by the change of future cash flows, calculated during evaluation of Bank assets, and affect the ability of the Bank to continue as going concern.

As at December 31, 2018, the Bank's loans issued and advances to customers located in regions of Donetsk and Lugansk oblasts, non-controlled by Ukrainian government, and in Crimea in the amount of UAH 1 257 832 thousand (2017: UAH 1 283 047 thousand). Provision for this category of loans amounted to UAH 1 023 550 thousand (2017: UAH 920 524 thousand). Some property, located at the territory, controlled by Ukraine, and cash are used as security for these credits.

Bank management took into account all known and measurable, as at the date of preparation of the financial statements, risk factors and used professional judgement to measure impairment of these assets. If hostilities escalate, the Bank may suffer losses due to difficulty to sell assets located at this territory or non-repayment of loans by companies registered there. These losses may affect the ability of the Bank to continue as going concern.

Economic norms. Plan of measures to eliminate violations of economic ratios of the Bank (Plan of measures) by 01.01.2020 was approved within the framework of the Plan of Restructuring.

As stated above, implementation of planned indicators of the Plan ahead of schedule made it possible for the Bank to cover the need in capital and increase volume of high-liquid assets due to inputs into share capital by the Shareholder and sale of impaired non-performing loans.

The above resulted in ahead-of-time correction of violated ratios of capital adequacy (H2), short-term liquidity (H6), significant credit risks (H8) and maximal credit risk under related-parties' transactions (H9), materially improving credit risk ratio per one counterpart (H7) and limit of open long currency position.

The Bank continues to implement Plan of measures and expects to cease violation of credit risk ratio per one counterpart and limit of open long-term currency position by the end of 2019.

Management believes that, taking into account the above and continuing and consistent support of the Shareholder, there is reasonable assurance that the Bank would be able to continue as going concern.

Losses through impairment of loans and advances to customers.

The Bank regularly analyzes its loan portfolio for impairment. When concluding whether it is necessary to disclose impairment losses in income or losses of the year, the Bank uses as assumption regarding existence of data indicating decrease of estimated future cash flows under loan portfolio, which may be measured before the decrease can be correlated with a specific ass in the portfolio. The indicators may include existing data, showing negative changes in solvency of debtors within the group, or national or local economic environment, correlating with defaults of assets within the group. When estimating future cash flows, management uses estimates, based on previous experience of losses for assets, characterized by credit risk and objective indicators of impairment, similar to specific portfolio.

Methodology and assumptions, used to assess both terms and amounts of future cash flows, are regularly reviewed to decrease any difference between estimated losses and actual experience of losses. When preparing these financial statements, management used assumptions regarding estimation of future cash flows under credits, taking into account realized restructuring of credits and restructuring under discussions with customers. Future cash flows under credits include, inter alia, the flows that may originate in case of restructuring of assets, currently not served, if the Bank has objective evidence and supporting documents. When forming estimates of future cash flows, the Bank evaluated the debt burden of a counterpart and prospects of future repayment/servicing of the debt, taking into account purpose of the credit. If the planned restructuring does not take place, and estimated cash flows under realized restructurings change, the necessary provisions may be increased.

Fair value of collateral is taken into account during calculation of expected credit loss for loans, measured individually, and measured in accordance with regular property revaluations by appraisers or respective Bank employee with appraiser certificate. Adequacy of collateral to be used during assessment of future losses is measured, taking into account the factors indicating the possibility for the Bank to apply the right of mortgagee irrespective of stage of litigation and term of redemption.

The Bank believes that accounting estimates regarding amount of provisions to cover losses through impairment of loans are the major source of uncertainty of estimates, as: they are very sensitive to changes from a period to a period, since assumptions on future level of non-compliance with obligations and assessment of potential losses through impairment of losses and cash advances are based on the latest indicators of Bank operations, while any material difference between expected losses of the Bank (disclosed in provisions) and actual losses would cause the Bank to set provisions, which, in case of material difference, may significantly affect statement of profit and loss and other comprehensive income and statement of financial position in future periods. Amounts of provisions for losses through impairment of financial assets, disclosed in financial statements, were based on current economic and political environment. The Bank cannot foresee, what economic and political changes may happen in Ukraine, and what would be the effect of the changes on adequacy of provisions for losses through impairment of financial assets in future periods.

Recognition of deferred income tax assets

Recognized deferred tax assets is the amount of income tax, that may be used to offset future income tax; it is disclosed in the statement of financial position. Deferred tax asset may be recognized for all deductible temporary differences, if it probable that taxable income, against which the temporary difference may be used, would be generated. Assessment of future taxable income and deferred tax asset to be used in future is based on the financial model of the Bank, using priority business lines until 2025, prepared by management and approved by the Board, and results of extrapolation to future periods. The financial model is based on management estimates, reasonable under current situation.

It is expected, that the Bank shall generate stable income in future. Major assumptions, used in the financial model, include expected stabilization of Ukrainian economy and avoidance of stress development scenarios, moderate growth of loan portfolio and interest income, organic growth of commissions and sales income for all business lines, gradual decrease of interest rated under attracted resources and continuing expense control. Taking into account planned future profits and absence of limitation regarding period of tax loss carry-forward by current Ukrainian tax laws, the management believes that recognition of deferred income tax asset in an amount of UAH 263 099 thousand as at December 31, 2018, is reasonable (Note 14).

Tax laws. Tax, currency and Customs laws of Ukraine allows for difference of interpretations (Note 19).

Recognition of related-parties' transactions

The Bank is engaged in related-parties' transactions during the course of usual business. IAS 39 requires to recognize financial instruments at fair value at initial recognition. If there is no active market for such transactions, professional judgements should be used to determine whether the transactions were based on market or non-market rates. Basis for the judgements is pricing of this type of transactions compared to arm's length transactions and analysis of effective interest rate. Terms of related-parties' transactions are described in Note 27.

On May 12, 2015, by its decree #315 the National Bank of Ukraine approved *Regulation on determination of Parties Related to a Bank*, setting criteria for determination of related parties, significantly differing from criteria, set by IAS 24. In particular, under this decree, the related parties are: (1) two legal entities for the only reason of having a common director or other member of senior management, or significant influence that a member of senior management has a significant influence over other legal entity; (2) two persons, being members of a joint business for the only reason of having common control over joint business; (3) parties providing financing; (4) individual customer, supplier, etc., engaged in transactions of significant scope with an entity only for economic dependence resulting from such transactions, while under IAS 24 these parties are not related.

Fair value of financial instruments

If fair value of financial assets and financial liabilities, disclosed in the statement of financial position, cannot be measured based on active market prices, it is measured, using different models, including mathematical ones. Input data for such models are based on observable market data, if possible; otherwise, judgements should be used to measure the fair value. Judgements are based on data on liquidity risk, credit risk and volatility. Changes of assumptions related to these factors may influence fair value of financial instruments, disclosed in financial statements (Note 28).

Revaluation of buildings and investment property

Buildings, occupied by the owner (the Bank), are recorded at revalued value equal to fair value as at the date of appraisal net of accumulated depreciation and impairment loss.

Investment property is disclosed at fair value. In 2018, the Bank engaged independent appraisers to determine fair value of buildings, occupied by the owner, and investment property. Based on the results of appraisal, Bank management decided to adjust value of objects where fair value significantly differs from their book value. During appraisal, independent appraisers use professional judgements and estimates to select analogous buildings, land plots and integral property complexes to be used, when method of market analogues and useful lives of revalued assets is applied.

Changes of fair value of buildings, occupied by the owner, are recognized in other comprehensive income, while changes o0f fair value of investment property is recognized in income or losses (Notes 11 and 13). The appraiser used market methods, bases on analysis of comparative sales of similar buildings and structures, for measurement of fair value.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

7. Cash and cash equivalents

Cash and cash equivalents include:

	2018	*2017*
Cash	151 585	176 452
Current accounts with other banks	1 249 540	988 586
Current account with NBU	74 527	268 931
Overnight deposits with other banks	41 563	-
Cash and cash equivalents	**1 517 215**	**1 433 969**
Allowance for impairment loss of cash and cash equivalents	(2 141)	-
Total cash and cash equivalents	**1 515 074**	**1 433 969**

As at December 31, 2018, an equivalent of UAH 1 291 068 thousand (2017: UAH 988 560 thousand) was kept at current and deposit accounts of banks of OECD countries, being major counterparts of the Bank for international settlements.

Deposit certificates of NBU of up to 30-day maturity are included into Cash and cash equivalents, as the risk of impairment is negligible, and they can easily be converted into known amount of cash. As at December 31, 2018, total cash and cash equivalents for the purpose of statement of cash flows net of accrued interest for cash in banks and NBU deposit certificates was UAH 2 715 071 thousand (2017: UAH 2 433 959 thousand).

As at December 31, 2018, the Bank recognized allowance in an amount of expected credit loss during 12-month period:

	2018	*2017*
As at January 1	**-**	**-**
Effect of adopting IFRS 9	1 682	**-**
Accrual/(release) of allowance	527	-
Exchange rate differences	(68)	-
As at December 31	**2 141**	**-**

8. Due from other banks

Due from other banks include:

	2018	*2017*
Guarantee deposits in other banks	297 514	475 101
Correspondent accounts with other banks	29 558	13 867
Due from other banks	**327 072**	**488 968**
Allowance for expected credit loss/impairment loss	(6 162)	(2 114)
Total due from other banks	**320 910**	**486 854**

Guarantee deposits in other banks are:

	2018				*2017*			
	Ukraine	***OECD***	***Other***	***Total***	***Ukraine***	***OECD***	***Other***	***Total***
Card transactions	10 119	131 242	-	**141 361**	4 670	99 892	-	**104 562**
Documentary transactions	-	154 778	775	**155 553**	-	369 107	1 232	**370 339**
Transfer systems transactions	600	-	-	**600**	200	-	-	**200**
Total guarantee deposits in other banks	**10 719**	**286 020**	**775**	**297 514**	**4 870**	**468 999**	**1 232**	**475 101**

Terms of repayment of deposits, concentration of currency risks, and other risks are disclosed in Note 25.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Analysis of cash in other banks by credit quality as at December 31, is presented below:

	2018	*2017*
A+/A-	261 630	466 343
BBB+/BBB-	24 477	2 841
BB+/BB-	22 481	1 283
B+/B-	611	4 078
CCC	1 731	7 340
Non-rated	16 142	7 083
Cash in other banks	**327 072**	**488 968**
Provision for impairment of cash in other banks	(6 162)	(2 114)
Total cash in other banks	**320 910**	**486 854**

Credit rating used is Fitch International rating agency ratings, if any, or ratings of other international rating agencies, transformed to closes equivalent of Fitch scale.

Decree of government of Russian Federation #1300 of November 1, 2018, introduced special economic measures for private persons and legal entities, including blocking cash at accounts, paperless securities and property in Russia, and prohibition of transfer of funds (withdrawal of capital) outside of Russia. Since the Bank is under respective sanctions, one of Russian correspondent banks limited use of cash at the Bank's correspondent account and requested a clarification from Central Bank of RF regarding practical application of the provisions of the above decree. The total balance of the Bank's funds at the accounts of the correspondent bank as at December 31, 2018 is UAH 21 685 thousand (USD 510 thousand; EUR 35.1 thousand; Russian rubles 16 191 thousand).

The following changes were introduced into provision for impairment of cash in other banks during the year:

	2018	*2017*
As at January 1	**2 114**	**1 993**
Effect of adopting IFRS 9	150	-
Accrual/(release) of allowance	4 004	(514)
Exchange rate differences	(106)	635
As at December 31	**6 162**	**2 114**

As at December 31, 2018, the Bank recognized provision for funds in other banks in an amount of expected 12-month losses (1 stage of impairment).

9. Loans and advances to customers

Loans and advances to customers include:

	2018	*2017*
Loans to legal entities	**6 036 584**	**5 835 627**
Loans to individuals	**1 043 087**	**785 255**
- mortgage	72 662	72 059
- loans for vehicles	76 727	79 312
- consumer loans	893 698	633 884
Loans to customers	**7 079 671**	**6 620 882**
Allowance for expected credit loss/impairment loss	(3 116 615)	(2 501 900)
Total loans to customers	**3 963 056**	**4 118 982**

In 2018, the Bank sold non-current assets, acquired through foreclosure of collateral under problem loans, with 5-year delayed payment and classified this receivable as financial lease with the book value of UAH 46 803 thousand net of respective provisions as at December 31, 2018.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

During the reporting period, the Bank restructured the debt under two non-performing loans, resulting in derecognition of existing debt and recognition of new impaired assets (POCI). As at December 31, 2018, the balance of the debt is UAH 416 457 thousand.

During the reporting period, the Bank derecognized a part of fully impaired portfolio of loans to individuals of UAH 41 993 thousand gross book value (UAH 41 993 thousand provisions) through public sale. Received revenue of UAH 624 thousand is disclosed as Income /(loss) from derecognition of financial instruments in statement of profit and losses and other comprehensive income.

In the reporting period, the Bank derecognized through sale an impaired part of portfolio of loans to legal entities, receiving revenue of UAH 254 507 thousand disclosed as Income /(loss) from derecognition of financial instruments in statement of profit and losses and other comprehensive income.

Changes in allowance for expected credit loss of loans in 2018:

	Loans to legal entities	*Loans to individuals*	*Total*
January 1, 2018	**2 047 739**	**454 161**	**2 501 900**
Effect of adopting IFRS 9	17 443	2 719	20 162
Adjusted balance	**2 065 182**	**456 880**	**2 522 062**
1 stage	3 584	11 413	14 997
2 stage	157 179	1 536	158 715
3 stage	1 904 419	443 931	2 348 350
Transfer of adjustments of interest income	8 525	4 689	**13 214**
Accrual of allowance	714 635	95 535	**810 170**
Release of allowance due to write-off of assets	-	(11 116)	**(11 116)**
Derecognition	(119 148)	(127 383)	**(246 531)**
Adjustment of interest income under impaired loans	23 182	28 406	**51 588**
Other	(1)	-	**(1)**
Exchange rate differences	(17 571)	(5 200)	**(22 771)**
December 31, 2018	**2 674 804**	**441 811**	**3 116 615**
1 stage	**24 992**	**25 539**	**50 531**
2 stage	**670**	**9 192**	**9 862**
3 stage	**2 649 142**	**407 080**	**3 056 222**

Amount of additions to provisions in 2018 differs from amount recorded in profit or losses of the period due to partial compensation of written-off bad debts of previous periods in an amount of UAH 287 thousand (2017: UAH 17 213 thousand), including compensation of UAH 142 thousand under loans to legal entities (2017: UAH 15 671 thousand) and UAH 145 thousand under loans to individuals (2017: UAH 1 542 thousand), and additions to provision for cash in other banks. Amount collected was credited directly to Collection/ (addition to) provision for impairment of loans and cash in other banks in profit or loss of the period.

Changes in provisions for impairment of loans in 2017:

	Loans to legal entities	*Loans to individuals*	*Total*
January 1, 2017	**1 755 872**	**388 136**	**2 144 008**
Accrual of provision	319 228	57 549	**376 777**
Release of provision	(109 991)	(2 006)	**(111 997)**
Exchange rate differences	82 630	10 482	**93 112**
December 31, 2017	**2 047 739**	**454 161**	**2 501 900**
Individual impairment	2 046 448	447 259	**2 493 707**
Collective impairment	1 291	6 902	**8 193**
	2 047 739	**454 161**	**2 501 900**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Analysis of credit quality of loans and debts of customers, recorded at amortized cost, as at December 31, 2018, is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Minimal credit risk	878 269	-	-	-	878 269
Low credit risk	1 133 193	-	-	-	1 133 193
Average credit risk	-	7 537	-	-	7 537
High credit risk	-	15 058	-	-	15 058
Defaulted assets	-	-	4 629 157	416 457	5 045 614
Total book value of loans	**2 011 462**	**22 595**	**4 629 157**	**416 457**	**7 079 671**
Allowance for expected credit loss/impairment loss	(50 531)	(9 862)	(3 056 222)	-	(3 116 615)
Loans to customers	**1 960 931**	**12 733**	**1 572 935**	**416 457**	**3 963 056**

As at December 31, 2018, accrued interest income under loans of stage 3 of impairment is UAH 1 351 357 thousand (2017: UAH 1 291 104 thousand).

In 2018, the Bank took certain steps to improve structure of quality of loan portfolio by increase of loans of stage 1 through issuance of loans to individuals and entities engaged in agroindustry. Balance of loans of stage 2 were reduced through modification of certain assets (UAH 416 547 thousand) and transfer of certain loans into stage 3.

The Bank recalculated comparative information, taking into account effect of IFRS 9 to analyze credit quality of loans to customers as at December 31, 2017:

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Minimal credit risk	895 023	-	-	-	895 023
Low credit risk	372 118	-	-	-	372 118
Average credit risk	-	1 018 765	-	-	1 018 765
High credit risk	-	121 517	-	-	121 517
Defaulted assets	-	-	4 213 459	-	4 213 459
Total book value of loans	**1 267 141**	**1 140 282**	**4 213 459**	**-**	**6 620 882**
Allowance for expected credit loss/impairment loss	(14 997)	(158 715)	(2 348 350)	-	(2 522 062)
Loans to customers	**1 252 144**	**981 567**	**1 865 109**	**-**	**4 098 820**

Amount and type of collateral, demanded by the Bank, depends on measurement of credit risk of a counterpart. The Bank set the principles of acceptance of different types of collateral and parameters of measurement. Major types of collateral for loans to legal entities and individuals are cash, mortgage of property, surety of individuals and legal entities; still, sureties and property rights under contracts are not taken into account for calculation of provisions for impairment.

Effect of collateral as at December 31, 2018, is presented below:

	Book value of loans	*Estimated cash flows from sale of collateral*
Loans to legal entities	**6 036 584**	**3 286 988**
Loans to individuals	**1 043 087**	**63 603**
mortgage	72 662	14 899
car loans	76 727	3 230
consumer loans	893 698	45 474
Loans to customers	**7 079 671**	**3 350 591**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Effect of collateral as at December 31, 2017, is presented below:

	Book value of loans	***Estimated cash flows from sale of collateral***
Loans to legal entities	**5 835 627**	**3 520 918**
Loans to individuals	**785 255**	**50 565**
mortgage	72 059	10 356
car loans	79 312	6 082
consumer loans	633 884	34 127
Loans to customers	**6 620 882**	**3 571 483**

Management believes that expected credit losses for credits at stage 3 and POCI assets without collateral would have been higher by UAH 1 989 392 thousand as at December 31, 2018 (December 31, 2017: UAH 1 874 328 thousand) for loans to legal entities and individuals. Influence of application of different scenarios of predictive information on amount of provision for estimated credit losses is immaterial. In accordance with p. 120 of Rules of measurement of credit risks under active bank transactions by Ukrainian banks, approved by decree of NBU #351 of June 30, 2016, there would be a gradual decrease of volume of collateral in 2019-2022 to be taken into account during measurement of credit risk for non-working loans. If problem debt is not settled by debt collection/foreclosure of collateral during this period, amortization of value of collateral shall be used for calculation of provision for expected losses under loans to legal entities and individuals.

In 2018, the Bank acquired title for mortgaged property under loans and debts of customers in an amount of UAH 262 640 thousand (2017: UAH 153 268 thousand) (Notes 11, 12 and 15).

During the reporting period, the Bank increased volume of loans to individuals in segment of mass crediting: cash credits and credit cards, while offering no credits for purchase of vehicles or property.

Concentration of loans to customers

The loans to 5 largest groups of customers, who are not related parties of the Bank in the meaning of IAS 24, total UAH 2 609 533 thousand or 36.9% of total value of loans to customers as at December 31, 2018 (2017: UAH 2 395 082 thousand or 36.2%).

As at December 31, 2018, the total value of loans to two companies, which do not correspond to criteria of related parties in the meaning of IAS 24, although viewed as related parties of the Bank under NBU rules, was UAH 161 448 thousand (2017: UAH 141 346 thousand).

Loan portfolio of the Bank by industries is presented below:

	2018	***2017***
Wholesale and retail trade	2 052 555	2 224 750
Processing industry	2 174 884	2 119 177
Agriculture	1 048 033	661 289
Individuals	1 043 087	785 255
Property transactions	298 230	227 336
Mining and quarrying	182 917	187 163
Administrative and auxiliary services	90 507	182 968
Transportation and warehousing	89 622	87 988
Information and telecommunications	80 122	131 635
Finances and insurance	7 768	7 753
Waste processing	6 280	2 773
Construction	5 649	2 638
Other	17	157
Loans to customers	**7 079 671**	**6 620 882**

As at December 31, 2018 and 2017, there were no loans used as collateral for any Bank liabilities.

Analysis of loans by maturity, interest rates and currencies is presented in Note 25.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

10. Investments in securities

Fair value of investment securities measured at fair value through other comprehensive income:

	2018	*2017*
Debt securities refinanced by NBU	407 852	279 488
Equity instruments	330	491
Investment securities	**408 182**	**279 979**
Allowance for expected credit loss/impairment loss	-	(105)
Total investment securities	**408 182**	**279 874**

As at December 31, 2018, debt securities, refinanced by NBU, include 2 stocks of bonds, nominated in USD: 1) interest bearing (5.4%) two-year bonds in an amount of 4 990 pcs. and maturity term of October 2019; 2) discounted (5,4%) one-year bonds in an amount of 10 000 pcs. and maturity of June 2019. In 2018, package of bond for principal debt of USD 5 000 thousand was repaid.

The Bank took a decision to classify equity instruments as those measured at fair value through other comprehensive income, since they are not intended for sale. These investments represent mandatory investments into equity of exchanges and clearing centers. During transition to IFRS 9, alowance of UAH 105 thousand under equity instruments was derecognized with recognition of reduction in other comprehensive income.

11. Investment property

Investment property is disclosed in statement of financial position at fair value.

Changes in fair value of investment property:

	2018	*2017*
As at January 1	**1 335 439**	**1 276 502**
Transfer from other assets (Note 12)	39 830	-
Foreclosure of collateral	25 523	111 934
Transfer from category of buildings occupied by owner (Note 13)	8 293	-
Investment into investment property	280	84
Transfer from non-current assets held for sale (Note 15)	255	8 003
Sale	(33 702)	-
Loss from revaluation to fair value	(35 987)	(67 552)
Profit from revaluation to fair value	178 734	6 468
As at December 31	**1 518 665**	**1 335 439**

In 2018, the Bank received rental income and compensation of expenses on maintenance of investment property in an amount of UAH 13 826 thousand (2017: UAH 6 968 thousand). Operating expenses and cost of maintenance of investment property in 2018 were UAH 9 384 thousand (2017: UAH 5 622 thousand)

If a property is partially occupied by the owner and partially leased, non-complying with criteria of allocation for recognition as investment property, the Bank recognizes the object as property occupied by owner.

In 2018 and 2017, the Bank engaged independent appraisers to measure fair value of investment property, and, based on results of appraisal, Bank management took decision to adjust value of objects where fair value significantly differs from book value. Adjustment of book value resulted in recognition of revenue of UAH 142 747 thousand (2017: loss – UAH 61 084 thousand), disclosed in statement of profit and loss and other comprehensive income.

As at December 31, 2018, one object of investment property of UAH 14 000 thousand value (2017: UAH 14 000 thousand), still controlled by the Bank, is located at Crimea. If relations between Ukraine and Russian Federation deteriorate further, and, respectively, the Bank loses control over the object, the Bank may suffer losses.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

12. Other financial and other assets

Other financial assets and other assets are as at December 31:

	2018	*2017*
Other financial assets		
Accrued income	89 882	60 484
Payables under settlements with banks	67 215	26 687
Payables under settlements with customers	4 206	4 373
Other financial assets	594	452
Other financial assets	**161 897**	**91 996**
Allowance for expected credit loss/impairment loss	(109 250)	(86 066)
Total other financial assets	**52 647**	**5 930**

	2018	*2017*
Other assets		
Foreclosed collateral	147 507	66 065
Prepaid services	12 993	14 818
Settlements with bank employees	8 220	8 391
Deferred expenses	7 759	10 332
Inventories	6 120	991
Acquisition of non-current assets	2 397	2 263
Taxes and mandatory payments, paid in advance, except for income tax	1 883	754
Bank metals	360	370
Other assets	**187 239**	**103 984**
Impairment of other assets	(18 877)	(16 249)
Total other assets	**168 362**	**87 735**

Changes in allowance for expected credit loss/impairment loss of other financial and other assets:

	2018	*2017*
As at January 1	**102 315**	**59 582**
Accrual of allowance for expected credit loss/impairment loss	27 050	49 786
Write-off	(492)	(3 886)
Derecognition	(187)	(4 332)
Exchange rate differences	(559)	1 165
AS at December 31	**128 127**	**102 315**

Changes of the period in foreclosed collateral:

	2018	*2017*
As at January 1	**66 065**	**13 257**
Foreclosure of collateral	220 349	-
Transfer from non-current assets held for sale	20 503	58 794
Revaluation	(14 439)	11
Sale	(32 171)	-
Transfer to investment property	(39 830)	-
Transfer to fixed assets	(72 970)	-
Restoration of loan and collateral	-	(5 997)
As at December 31	**147 507**	**66 065**

Result of sale of foreclosed collateral, transferred to the Bank as mortgagee, is disclosed in other income of statement of profit and loss and other comprehensive income (Note 22).

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

13. Property and equipment and intangible assets

Changes in property and equipment and intangible assets in the year ended on December 31, 2018:

	Buildings, constructions and transmitting equipment	*Machines and equipment*	*Transport vehicles*	*Instruments, devices and furniture*	*Other fixed and non-current tangible assets*	*Intangible assets*	*Capital investments in in property and equipment and intangible assets*	*Total*
Historical / revalued value								
January 1, 2018	**189 679**	**43 689**	**29 364**	**4 632**	**29 759**	**37 118**	**9 754**	**343 995**
Acquisitions	-	6 461	2 412	1 391	2 143	3 046	80 425	**95 878**
Transfer to investment property	(8 293)	-	-	-	-	-	-	**(8 293)**
Revaluation through other comprehensive income	(5 749)	-	-	-	-	-	-	**(5 749)**
Revaluation through profit or loss	(9 356)	-	-	-	-	-	-	**(9 356)**
Revaluation (derecognition)	(6 920)	-	-	-	-	-	-	**(6 920)**
Other transfers	(398)	-	-	-	-	-	-	**(398)**
Disposals	-	(1 691)	(4 120)	-	(3 417)	-	-	**(9 228)**
December 31, 2018	**158 963**	**48 459**	**27 656**	**6 023**	**28 485**	**40 164**	**90 179**	**399 929**
Accumulated depreciation and amortization								
January 1, 2018	**3 842**	**33 898**	**22 963**	**4 588**	**24 886**	**21 558**	**-**	**111 735**
Charged in the year	3 560	4 660	1 823	90	3 476	3 920	-	**17 529**
Revaluation (derecognition)	(6 920)	-	-	-	-	-	-	**(6 920)**
Other transfers	(398)	-	-	-	-	-	-	**(398)**
Disposals	-	(1 691)	(4 120)	-	(3 417)	-	-	**(9 228)**
December 31, 2018	**84**	**36 867**	**20 666**	**4 678**	**24 945**	**25 478**	**-**	**112 718**
Depreciated value:								
January 1, 2018	**185 837**	**9 791**	**6 401**	**44**	**4 873**	**15 560**	**9 754**	**232 260**
December 31, 2018	**158 879**	**11 592**	**6 990**	**1 345**	**3 540**	**14 686**	**90 179**	**287 211**

Buildings are disclosed at revalued value net of accumulated depreciation.

In 2018 and 2017, the Bank engaged independent appraisers to measure fair value of buildings occupied by the owner; based on the result of appraisal, Bank management took a decision to adjust value where fair value of property significantly differed from the book value.

As at December 31, 2018, value of fully depreciated fixed assets of *Instruments, devices and furniture* group was UAH 28 093 (2017: UAH 26 567 thousand), *Machines and equipment* group – UAH 14 765 thousand (2017: UAH 15 299 thousand), *Vehicles* group – UAH 4 632 thousand (2017: UAH 4 392 thousand), *Other fixed and non-current tangible assets* group – UAH 20 576 thousand (2017: UAH 21 857 thousand).

In 2018, the Bank acquired a title to equipment of UAH 72 970 thousand value by foreclosure of collateral. Until the date of transfer of this equipment into operating lease it is classified as capital investment in progress into fixed assets (see Note 31).

As at December 31, 2018 and 2017, fixed assets were not pledged as collateral.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Changes in property and equipment and intangible assets in the year ended on December 31, 2017.:

	Buildings, constructions and transmitting equipment	*Machines and equipment*	*Transport vehicles*	*Instruments, devices and furniture*	*Other fixed and non-current tangible assets*	*Intangible assets*	*Capital investments in in property and equipment and intangible assets*	*Total*
Historical / revalued value								
January 1, 2017	**189 177**	**37 591**	**24 616**	**5 138**	**30 543**	**30 134**	**2 146**	**319 345**
Acquisition	502	7 406	5 202	-	5 890	8 798	7 608	**35 406**
Disposal	-	(1 308)	(454)	(506)	(6 674)	(1 814)	-	**(10 756)**
December 31, 2017	**189 679**	**43 689**	**29 364**	**4 632**	**29 759**	**37 118**	**9 754**	**343 995**
Accumulated depreciation and amortization								
January 1, 2017	**68**	**32 571**	**21 516**	**5 036**	**26 612**	**18 385**	**-**	**104 188**
Charged in the year	3 774	2 620	1 517	58	4 922	4 987	-	**17 878**
Disposal	-	(1 293)	(70)	(506)	(6 648)	(1 814)	-	**(10 331)**
December 31, 2017	**3 842**	**33 898**	**22 963**	**4 588**	**24 886**	**21 558**	**-**	**111 735**
Depreciated value:								
January 1, 2017	**189 109**	**5 020**	**3 100**	**102**	**3 931**	**11 749**	**2 146**	**215 157**
December 31, 2017	185 837	9 791	6 401	44	4 873	15 560	9 754	232 260

As at December 31, 2018, the Bank has contractual obligations regarding purchase of intangible assets of UAH 1 003 thousand (2017: UAH 2 095 thousand).

14. Income tax

In accordance with Tax Code of Ukraine income tax rate in 2017 – 2018 was 18%.

Components of expenses / (benefits) under income tax, recognized in profit or loss for the year ended on December 31, include:

	2018	*2017*
Current income tax	(37)	(249)
Changes of deferred tax related relating to the origination and reversal of temporary differences	(138)	352
Income tax benefit	**(175)**	**103**

Comparison of estimated and factual tax expenses is presented below:

	2018	*2017*
Income (loss) before taxes	**(551 290)**	**(570 340)**
Theoretical tax benefit at the applicable statutory rate	99 232	102 661
Change of deferred tax asset, not recognized in statement of financial position	(101 674)	(22 415)
Expenses deductible only for tax purposes	2 360	(67 539)
Debt write-off/forgiveness that increasing (decreasing) taxable base	41	(13 022)
Expenses not recognized if tax accounting	216	212
(Benefit)/income tax expenses	**175**	**(103)**

Differences between rules of taxation and IFRSs create temporary differences between value of certain assets and liabilities, disclosed in financial statements, and their taxable base. Tax effect of changes in temporary differences was measured by the Bank, using the known income tax rate in force as of January 1, 2019.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

As at December 31, 2018, deferred tax assets and liabilities relate to the following:

	As at January 1, 2018	**Effect of adopting IFRS 9 (Note 4)**	*Recognized in profit and loss*	*Recognized in other comprehensive income*	*As at December 31, 2018*
Provision for impairment of loans and advances	94 040	3 959	(50 979)	-	47 020
Property, equipment and investment property	(6 682)	-	1 448	-	(5 234)
Investment in securities at fair value through other comprehensive income	(138)	-	-	138	-
Other temporary differences	722	(19)	(636)	-	67
Tax loss carry-forward	197 572	-	147 763	-	345 335
Estimated net deferred tax asset / (liability)	**285 514**	**3 940**	**97 596**	**138**	**387 188**
Deferred tax asset not recognized in statement of financial position	(22 415)	(3 940)	(97 734)	-	(124 089)
Net deferred tax asset / (liability)	**263 099**	**-**	**(138)**	**138**	**263 099**

As at December 31, 2017, deferred tax assets and liabilities relate to the following:

	As at January 1, 2017	*Recognized in profit and loss*	*Recognized in other comprehensive income*	*As at December 31, 2017*
Provision for impairment of loans and advances	156 016	(61 976)	-	94 040
Property, equipment and investment property	(6 773)	91	-	(6 682)
Investment in securities at fair value through other comprehensive income	-	-	(138)	(138)
Other temporary differences	669	53	-	722
Tax loss carry-forward	112 973	84 599	-	197 572
Estimated net deferred tax asset / (liability)	**262 885**	**22 767**	**(138)**	**285 514**
Deferred tax asset not recognized in statement of financial position	-	(22 415)	**-**	(22 415)
Net deferred tax asset / (liability)	**262 885**	**352**	**(138)**	**263 099**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

15. Non-current assets held for sale

As at December 31, non-current assets held for sale are represented by:

	2018	*2017*
Residential buildings	21 580	31 583
Other	1 267	9 244
Total non-current assets held for sale	**22 847**	**40 827**

During the year, Bank management took decisions on reclassification of assets due to change of plans of their use or sale. These and other changes in assets held for sale include:

	2018	*2017*
AS at January 1	**40 827**	**114 979**
Foreclosure of collateral	18 405	41 334
Sale of assets held for sale	(8 989)	(3 290)
Reversal of loans and collateral		(44 471)
Transfer into investment property (Note 11)	(255)	(8 003)
Transfer from buildings occupied by owner (Note 13)	-	-
Transfer from investment property (Note 11)	(20 503)	-
Transfer (to) from other asset(s) (Note 12)	-	(58 794)
Increase / (decrease) of book value of assets held for sale to their fair value	(6 638)	(928)
As at December 31	**22 847**	**40 827**

Results from sale of non-current assets held for sale is disclosed in *Other income* item of statement of profit and loss and other comprehensive income (Note 22).

16. Due to customers

Due to customers as at December 31 was:

	2018	*2017*
Current accounts		
- legal entities	3 555 378	3 739 110
- individuals	1 018 857	936 212
	4 574 235	**4 675 322**
Term deposits		
- legal entities	1 360 135	442 564
- individuals	2 940 737	3 218 674
	4 300 872	**3 661 238**
Total due to customers	**8 875 107**	**8 336 560**

As at December 31, 2018, balances at current accounts of legal entities of UAH 1 643 717 thousand or 35.9% of total amount at current accounts of customers belong to ten largest corporate customers (2017: UAH 1 943 683, or 41.6%). Current account of UAH 15 328 thousand, or 0.3% of total funds at current accounts, belong to one individual (2017: UAH 11 402 thousand, or 0.2%).

As at December 31, 2018, deposits of legal entities of UAH 994 118 thousand, or 23.11% of total deposits (2017: UAH 285 505 thousand, or 7.8%) were placed by ten largest corporate customers. As at December 31, 2018, deposits of individuals of UAH 340 224 thousand, or 7.9% pf total deposits, were placed by three largest customers (2017: UAH 347 731 thousand, or 9.5%).

As at December 31, 2018, balances at current accounts and term deposits of legal entities for total amount of UAH 1 330 280 thousand or 15.0% (2017: UAH 896 191 thousand, or 10.8%) of total funds of customers were received from customers, who are not related parties in the meaning of IAS 24, but viewed as related parties under NBU rules.

As at December 31, 2018, current funds of customers of UAH 513 313 thousand (2017: UAH 620 596 thousand) were placed as collateral under documentary transactions.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

As at December 31, 2018, current and term funds of legal entities and individuals of UAH 544 410 thousand (2017: UAH 454 110 thousand) were pledged as collateral under loans of customers, including USD 13 673 thousand (equivalent to UAH 378 568 thousand) were placed by the Shareholder as provision for non-performing loans. As agreed with the Shareholder, it can be converted into Bank equity, if the parties agree upon necessary actions.

In compliance with Ukrainian law, the Bank must pay a deposit to an individual at demand, if the demand is properly prepared, and the contract provides for the pre-term possibility to withdraw the funds.

Analysis of funds due to customers, maturities, interest rates and currencies is presented in Note 26.

17. Other financial liabilities and other liabilities

Other financial liabilities and non-financial liabilities as at December 31 include:

	2018	*2017*
Other financial liabilities		
Balances at transit accounts under cards transactions	46 649	62 123
Accrued expenses under operating lease	10 860	11 731
Other accrued expenses	8 780	5 276
Balances at transit accounts under transactions with clients	7 875	2 119
Payables under transactions with financial instruments	2 259	701
Payables under financial lease	464	-
Other	3 364	3 008
Total other financial liabilities	**80 251**	**84 958**
Other liabilities		
Accrued payment for unused vacations	17 652	14 481
Dues to Deposit Guarantee Fund	11 776	9 917
Other taxes payable, except for income tax	5 906	6 193
Payables for purchased assets and services	2 591	2 835
Deferred income	2 805	1 356
Payroll payables	194	215
Total other liabilities	**40 924**	**34 997**

18. Equity and provisions

Issued and fully paid floating shares:

	Number of shares	*Par value*	*Adjustment for*	
	Ordinary	*Ordinary*	*inflation*	*Total*
As at January 1, 2017	**1 521 000 000**	**1 521 000**	**23 666**	**1 544 666**
As at December 31, 2017	**1 521 000 000**	**1 521 000**	**23 666**	**1 544 666**
Additional issue	1 199 000 000	1 199 000	-	-
As at December 31, 2018	**2 720 000 000**	**2 720 000**	**23 666**	**2 743 666**

As at December 31, 2018 and 2017, par value of ordinary shares was UAH 1 per share. All ordinary shares are fully paid, have equal voting right, right for dividends and withdraw of capital.

In 2017 and 2018, the Bank did not declare payment of dividends before the date of approval of financial statements. In accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies* the Bank made adjustment of share capital for hyperinflationary effect in accordance with accounting policies of the Bank (Note 3).

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

On August 15, 2018, new version of the Statute was registered due to increase of share capital of the Bank to UAH 2,72 billion in accordance with decision of the Shareholder of June 21, 2017, by private placement of additional shares of current par value in an amount of UAH 1 199 000 thousand, fully paid for by the Shareholder.

On November 5, 2018, the Shareholder took a decision to increase share capital of the Bank through private placement of additional shares of current par value in an amount of UAH 1 173 081, paid for by the Shareholder in an amount of UAH 866 561 thousand (488 454 UAH thousand in December 2018, and UAH 378 107 thousand in January 2019).

Nature and purpose of provisions

Provision for revaluation of fixed assets
Provision for revaluation of fixed assets is used to reflect increase of fair value of buildings occupied by the owner, as well as decrease to the extent reflecting increase of value of the same asset, included earlier into equity.

Provision for revaluation of securities

This provision reflects changes of fair value of securities measured at fair value through other comprehensive income.

Categories of the provisions for revaluation and the changes are presented below:

	Provision for revaluation of buildings	***Provision for revaluation of investment in securities***	***Total provisions for revaluation***
January 1, 2017	**97 693**	**-**	**97 693**
Revaluation of buildings	(272)	-	**(272)**
Revaluation of investment in securities	-	629	**629**
December 31, 2017	**97 421**	**629**	**98 050**
Effect of adopting IFRS 9	-	(105)	**(105)**
Revaluation of buildings	(5 749)	-	**(5 749)**
Revaluation of investment in securities	-	(1 897)	**(1 897)**
December 31, 2018	**91 672**	**(1 373)**	**90 299**

19. Contractual and contingent liabilities

Legal issues

During usual course of business, the Bank faces legal actions and claims. As at December 31, 2018, the Bank is defendant under several cases on collection of funds, and the Bank established provision of UAH 76 thousand to cover it partially.

During the period, there were changes in provision for other non-financial liabilities:

	2018	***2017***
As at January 1	**310**	**-**
Accrual / (release) of provision	392	1 069
Utilization of provision	(626)	(773)
Exchange rate differences	-	14
As at December 31	**76**	**310**

Taxation and compliance with laws

Ukrainian laws, regulating taxation and other aspects of business, continues to change. Laws and regulations are sometimes formulated vaguely; thus, the interpretations depend on position of local, oblast and central governments and other similar bodies, and the cases of contradictory interpretations are common. Management believes that the Bank complied with all laws and regulations, and all taxes, set by law, were paid.

Still, there is a risk, that transactions and correctness of interpretations, approved by controlling agencies in the past, would not be put into doubt in future.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Contractual and contingent liabilities

Contractual and revocable contingent liabilities of credit nature as at December 31 were:

	2018	*2017*
Financial guarantees	792 185	360 100
Outstanding letters of credit	48 178	-
Avals	-	677
	840 363	**360 777**
Cash collateral for financial guarantees	(322 451)	(104 063)
Provisions for liabilities	(94)	(1 020)
Contractual and contingent liabilities	**517 818**	**255 694**

As at December 31, 2018, the Bank has a liability to make settlements under non-risk letters of credit, since these transactions have cash coverage of UAH 190 862 thousand (2017: UAH 516 533 thousand).

As at December 31, 2018, balance of credit lines, not used by the customers, was UAH 2 525 449 thousand (2017: UAH 2 642 225 thousand). Requests for the funds from these free funds is mandatorily agreed with the Bank, and the Bank has a right to refuse the loan in cases of deterioration of customer's solvency or non-compliance of the customer with necessary credit procedures, or for other reasons.

The following changes in provision for liabilities occurred during the year:

	2018	*2017*
As at January 1	**1 020**	**327**
Accrual / (release) of provision	(919)	694
Utilization of provision	(5)	-
Exchange rate differences	(2)	(1)
As at December 31	**94**	**1 020**

Assets pledged as collateral and assets, limited in use

Guarantee deposits, placed in other banks as at December 31, 2018, are described in Note 8.

As at December 31, 2018, the Bank did not pledge any assets as collateral.

20. Interest income and expense

Interest income and expense of the year:

	2018	*2017*
Interest income		
Loans	621 893	634 975
- *Legal entities*	*438 073*	*503 122*
- *Individuals*	*183 820*	*131 853*
Securities	85 290	86 791
Due to other banks	4 430	2 113
	711 613	**723 879**
Interest expenses		
Due to	(514 683)	(575 770)
- *Legal entities*	*(240 875)*	*(189 224)*
- *Individuals*	*(273 808)*	*(386 546)*
Debt securities issued by the Bank	(88)	(6 958)
	(514 771)	**(582 728)**
Net interest income	**196 842**	**141 151**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

21. Net commission income

Net commission income of the year:

	2018	*2017*
Commission income		
Settlement transactions with customers	95 468	57 389
Cards transactions	84 351	71 477
Foreign currency transactions	50 646	39 152
Guarantees and letters of credit	20 272	8 212
Servicing of loans	1 596	904
Depository	654	1 205
Other	142	730
	253 129	**179 069**
Commission expense		
Cards transactions	(48 590)	(38 644)
Settlement transactions with customers	(41 491)	(18 426)
Commission expenses under customer loyalty programs	(12 150)	(9 028)
Commission expenses under guarantees and letters of credit	(2 799)	(569)
Other	(644)	(613)
	(105 674)	**(67 280)**
Net commission income	**147 455**	**111 789**

22. Other income

	2018	*2017*
Agent fee for financial services	61 498	3 588
Operating lease	13 941	8 150
Fines and penalties collected	2 784	2 281
Sale of foreclosed collateral	1 874	-
Compensation of expenses on debt collection	1 336	822
Sale of assets held for sale	845	1 426
Sale of investment property	814	-
Disposal of fixed assets	161	13
Other	3 574	2 527
Other income	**86 827**	**18 807**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

23. Administrative and other operating expenses

	2018	*2017*
Salary, employee benefits and mandatory contributions to State funds	290 882	254 386
Dues to Deposit Guarantee Fund	49 060	48 425
Operating lease	38 656	41 078
Professional services	25 773	19 373
Marketing and promotion	25 265	14 603
Maintenance and similar expenses	22 469	18 256
Servicing and maintenance of fixed and intangible assets	12 662	10 591
Debt collection	19 118	30 617
Depreciation and amortization	17 529	17 878
Communications	16 638	16 326
Security	16 605	10 018
Devaluation of foreclosed collateral	14 439	(11)
Customer acquisition expenses	10 223	1 342
Revaluation of fixed assets	9 356	-
Impairment of non-current assets held for sale	6 640	1 119
Taxes and other mandatory dues, except for income tax	6 372	4 275
Travel expenses	4 035	4 308
Cash collection services	3 904	3 525
Other	4 549	2 163
Administrative and other operating expenses	**594 175**	**498 272**

In January of the reporting year, the Bank entered into long-term agreement on lease of administrative building for its head office. The agreement provides for a special period with reduced rental payment to preparation and decoration works; still these statements present lease payments by straight-line method based on term of lease and starting from the date of signing of the agreement.

24. Basic and diluted earnings/(loss) per share

Basic and diluted earnings/(loss) per share:

	2018	*2017*
Income/(loss) of the year	(551 465)	(570 237)
Weighted average number of ordinary shares outstanding during the period (thousand pcs.)	1 977 605	1 521 000
Nat basic earnings/(loss) per share, UAH	(0.28)	(0.37)

In 2018 and 2017, the Bank did not have any financial instruments, which might have resulted in dilution of earnings/(loss) per share were they converted into shares.

25. Management of financial risks

Risk is inherent to banking and it is managed through the process of ongoing identification, measurement and control, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability, and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

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

Risk management structure

Purpose of risk management system is identification, monitoring, analysis and management of risks, facing the Bank. Risk management system provides for measurement of risk appetite by setting the risk limits and constant monitoring of compliance, as well as implementation of control measures.

Risk management functions are distributed between the Supervisory Board, the Board, Assets-and-Liabilities management committee (ALMC), Committee of information safety and operational-technological risks, departments assigned to manage Bank risks, Committee of legal entities' business, Committee of individuals' business and other collegial bodies.

Risk management functions are allocated as follows:

Supervisory Board

Supervisory Board, including Risk management committee of Supervisory Board, is responsible for integral approach to risk management, approval of strategy, policies and principles of risk management.

Board

The Board organizes and control processes of risk management. Risk management at this level foresees development of risk management strategy, as well as implementation of principles, concepts, policies and risk limits.

Risk management departments (RMD) of corporate and individual businesses

These departments are the second line of defense, providing for analytical and methodological basis for risk management, and being responsible for implementation and performance of risk management procedures, to ensure independent control processes.

Committees

Committee of legal entities’ business, Committee of individuals’ business, ALMC and Committee of information safety and operational-technological risks are responsible for implementation of risk management strategy.

Business departments

Business departments are the first line of defense, being responsible at their level for risk control, including control of volume of positions under risk compared to pre-set limits, and evaluation of risk susceptibility of new products and structured contracts. This level provides to collection of complete, reliable and operative information in risk assessment and reporting system.

Internal audit

Internal audit department regularly reviews risk management processes of the Bank, including review of both adequacy of procedures and compliance with the procedures. Internal audit department reports the results of reviews and offers conclusions and recommendations to the Board and Supervisory Board of the Bank.

Excessive risk concentration

Risk concentration occurs when several counterparts are engaged in similar business or operate in the same geographical area, or they have similar economic characteristics, and the changes in economic, political or other conditions exert similar effect on the ability of such counterparts to meet their contractual obligations. Risk concentration reflect comparative sensibility of Bank operations to circumstances, affecting certain economy branches or geographical area.

Policies and procedures of the Bank include special principles focused on diversification of bank portfolio to prevent excessive risk concentration. The Bank manages risk concentrations.

Credit risk

Credit risk is the risk of financial loss for the Bank resulting from non-compliance of a borrower or a counterpart with contractual obligations. The Bank manages credit risk by setting threshold limit for the risk, that the Bank is ready to accept for a counterpart or a group of counterparts, facing common economic risk, while monitoring compliance with pre-set risk indicators.

For contract of loan nature (liabilities under irrevocable unused credit lines, letters of credit and guarantees), the Bank faces risk similar to credit risk, reducing it by the same procedures and risk control policies.

Book value of items in statement of financial position, including derivatives, net of effect of risk reduction through general offset agreements and agreements on collaterals, reflect maximal value of credit risk very accurately.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

For financial instruments, measured at fair value, the book value reflects current value of credit risk, rather than maximal, which may arise in future due to change of value.

Credit quality of financial assets

The Bank manages credit quality of financial assets using internal system of control over risk levels relevant to counterparts and individual portfolios of assets. The system provides for focused management of existing risks, making it possible to compare credit risk for different lines of business, geographical areas and products. The system is based on financial-analytical methods and processed market data as basic data to assess risk of counterparts.

Management measures impairment of loans to customers by assessment of probability of repayment and collection of advances based on analysis of individual material loans and aggregated loans with similar terms and risk characteristics. Factors to be taken into consideration for assessment of individual loans include history of repayments, current financial position of a borrower, timeliness of repayment and collateral, timeframe to pay interest, conditions of the economic branch, where a borrower operates, etc. Management assesses amounts and terms of future payments to repay principle and interest under a loan and possible income from sale of pledged collateral in accordance with principles, described in Note 4.2.1, to measure impairment of loans.

Detailed information on quality of active Bank operations by separate groups of assets is presented in Note 8 *Cash in other banks* disclosing structure of high-liquid assets by rating of Bank counterparts, in Note 9 *Loans and due from customers*, containing detailed information on impairment of certain groups of assets.

Concentration of financial assets and liabilities of the Bank by geographical principle:

	2018				*2017*			
	Ukraine	***OECD***	***CIS and other countries***	***Total***	***Ukraine***	***OECD***	***CIS and other countries***	***Total***
Assets								
Cash and cash equivalents	226 111	1 288 927	36	**1 515 074**	445 384	988 560	25	**1 433 969**
Due from other banks	15 545	285 649	19 716	**320 910**	12 839	468 604	5 411	**486 854**
Loans and advances to customers	3 963 015	-	41	**3 963 056**	4 118 795	-	187	**4 118 982**
Investment in securities	408 182	-	-	**408 182**	279 874	-	-	**279 874**
NBU deposit certificates	1 201 973	-	-	**1 201 973**	1 001 196	-	-	**1 001 196**
Other financial assets	52 643	-	4	**52 647**	5 867	-	63	**5 930**
	5 867 469	**1 574 576**	**19 797**	**7 461 842**	**5 863 955**	**1 457 164**	**5 686**	**7 326 805**
Liabilities								
Due to other banks	-	-	45	**45**	-	-	46	**46**
Due to customers	8 398 300	12 347	464 460	**8 875 107**	7 927 087	5 033	404 440	**8 336 560**
Debt securities issued by the Bank	-	-	-	**-**	9 993	-	-	**9 993**
Provisions for liabilities	131	39	-	**170**	1 330	-	-	**1 330**
Other financial liabilities	80 025	226	-	**80 251**	84 632	298	28	**84 958**
	8 478 456	**12 612**	**464 505**	**8 955 573**	**8 023 042**	**5 331**	**404 514**	**8 432 887**
Net geographical concentration	**(2 610 987)**	**1 561 964**	**(444 708)**	**(1 493 731)**	**(2 159 087)**	**1 451 833**	**(398 828)**	**(1 106 082)**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Market risk

Market risks are created by changes of market indicators - interest rates, currency rates, security quotations, credit spreads, commodity prices, etc., which do not relate to solvency of borrower/lender, but influence revenues or value of financial instruments. Purpose of market risk management is management and control of the risk within the range of pre-set parameters, optimizing profitability.

The Bank subdivides market risk between portfolio of instruments, intended for sale, and portfolio of instruments, not intended for sale.

Portfolios of instruments, intended for sale, include positions, arising at creation of market and opening of own position, together with financial assets and liabilities, managed at fair value basis.

Responsibility for management of market risk rests with ALMC. ALMC is responsible for development of regulations on risk management (to be approved by the Board and Supervisory Board) and every-day monitoring of compliance with the regulations.

Currency risk

Currency risk is the risk that fluctuation of official currency exchange rates would affect Bank revenue or value of its portfolios of financial instruments.

The Bank has assets and liabilities, denominated in several currencies. Currency risk arises when actual or predicted foreign-currency assets are higher or lower than liabilities in the same currency. Bank management sets the limits and continuously monitors currency positions in accordance with NBU rules and internal methodology.

Policies regarding open currency positions are limited by certain maximal range, set in accordance with Ukrainian law, and NBU closely monitors them every day.

Currency position of the Bank under monetary assets and liabilities as at December 31, 2018:

	UAH	***USD***	***EUR***	***Other***	***Total***
Assets					
Cash and cash equivalents	192 619	977 137	341 399	3 919	**1 515 074**
Due from other banks	1 419	284 831	28 776	5 884	**320 910**
Loans and advances to customers	2 106 644	1 692 484	163 928	-	**3 963 056**
Investment in securities	330	407 852	-	-	**408 182**
NBU deposit certificates	1 201 973	-	-	-	**1 201 973**
52 647	41 172	9 140	2 240	95	
Total monetary assets	**3 544 157**	**3 371 444**	**536 343**	**9 898**	**7 461 842**
Liabilities					
Due to other banks	-	36	9	-	**45**
Due to customers	5 016 540	3 198 020	657 297	3 250	**8 875 107**
Provisions for liabilities	131	39	-	-	**170**
Other financial liabilities	75 119	2 672	1 835	625	**80 251**
Total monetary liabilities	**5 091 790**	**3 200 767**	**659 141**	**3 875**	**8 955 573**
Net long /(short) currency position	**(1 547 633)**	**170 677**	**(122 798)**	**6 023**	**(1 493 731)**
Off-balance position	-	-	-	-	**-**
Net long /(short) position	**(1 547 633)**	**170 677**	**(122 798)**	**6 023**	**(1 493 731)**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Currency position of the Bank under monetary assets and liabilities as at December 31, 2017:

	UAH	*USD*	*EUR*	*Other*	*Total*
Assets					
Cash and cash equivalents	403 873	763 105	260 654	6 337	**1 433 969**
Due from other banks	1 047	409 820	70 957	5 030	**486 854**
Loans and advances to customers	1 332 318	2 646 846	139 818	-	**4 118 982**
Investment in securities	385	279 489	-	-	**279 874**
NBU deposit certificates	1001 196	-	-	-	**1 001 196**
Other financial assets	3 890	1 582	419	39	**5 930**
Total monetary assets	**2 742 709**	**4 100 842**	**471 848**	**11 406**	**7 326 805**
Liabilities					
Due to other banks	-	37	9	-	**46**
Due to customers	4 303 872	3 453 047	569 584	10 057	**8 336 560**
Debt securities issued by the Bank	-	8 240	1 753	-	**9 993**
Provisions for liabilities	1 139	-	191	-	**1 330**
Other financial liabilities	70 595	7 626	6 726	11	**84 958**
Total monetary liabilities	**4 375 606**	**3 468 950**	**578 263**	**10 068**	**8 432 887**
Net long /(short) currency position	**(1 632 897)**	**631 892**	**(106 415)**	**1 338**	**(1 106 082)**
Off-balance position	-	-	-	-	**-**
Net long /(short) position	**(1 632 897)**	**631 892**	**(106 415)**	**1 338**	**(1 106 082)**

As at December 31, 10% devaluation of UAH in respect of foreign currencies would increase (decrease) income before taxes and equity by the amount below. This analysis foresees that all other variables, e.g., interest rate, will be stable:

	2018	*2017*
USD	17 068	63 189
EUR	(12 280)	(10 642)

As at December 31, 10% revaluation of UAH in respect of the above currencies would have entirely adverse effect on income before taxes and equity with all other variables bring stable.

Interest risk

Interest risk is the risk that changes of interest rate would affect future cash flows or fair value of financial instruments.

Interest risk is assessed by the influence of range of changes of market interest rates over interest margin and net interest income. When terms of interest-income bearing assets differ from terms of liabilities with interest payables, net interest income would decrease or increase depending on change of interest rates. Bank management continuously monitors market interest rates for different interest-bearing assets and interest-payable liabilities to manage interest risk.

Interest margins for assets and liabilities with different maturities may increase, if market interest rates change. In reality, the Bank changes interest rates for assets and liabilities based on current market conditions and agreements, formalized as annexes, stating new interest rates, to basic contract.

Responsibility for interest risk management rests with ALMC. ALMC sets major policies and approaches to interest risk management, including maximal amount of a loan and minimal interest rates under loans for products. Groups of customers and terms. Interest risk management is based on analysis of gap between assets and liabilities, sensitive to interest rate fluctuations.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Average effective interest rate for major assets and liabilities, where interest is charged:

	2018			2017		
	UAH	***USD***	***EUR***	***UAH***	***USD***	***EUR***
Cash and cash equivalents	-	0.3%	-	-	-	-
Loans and advances to customers	22%	7.3%	3.8%	20.3%	7.6%	2.6%
Investment in securities	-	5.4%	-	-	5.2%	-
NBU deposit certificates	17.0%	-	-	13.1%	-	-
Current accounts of customers	7.3%	0.4%	0.0%	6.1%	0.4%	0.3%
Term accounts of customers	15.6%	3.4%	2.1%	14.7%	4.7%	3.4%
Debt securities issued by the Bank	-	-	-	-	7.2%	7.0%

If market situation changes, Bank management may change interest rates under loans to customers in accordance with terms of agreements. Besides, the Bank regularly reviews interest rates under attracted funds, depending on market situation. The Bank calculates index of absolute interest risk or index of net interest income change, using scenario of parallel shifts of profitability curve. As at December 31, 2018, increase of interest rates under liabilities by 1 percent, if all other variables are constant, would have reduced net interest income of the year by UAH 7 290 thousand (2017: UAH 5 450 thousand). Similar decrease of interest rates, if all other variables are constant, would have had exactly opposite effect on net interest income for the amount stated above.

Liquidity risk

Liquidity risk arises from general financing activities and management of positions. It includes the risk of impossibility to finance assets in proper terms at proper rates and risk of non-compliance of the Bank with its terms of payments for liabilities at their maturities in usual or unforeseen circumstances.

Management approach to liquidity risk is based on provision, if possible, of stable adequate level of profitability to repay the liabilities within proper terms in usual or unforeseen circumstances without any undue losses and risks for Bank reputation.

The Bank actively supports diversified and stable sources of financing, including long- and short-term loans from other banks, minimal amount of deposits of legal entities and individuals, as well as diversified portfolios of high-liquid assets to be able quickly and freely meet unforeseen needs of liquidity.

The Bank attracts short-term deposits, buys and sells foreign currency to sustain short-term liquidity. The Bank attracts average- and long-term deposits, buys and sells securities, regulates its interest rate policies and controls expenses to sustain long-term liquidity. When managing liquidity, the Bank takes into consideration the need to have mandatory provisions in NBU, while the volume of these provisions depends, inter alia, over the level of attraction of customers' funds.

Information on liabilities must contain balances, payable on demand, i.e. it is foreseen that the demand to repay may be issued on the earliest possible date. Still, the Bank expects, that most customers would not demand repayment earlier than maturity date, so, the table does not disclose estimated cash flows, calculated by Bank management based on information of deposits on demand for previous periods.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Non-discounted financial liabilities of the Bank by maturities based on contractual terms and other non-discounted cash expenses as at December 31, 2018:

	Up to 3 months	*3 months – 1 year*	*1 – 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Due to other banks	45	-	-	-	**45**
Due to customers	5 691 813	2 554 489	189 322	439 483	**8 875 107**
Provisions for liabilities	170	-	-	-	**170**
Other financial liabilities	80 251	-	-	-	**80 251**
Non-discounted cash outflow	**5 772 279**	**2 554 489**	**189 322**	**439 483**	**8 955 573**

Up to 3 Months column includes deposits on demand.

The table presents aggregated analysis of contractual term of repayment for financial liabilities of the Bank as at December 31, 2018. It presents non-discounted liabilities repayable in accordance with contracts. Payments on demand are treated as those to be made immediately. Still, the Bank expects, that a lot of clients would not demand repayments immediately after maturity date in accordance with contracts, so the table does not reflect expected cash flows, calculated based deposits of the previous periods. Besides, significant balances at current accounts are treated by Bank management as conditional stable balances. Maturity analysis does not reflect stability of past current liabilities.

Non-discounted financial liabilities of the Bank regarding terms remaining to their maturities based on contractual terms and other non-discounted cash outflows as at December 31, 2017:

	Up to 3 months	*3 months – 1 year*	*1 – 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Due to other banks	46	-	-	-	**46**
Due to customers	4 766 450	3 233 268	51 233	383 749	**8 434 690**
Debt securities issued by the Bank	9 743	364	-	-	**10 108**
Provisions for liabilities	1 330	-	-	-	**1 330**
Other financial liabilities	84 958	-	-	-	**84 958**
Non-discounted cash outflow	**4 862 527**	**3 233 632**	**60 001**	**383 749**	**8 531 131**

Up to 3 Months column includes deposits on demand.

Periods of payments under assets and liabilities, and possibility of replacement of interest-bearing liabilities for acceptable price at their maturity are important factors for assessment of Bank liquidity and risk, arising from the change of interest rates and currency exchange rates.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Periods of payment under financial assets and liabilities net of provision for impairment in accordance with contractual terms as at December 31, 2018:

	Up to 3 months	*3 months – 1 year*	*1 – 5 years*	*Over 5 years*	*Total*
Assets					
Cash and cash equivalents	1 515 074	-	-	-	**1 515 074**
Due from other banks	320 910	-	-	-	**320 910**
Loans and advances to customers	170 139	1 595 553	2 197 310	54	**3 963 056**
Investment in securities	-	271 643	136 209	330	**408 182**
NBU deposit certificates	1 201 973	-	-	-	**1 201 973**
Other financial assets	52 647	-	-	-	**52 647**
Total assets	**3 260 743**	**1 867 196**	**2 333 519**	**384**	**7 461 842**
Liabilities					
Due to other banks	45	-	-	-	**45**
Due to customers	5 677 064	2 579 238	179 322	439 483	**8 875 107**
Provisions for liabilities	170	-	-	-	**170**
Other financial liabilities	80 251	-	-	-	**80 251**
Total liabilities	**5 757 530**	**2 579 238**	**179 322**	**439 483**	**8 955 573**
Liquidity difference of the period	(2 496 787)	(712 042)	2 154 197	(439 099)	**(1 493 731)**
Cumulative liquidity difference	**(2 496 787)**	**(3 208 829)**	**(1 054 632)**	**(1 493 731)**	

Up to 3 Months column includes deposits on demand.

Management of liquidity risk by the Bank includes estimation of balances at current accounts, i.e. stable part of funds. As at December 31, 2018, stable part of customers' funds was UAH 3 455 495 thousand (2017: UAH 3 655 928 thousand). As at December 31, 2018, excess of short-term financial assets of the Bank over short-term liabilities was calculated, taking into account stable part of customers' funds, where term of repayment is not definite, was UAH 246 668 thousand (2017: excess of liabilities – UAH 425 985 thousand).

The table shows loans and debts of customers, taking into account overdue loans, net of provisions. Overdue loans are included into 1 – 5 years category in accordance of Bank judgement on possible terms of collection. The table also shows financial liabilities repayable in accordance with contracts. Payments on demand are viewed as those payable immediately. Still, the Bank expects, that a lot of clients would not demand repayments immediately after maturity date in accordance with contracts, so the table does not reflect expected cash flows, calculated based deposits of the previous periods. Besides, significant balances at current accounts are treated by Bank management as conditional stable balances. Maturity analysis does not reflect stability of past current liabilities. Earlier, they were settled during the period longer that stated in the table. These balances are included into amounts payable within 3 months.

Periods of payment under financial assets and liabilities net of provision for impairment in accordance with contractual terms as at December 31, 2017:

	Up to 3 months	*3 months – 1 year*	*1 – 5 years*	*Over 5 years*	*Total*
Assets					
Cash and cash equivalents	1 433 969	-	-	-	**1 433 969**
Due from other banks	311 615	175 239	-	-	**486 854**
Loans and advances to customers	215 006	1 487 407	2 415 461	1 108	**4 118 982**
Investment in securities	-	139 163	140 326	385	**279 874**
NBU deposit certificates	1 001 196	-	-	-	**1 001 196**
Other financial assets	5 930	-	-	-	**5 930**
Total assets	**2 967 716**	**1 801 809**	**2 555 787**	**1 493**	**7 326 805**
Liabilities					
Due to other banks	46	-	-	-	**46**
Due to customers	4 710 777	3 192 364	49 670	383 749	**8 336 560**
Debt securities issued by the Bank	9 421	572	-	-	**9 993**
Provisions for liabilities	1 330	-	-	-	**1 330**
Other financial liabilities	84 958	-	-	-	**84 958**
Total liabilities	**4 806 532**	**3 192 936**	**49 670**	**383 749**	**8 432 887**
Liquidity difference of the period	(1 838 816)	(1 391 127)	2 506 117	(382 256)	**(1 106 082)**
Cumulative liquidity difference	**(1 838 816)**	**(3 229 943)**	**(723 826)**	**(1 106 082)**	

Up to 3 Months column includes deposits on demand.

In accordance with Ukrainian law and terms of loan agreements, the Bank has a right to demand repayment of loan ahead of schedule in case of deterioration of financial position of a borrower, regular non-compliance with the obligations by a customer and occurrence of some other factors.

Operating risk

Operating risk is the risk of occurrence of losses or additional expenses, or receipt of lees than planned revenue due to deficiencies or mistakes in internal processes of the Bank, intentional or unintentional acts of Bank employees or other persons, malfunctions of Bank IT systems, or influence of external factors. Operating risk includes legal risk and excludes reputational risk and strategical risk.

Operating risk is inherent for all products, types of business, procedures and systems. Operating risk management is an integral function for all levels of management. Approach to management and monitoring of operating risk is reconciled with management and monitoring of other risks of the Bank, in particular, market and credit risks.

Operating risk management is based on the model of three lines of defense:

1. First line is business departments and support departments of the Bank. They are owners of all operating risks, arising within their areas of responsibilities. These departments are responsible for detection and assessment of operating risks, implementation of necessary measures and reporting on the risks. The Bank appoints persons within departments, responsible for internal control of operating risk at the first line of defense.

2. Second line is RMD, responsible for the following functions: design, implementation and continuing development of operating risk management system; assessment of scope of operating risk of the Bank, including use of information presented by Bank employees, responsible for internal control of operating risks in the first-line departments.
3. Third line is the Department of internal audit, measuring efficiency of operating risk management system of first and second lines of defense, including assessment of efficiency of internal control system.

Operating control management is performed at all stages of the bank processes.

The Bank uses the following methods of response:

- Minimization (reduction) of risk – implementation of necessary measures aimed at decrease of the level or risk identified down to acceptable level;
- Acceptance of risk – analysis of circumstances of risk detection shows that measures to minimize it are not economically feasible;
- Evasion of risk – refusal to perform transactions with inherent risk within bank processes;
- Insurance (transfer) of risk – insurance of operating risks, which the Bank cannot manage, as they are outside of its direct control.

Operating risk did not materially affected Bank performance in 2018.

26. Related parties' transactions

The Bank issues loans to customers, attracts deposits and engages into other transactions with related parties in the usual course of the business. The Parties are considered to be related, of one of them has a possibility to control another one or significantly influence its financial and operating decisions. Terms of related parties' transactions are set at the moment of execution of transaction.

Related parties include the Shareholder of the Bank, members of Supervisory Board, members of the Board and their close families, companies where the Shareholder, key management or their close families exert control. Key management is composed of authorized persons, who are responsible for planning, management and control of Bank activities directly or indirectly, including members of the Board and Supervisory Board. Business entities are not considered to be related parties simply for the reason of having common director or other person of key management, or a person of key managements having significant influence on other business entity.

Bank management believes that terms of related parties' transactions did not differ from terms offered for independent parties.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Related parties' transactions and balances at related parties accounts as at December 31, 2018:

	Parent company	*Largest participants (shareholders) of the bank*	*Companies under common control*	*Key management personnel*	*Associated companies*	*Other related parties*	*Total*
Loans and advances to customers (contractual interest rate: UAH – 48%)	-	-	-	71	-	117	**188**
Including allowance for expected credit loss	-	-	-	(3)	-	(6)	**(9)**
Other financial assets	-	-	35	-	-	-	**35**
Due to customers (contractual interest rates: UAH – 11,6%, USD – 0,09%, EUR – -%)	440 104	19 594	303 891	2 971	-	17 265	**783 825**

Balances at related parties accounts as at December 31, 2017:

	Parent company	*Largest participants (shareholders) of the bank*	*Companies under common control*	*Key management personnel*	*Associated companies*	*Other related parties*	*Total*
Loans and advances to customers (agreed interest rate: UAH – 47.48%)	-	-	-	7	-	31	**38**
Securities available for sale in bank portfolio (10-12% of share)	-	-	-	-	13	-	**13**
Allowance for impairment of securities available for sale in bank portfolio	-	-	-	-	(13)	-	**(13)**
Other financial assets	-	-	42	-	-	-	**42**
Due to customers (contractual interest rates: UAH – 7.8%, USD –0.1%, EUR – 0.6%)	384 449	11 289	571 191	4 184	-	9 787	**980 900**
Other liabilities	-	-	21	-	-	-	**21**

Other rights and obligations under related parties' transactions as at December 31, 2018:

	Parent company	*Largest participants (shareholders) of the bank*	*Companies under common control*	*Key management personnel*	*Associated companies*	*Other related parties*	*Total*
Potential loan commitments (revocable)	-	-	205 000	557	-	130	**205 687**

Under potential commitments (revocable credit lines), the Bank has a right to reject to provide a loan, so, there is no credit risk.

Other rights and obligations under related parties' transactions as at December 31, 2017:

	Parent company	*Largest participants (shareholders) of the bank*	*Companies under common control*	*Key management personnel*	*Associated companies*	*Other related parties*	*Total*
Potential loan commitments (revocable)	-	-	-	53	-	19	**72**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Total loans to related parties provided and repaid during the year ended on December 31, 2018:

	Parent company	*Largest participants (shareholders) of the bank*	*Companies under common control*	*Key management personnel*	*Associated companies*	*Other related parties*	*Total*
Loans granted to related parties	-	-	31 071	4 177	-	937	**36 185**
Loans repaid by related parties	-	-	(31 071)	(4 110)	-	(845)	**(36 026)**

Total loans to related parties provided and repaid during the year ended on December 31, 2017:

	Parent company	*Largest participants (shareholders) of the bank*	*Companies under common control*	*Key management personnel*	*Associated companies*	*Other related parties*	*Total*
Loans granted to related parties	-	-	481 577	159	-	46	**481 782**
Loans repaid by related parties	-	-	(481 577)	(182)	-	(15)	**(481 774)**

Related parties' transactions of the Bank for the period ended on December 31, 2018:

	Parent company	*Largest participants (shareholders) of the bank*	*Companies under common control*	*Key management personnel*	*Associated companies*	*Other related parties*	*Total*
Interest income	-	-	109	18	-	4	**131**
Interest expense	-	(12)	(19 640)	(195)	-	(25)	**(19 872)**
Commission	1	14	1 398	97	-	78	**1 588**
Foreign currency transactions	244	-	29 263	-	-	-	**29 507**
Allowance for expected credit loss from loans and due from other banks	-	-	-	(1)	-	(2)	**(3)**
Allowance for expected credit loss from other financial and other assets	-	-	(19)	-	-	-	**(19)**
Administrative and other operating expenses	-	-	-	(58 258)	-	-	**(58 258)**

Related parties' transactions of the Bank for the period ended on December 31, 2017:

	Parent company	*Largest participants (shareholders) of the bank*	*Companies under common control*	*Key management personnel*	*Associated companies*	*Other related parties*	*Total*
Interest income	-	-	229	1	-	-	**230**
Interest expenses	(3)	(159)	(23 595)	(162)	-	(291)	**(24 210)**
Commission	600	4	8 542	79	-	12	**9 237**
Foreign currency transactions	3 264	-	8 651	-	-	-	**11 915**
Administrative and other operating expenses	-	-	-	(58 814)	-	-	**(58 814)**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Compensation of key management personnel for the year ended on December 31, 2018, is represented by short-term payments of UAH 46 519 thousand (2017: UAH 46 030 thousand). Remuneration for the members of the Supervisory Board for the year ended on December 31, 2018, was UAH 10 175 thousand (2017: UAH 10 035 thousand).

27. Information by segments

The Bank discerns three operating segments for financial reporting purposes:

Services to legal entities. Issuance of loans, attraction of deposits. Opening of current accounts for legal entities and institutions, provision of guarantees and avals, support in foreign-trade activities.

Services to individuals. Servicing of deposits of individuals, issuance of consumer credits, overdrafts, credit cards and cash transfers.

Investment-and-banking activities. Trading in securities and foreign currencies, derivatives, attraction and placement of funds on inter-bank market, investments in other financial instruments.

Information on income and expenses, profit and loss, assets and liabilities of operating segments of the Bank for the year ended on December 31, 2018:

	Legal entities	*Individuals*	*Investment-banking activities*	*Retained amounts*	*Total*
External customers					
Interest income	438 073	183 820	89 720	-	**711 613**
Commission income	118 992	134 039	98	-	**253 129**
Transactions with derivatives	-	-	(36 400)	-	**(36 400)**
Foreign currency transactions	-	-	93 262	-	**93 262**
Foreign currency revaluation	-	-	-	(2 043)	**(2 043)**
Revaluation of investment property	-	-	-	142 747	**142 747**
Income from derecognition of financial instruments	254 507	624	-	-	**255 131**
Other income	-	-	-	86 827	**86 827**
	811 572	**318 483**	**146 680**	**227 531**	**1 504 266**
Interest expense	(240 874)	(273 897)	-	-	**(514 771)**
Commission expense	(4 623)	(38 032)	(63 019)	-	**(105 674)**
Allowance for expected credit loss from loans and due from other banks	(714 492)	(95 390)	(4 531)	-	**(814 413)**
Allowance for expected credit loss from of securities	-	-	(1 658)	(25 392)	**(27 050)**
Allowance for expected credit loss from other financial and other assets	919	(392)	-	-	**527**
Provisions for liabilities	(99 065)	(200 200)	(11 196)	(283 714)	**(594 175)**
Segment performance	**(246 563)**	**(289 428)**	**66 276**	**(81 575)**	**(551 290)**
Income tax expenses	-	-	-	(175)	**(175)**
Income/(loss) of the year	**(246 563)**	**(289 428)**	**66 276**	**(81 750)**	**(551 465)**
Segment assets	3 373 568	602 888	3 485 746	2 259 824	**9 722 026**
Segment liabilities	4 925 273	4 021 190	1 317	48 717	**8 996 497**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Retained earnings are the result of revaluation of foreign currency items of statement of financial position and other income, not related to principal operating activities of the Bank. Other accumulated loss represents overall bank administrative expenses and other losses through impairment of assets.

Management controls operating performance of each segment separately for the purpose of allocation of resources and assessment of performance. Performance of segments is assessed in a way, differing from financial statements. Income tax is calculated for the Bank in general without allocation to segments.

Information on income and expenses, profit and loss, assets and liabilities of operating segments of the Bank for the year ended on December 31, 2017:

	Legal entities	*Individuals*	*Investment-banking activities*	*Retained amounts*	*Total*
External customers					
Interest income	503 122	131 853	88 904	-	**723 879**
Commission income	86 422	92 369	278	-	**179 069**
Transactions with securities in trading portfolio of the Bank	-	-	113	-	**113**
Net income/(loss) from transactions with derivatives	-	-	29 621	-	**29 621**
Net income/(loss) from transactions with foreign currencies	-	-	78 919	19 289	**98 208**
Revaluation of investment property	-	-	-	(61 084)	**(61 084)**
Other income	-	-	-	18 807	**18 807**
	589 544	**224 222**	**197 835**	**(22 988)**	**988 613**
Interest expense	(189 224)	(393 504)	-	-	**(582 728)**
Commission expense	(1 222)	(46 694)	(19 364)	-	**(67 280)**
Allowance for impairment of loans and due from other banks	(317 686)	(41 878)	514	-	**(359 050)**
Allowance for impairment of securities	-	-	(74)	-	**(74)**
Allowance for impairment of other financial and other assets	(3 886)	-	199	(46 099)	**(49 786)**
Provisions for liabilities	(694)	(1 069)	-	-	**(1 763)**
Administrative and other operating expenses	(79 661)	(168 547)	(17 460)	(232 604)	**(498 272)**
Segment performance	**(2 829)**	**(427 470)**	**161 650**	**(301 691)**	**(570 340)**
Income tax expenses	-	-	-	103	**103**
Income/(loss) of the year	**(2 829)**	**(427 470)**	**161 650**	**(301 588)**	**(570 237)**
Segment assets	3 789 659	334 212	3 202 262	1 960 032	**9 286 165**
Segment liabilities	4 184 844	4 239 196	383	43 461	**8 467 884**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

28. Fair value measurement

The Bank uses the following hierarchical structure of methods to measure fair value of financial instruments and disclose this information:

- Level 1: quoting (unadjusted) on active markets for similar assets or liabilities, available as at the date of measurement.
- Level 2: models where all input data, having material effect on disclosed fair value in financial statements, are directly or indirectly based on observable information.
- Level 3: models where input data, having material effect on disclosed fair value in financial statements, are not based on observable information.

As at December 31, 2018 and 2017, there were no transfers between fair value levels 1 and 2.

For the purpose of disclosure of information on fair value, the Bank segregated classes of assets and liabilities based their nature, characteristics and risks for assets or liabilities, as well as hierarchy level of fair values:

		Fair value measurement using			
December 31, 2018	***Date of measurement***	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value					
Investments in securities	31.12.2018	407 852	-	330	**408 182**
Fixed assets					
Buildings, constructions	01.11.2018	-	158 794	-	**158 794**
Investment property	01.11.2018	-	1 518 665	-	**1 518 665**
Assets for which fair values are disclosed					
Cash and cash equivalents	31.12.2018	-	-	1 515 074	**1 515 074**
Due from other banks	31.12.2018	-	-	320 910	**320 910**
Loans and advances to customers	31.12.2018	-	-	3 963 056	**3 963 056**
NBU deposit certificates	31.12.2018	-	-	1 201 973	**1 201 973**
Other financial assets	31.12.2018	-	-	52 647	**52 647**
Liabilities for which fair values are disclosed					
Due to other banks	31.12.2018	-	-	45	**45**
Due to customers	31.12.2018	-	-	8 875 107	**8 875 107**
Other financial liabilities	31.12.2018	-	-	80 251	**80 251**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Reconciliation of book value for regular measurements of 3-level securities as at December 31:

	2018	***2017***
As at January 1	**330**	**441**
Additions to allowances for expected credit loss	105	(74)
Revaluation recognized through other comprehensive income	(105)	19
Transfer to 1 level of hierarchy	-	(56)
As at December 31	**330**	**330**

The following methods and assumptions were used to measure fair value:

Management determined that fair value of cash, short-term financial assets and liabilities, and other assets and liabilities is close to their book value, since these instruments have a short payback period.

Fixed assets (buildings) and investment property. The Bank engages independent appraisers to measure fair value of buildings and investment property, based on method of comparison of setting prices of the objects of similar nature, location and conditions.

Investment securities. Investment securities are represented by debt securities with fair price, observable on active market, and equity instruments of value determinable by any method of measurement, represented by non-marketable shares, etc... Value of these assets in measured based on models, which, in some cases, are based solely on observable market data and, in other cases, on non-observable data. Non-observable data include assumptions regarding future financial performance of investment objects, nature of risks, and economic assumptions regarding industry and geographic location, where the investment object operates.

Derivatives. Derivatives, where measurement methods are based on observable market data, represent mostly swaps and forward currency contracts. Method of measurement includes method of measurement of forwards and swaps, including discounting of revaluation results (calculation of reduced value). The model uses both input data of forward and spot exchange rates.

Loans and debts of customers. The Bank measures loans and debts of customers, receivables based on such parameters, as interest rates, risk factors and individual solvency of a debtor. Provisions are set on the basis of estimated impairment of these assets.

Due to customers. Fair value of attracted funds is measured using model of discounting of cash flows, using the rate of discount, reflecting value of attracted funds as at the end of the reporting period. The Bank's risk of non-compliance with liabilities as at December 31, 2018, is assessed as insignificant.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Information on fair value of assets and liabilities of the Bank as at December 31, 2017:

		Fair value measurement using			
December 31, 2017	***Date of measurement***	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value					
Investment in securities	31.12.2017	279 544	-	-	**279 544**
Fixed assets					
Buildings, constructions	01.11.2017	-	186 466	-	**186 466**
Investment property	01.11.2017-31.12.2017	-	1 335 439	-	**1 335 439**
Assets for which fair values are disclosed					
Cash and cash equivalents	31.12.2017	-	-	1 433 969	**1 433 969**
Due from other banks	31.12.2017	-	-	486 854	**486 854**
Loans and advances to customers	31.12.2017	-	-	4 118 982	**4 118 982**
Investment in securities	31.12.2017	-	-	330	**330**
NBU deposit certificates	31.12.2017	-	-	1 001 196	**1 001 196**
Other financial assets	31.12.2017	-	-	5 930	**5 930**
Liabilities for which fair values are disclosed					
Due to other banks	31.12.2017	-	-	46	**46**
Due to customers	31.12.2017	-	-	8 336 560	**8 336 560**
Debt securities issued by the bank	31.12.2017	-	-	9 993	**9 993**
Other financial liabilities	31.12.2017	-	-	84 958	**84 958**

29. Financial instruments by categories of measurement

Financial instruments by categories of measurement as at December 31, 2018:

	Financial instruments at amortized cost	***Financial instruments at fair value through other comprehensive income***	***Total***
Cash and cash equivalents	1 515 074	-	**1 515 074**
Due from other banks	320 910	-	**320 910**
Loans and advances to customers	3 963 056	-	**3 963 056**
Investments in securities	-	408 182	**408 182**
NBU deposit certificates	1 201 973	-	**1 201 973**
Other financial assets	52 647	-	**52 647**
Total financial assets	**7 053 660**	**408 182**	**7 461 842**

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Financial assets by categories of measurement in accordance with IAS 39 as at December 31, 2017:

	Loans and receivables	**Financial assets available for sale**	**Total**
Cash and cash equivalents	1 433 969	-	**1 433 969**
Due from other banks	486 854	-	**486 854**
Loans and advances to customers	4 118 982	-	**4 118 982**
Investments in securities	-	279 874	**279 874**
NBU deposit certificates	1 001 196	-	**1 001 196**
Other financial assets	5 930	-	**5 930**
Total financial assets	**7 046 931**	**279 874**	**7 326 805**

30. Equity management

Regulatory capital

The Bank actively controls the capital adequacy level to prevent the inherent risks, comply with external requirements to equity and support high credit rating and capital adequacy standards, necessary to continue operations and maximize welfare of Bank’s shareholders. Capital adequacy is controlled, inter alia, through implementation of methods, principles and ratios, set by Basel accord (approved in July 1988 with November 2005 changes and amendments, taking into account, inter alia, inclusion of market risk), and standards, introduced by NBU for banking oversight purposes.

The Bank control structure of its capital and adjusts in accordance with changes in economic situation and risk characteristics for Bank activities. There were no changes in purposes, policies and procedures of capital management compared to previous years.

NBU capital adequacy ratio

NBU sets requirements to the level of capital of the banks and controls the compliance. In accordance with current capital adequacy requirements of NBU, the banks must keep the risk weighed capital-to-assets ratio (capital adequacy ratio in accordance with Ukrainian legal requirements) above certain minimal level. If a bank does not maintain or does not adequately increase its equity in line with increase of its assets, weighed for risk, the bank may violate set ratio of capital adequacy, resulting in application of penalties by NBU with subsequent negative effect on financial performance and financial position.

Based on results of Bank`s evaluation of the resilience in accordance with decrees of the NBU Board Regulations *Regulation on the Evaluation of the Resilience of Banks and the Banking System of Ukraine* № 141 of December 22, 2017, and *On Details of the Evaluation of the Resilience of Banks and the Banking System of Ukraine in 2018* №94 of 14.08.2018, estimated need in capital under basic macroeconomic scenario is UAH 739 million, while for negative scenario the figure is UAH 2 846 million. For the purpose of keeping of adequate level of capital, the Supervisory Board of the Bank on December 19, 2018 approved Plan of restructuring of JSC BANK CREDIT DNEPR, including Program of capitalization by February 1, 2019 (Plan of Restructuring), approved by the decision of NBU Board.

As at the end of 2018, the Bank complied with the terms of Plan of restructuring due to partial payment by the Shareholder in an amount of UAH 488.5 million for issued Bank’s shares and improvement of operating performance by UAH 280 million due to sale of non-performing loans, and increased its regulatory capital by UAH 768 million, thus covering the need in capital under basic macroeconomic scenario.

As at December 31, 2018, based on daily statistical reporting data, the Bank reached all required capital ratios, and has substantial margin of safety: regulatory capital ratio (H1) is UAH 1 035 million, while regulatory capital adequacy ratio (H2) reached 13.8% compared to standard level of 10%.

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

Plan of restructuring by the end of 2019, containing comprehensive list of steps to offset estimated need in capital, was developed to cover the need in capital under negative macroeconomic scenario (approved by decision of NBU Board).

Capital adequacy according to Basel capital accord

As at December 31, capital adequacy ratio, calculated in line with requirements of Basel capital accord, taking into account subsequent adjustments for market risk, based on financial information, disclosed in these financial statements, was:

	2018	*2017*
1-tier capital		
Share capital	3 232 120	2 743 666
Accumulated loss	(2 614 467)	(2 041 113)
Share premium	17 577	17 678
Total 1-tier capital	**635 230**	**720 231**
2-tier capital		
Revaluation reserves	90 299	98 050
Total 2-tier capital	**90 299**	**98 050**
Total regulatory capital	**725 529**	**818 281**
Total risk-weighted assets	**6 369 952**	**6 541 044**
Capital adequacy ratios		
1-tier capital adequacy ratio	**10.0%**	**11.0%**
Total capital adequacy ratio	**11.4%**	**12.5%**

As at December 31, capital adequacy ratios of the Bank, calculated in accordance with NBU rules, was:

	2018	*2017*
1-tier capital		
Share capital	3 208 454	2 720 000
Accumulated loss	(2 280 752)	(2 061 985)
Share premium	17 577	17 678
Total 1-tier capital	**945 280**	**675 693**
2-tier capital		
Revaluation reserves	89 709	95 984
Total 2-tier capital	**89 709**	**95 984**
Deductions from capital	**(330)**	**(330)**
Total regulatory capital	**1 034 658**	**771 347**
Total risk-weighted assets	**7 104 133**	**6 178 756**
Open currency position	**382 728**	**729 978**
1-tier capital adequacy ratio	12.6%	9.8%
Total capital adequacy ratio	**13.8%**	**11.2%**

Calculation of 1-tier capital and regulatory capital of the Bank in accordance with NBU requirements as at December 31, 2018, taking into account adjustments after the reporting date, anticipates decrease of the regulatory capital by UAH 521 197 thousand and UAH 521 346 thousand respectively (capital adequacy ratio being 7.58%, while 1-tier capital adequacy ratio being 6.3%). To mitigate the above effect, the Shareholder has provided EUR 13 183.8 thousand as cash cover for non-performing loans, leading to reducing of allowances for expected credit loss the above amount (Note 31). As a result, the rated level of 1-tier capital reached UAH 842 198 thousand, and the regulatory capital totaled UAH 931 427 thousand (adequacy of regulatory capital ratio and 1-tier capital adequacy ratio reaching 13.8% and 12.4% respectively).

(in thousands of UAH, if not stated otherwise) Translation from Ukrainian original

31. Subsequent events

In January 2019, USD 13,7 million, placed by the Shareholder as cash collateral to cover non-performing loans, were used by the Shareholder as contribution to share capital of UAH 378 107 thousand, which, after release of such collateral, resulted in increase of loss allowances for non-performing loans by UAH 383.9 million.

Besides, in January 2019, the Bank entered into operating lease agreement of equipment, acquired through foreclosure of collateral under a non-performing loan, until 2022, with lease payments dependent on scope of products produced. As at the date of signing of the financial statements, the Bank actually received lease-related income of UAH 796.3 thousand.

In March 2019, the Bank improved its operating performance by UAH 150.4 million due to sale of certain non-performing loans.

The Bank actually terminated operations of its Chervonoarmiyske branch in Kyiv as of March 28, 2019 to improve performance efficiency, based on analysis of financial performance of its branches.

In April, before the date of signing of the financial statements, the Bank agreed to enter into amicable agreement with a lessor under non-performing loan regarding settlement of the debt of USD 7.6 million, coming into force after approval by a court, and agreed to sell the right of claim under non-performing loans in the amount of UAH 75 million to a financial company.

Decree of Government of Russian Federation №460-25 of April 18, 2019, extended the list of goods, products and commodities originated in Ukraine, prohibited for export into Russia. E.g., prohibited for export are tubes, pipes and hollow profiles, seamless, made of ferrous metals (except for iron castings), including those of corrosion-resistant steel, tubes of round cross-section of iron or plain steel, tubes of square or rectangular cross-section. Besides, Russian Federation introduces prohibition to export oil and oil products to Ukraine.

On April 25, 2019, the Bank and Shareholder signed the suretyship, providing cash cover for the defined defaulted loans. On April 26, 2019, the Shareholder placed EUR 13 183.8 thousand to respective accounts, thus making it possible to reduce relevant loss allowances for respective amount.

Chairman of the Management Board	Olena Malynska
Deputy Chairman of the Management Board - Director of Finance	Sergiy Volkov
Chief accountant	Ruslan Chudakivskyi

April 26, 2019