Public Joint Stock Company
"The State Export-Import Bank of Ukraine"

Consolidated management report

Consolidated financial statements

For the year ended 31 December 2018,
with independent auditor's report

Translation from Ukrainian original

CONTENTS

Consolidated management report (consolidated governance report)
Joint Stock Company The Export-Import Bank of Ukraine

(Consolidated management report (consolidated governance report) was prepared in accordance with the requirements of Article 40-1 of Law of Ukraine On Securities and Stock Market, the Regulation of Disclosure of Information by Securities Issuers, approved by resolution No. 2826 of the National Securities and Stock Market Commission of Ukraine (NSSMC) on December 3, 2013, Law of Ukraine On Accounting and Financial Reporting in Ukraine, the Instruction on the Procedure for the Preparation and Publication of Financial Statements of Banks of Ukraine approved by the NBU Board Resolution No. 373 dated October 24, 2011).

Joint Stock Company The Export-Import Bank of Ukraine (hereinafter – Ukreximbank, JSC Ukreximbank, "Ukreximbank", the Bank/bank or the issuer) was established in 1992.

Ukreximbank performs its activity on the basis of Bank License No.2 dated October 5, 2011 and General License for Foreign Exchange Transactions No.2-2 dated October 18, 2016 issued by the National Bank of Ukraine.

As of December 31, 2018 and 2017 100% of Ukreximbank share capital was owned by the state represented by the Cabinet of Ministers of Ukraine.

Head Office of Ukreximbank is located in Kyiv at the address: 127, Antonovycha str. The Bank has 22 branches and 39 sub-branches (as of December 31, 2017 it had 24 branches and 41sub-branches) and two representative offices in London and New-York. The Bank and its branches is a single legal entity.

Historically, the key activity of Ukreximbank is servicing of export and import transactions. Currently, Ukreximbank has the diversified customer base, which includes significant number of large industrial and state-owned enterprises. Ukreximbank accepts deposits from individuals and legal entities, extends loans, provides payment services within Ukraine and effects money transfers abroad, fulfills foreign exchange transactions, invests funds, performs servicing of the customers' cash and settlement operations and renders other banking services.

One of the key Ukreximbank functions is facilitation of servicing, on the Government of Ukraine behalf, of the loan agreements entered into by the Government of Ukraine and governments of other countries. Ukreximbank acts as an agent of the Government of Ukraine and effects servicing of loans provided by international financial institutions in accordance with the terms and conditions of such agreements.

Human resources, employment, respect for human rights, intellectual capital and its use for the Bank goals achievement, anticorruption efforts.

Pursuant to the JSC Ukreximbank Human Resources Policy (hereinafter - Human Resources Policy) the Bank guarantees equal employment opportunities, namely:

- the Bank takes a decision on hiring, appointment and transfer to office, as well as other decisions that has an impact on the staff employment irrespective of ancestry, social and property status, racial and ethnic background, sex, political views, religious convictions, membership in trade union or other citizen group, line of work and nature of occupation.

  For example, as of December 31, 2018 the share of women employed on executive positions was 50% of the entire Bank staff, including 30% in the Board of the Bank.

- the Bank not only provides a job, but also facilitates the integration of people with disabilities in social, collective, public life and provides all opportunities for their professional and personal self-fulfillment.

  As of December 31, 2018 the share of people with disabilities was 4% of the entire Bank staff.

- the Bank is focused on support of employees approaching retirement age and gradual adaptation of employees of this category to a new social status. The employees approaching retirement age and pension age employees have opportunity to work actively and they are involved in transfer of experience and knowledge to young colleagues.

  As of December 31, 2018 the share of employees approaching retirement age and pension age employees was 5% of the entire Bank staff.

Besides, the Bank facilitates the provision of young people with the first job, as well as organizes and provides a traineeship or practical training for students and young specialists at the Bank.

In 2018, 102 students underwent a traineeship and 12 specialists were provided with the first job at the Bank.

In terms of respect of human rights the Bank is governed by the Constitution of Ukraine and the JSC Ukreximbank Code of Corporate Ethics, namely:

- The Bank guarantees equal opportunities for all employees and job candidates to the respective positions at the Bank irrespective of their age, sex, family status, sexual orientation, religious, racial, national affiliation, political convictions, disabilities and other circumstances.
- The Bank appreciates personality, features and potential, which every employee contributes to the Bank activity and supports the ongoing development of employees' skills and competence.
- All decisions regarding the staff (selection, hiring, training, job progression, appraisal, incentivation and motivation, retirement, etc.) are taken only on the basis of the employee qualification, his/her job performance and other job-related factors.
- The Bank in its activity does not apply harassment in respect to its employees, customers, competitors, etc. in any form whatsoever – psychological, verbal or physical on the basis of age, sex, family status, sexual orientation, religious, racial, national affiliation, political convictions, disabilities or other circumstances.

The Bank recognizes existence of currently existing risks of slavery, human beings trafficking, peonage, forced or compulsory labor and other forms of human exploitation and it is ready to combat with all forms of such practices.

The Bank does not use and support the use of child labor, who does not reach the minimal age established by the labor legislation since which their employment is allowed.

The Bank annually sets the rates of working hours as per calendar with the five-day working week with two day-offs on Saturday and Sunday with mandatory compliance with the rates of working hours.

In accordance with the applicable laws of Ukraine the Bank employees are granted with various types of leaves, in particular, annual vacation (basic and additional leave (for special nature of work)), additional study leave, social leaves (maternity protection leave and leave to attend a child up to the age of three years for employees who have children, etc.), leave without pay.

Besides the Bank takes care of its employees' health, in particular, pays for services provided under voluntary health insurance scheme for the Bank employees.

The human resources strategy treats the staff as the Bank's core asset and the staff costs as the investments in the Bank development. Furthermore, the Bank is primarily a team of professionals, and the Bank achievements are results of each employee performance.

Efficient human resources management envisages availability of three key components: professionalism, working ability and job involvement of employees, maintenance and development of which is in the focus of the human resources management strategy.

These components are maintained and developed due to quality staff selection and recruitment, system of adaptation, training and development, well established internal communications and through the use of instruments of tangible and intangible incentives.

As of December 31, 2018 91% of the entire Bank staff had university degree, among them:

- 10% had two or more university degrees;
- 1% had scientific degree.

Besides, 61% of the Bank staff had job seniority for more than 7 years.

The Bank invests in development of leaders, who in their turn teach, develop, motivate and direct other Bank employees for addressing current and strategic challenges of the Bank.

Thus, in 2018, in order to provide efficient business activity and achieve the Bank's goals:

- 92% of the Bank staff underwent remote training (in average each employee undergoes nearly 5 remote trainings per year);
- 31% of the Bank employees were involved 138 learning events arranged by external providers, including 15 international learning events attended by 40 employees.

In accordance with the Law of Ukraine *On Combating Corruption* the Bank approved and implemented Anticorruption Program of the Joint Stock Company The State Export-Import Bank of Ukraine (hereinafter – the Anticorruption Program). The provisions of the said Anticorruption Program stipulate the rights and obligations of the Bank employees with the view of preventing and counteracting corruption in the Bank activity. Also, in order to supervise the Anti-Corruption Program implementation Anti-Corruption Officer was appointed at the Bank.

In 2018, in order to provide the effective efforts for preventing the occurrences of corruption at the bank institution divisions JSC Ukreximbank implemented a package of measures aimed at improvement of the internal regulatory and legal framework and conducted training and organized explanatory events as to application of the anti-corruption legislation.

Technological resources and their application for achievement of the Bank goals

The Bank corporative network is built on the state-of-the-art technologies with use of the IP/IMLS fast channels as the main channels of land communications.

Ukreximbank has an in-house processing center for servicing cards issued by Visa, MasterCard, American Express payment systems and it became the first of the largest banks of Ukraine that certified the bank compliance with the information and physical security requirements of the PCI DSS international standard, which is confirmed on annual base by the Bank.

The Bank pays considerable attention to issues related to building of the reliable information infrastructure based on the state-of- the-art technical and architectural solutions of such IT sector leaders as Oracle, Microsoft, Cisco, HDS, VMware, Riverbed, Nortel, Dell, RedHat, Microfocus. The Ban built a high-technology data processing center, which meets all up-to-date requirements and standards and allows to build a flexible and efficient information system for handling the Bank business tasks.

The Bank permanently improves the infrastructure of information resources and information infrastructure management. Within the framework of introduction of the ITSM methodology and standards the Ukreximbank's information infrastructure monitoring and management system is functioning at the Bank.

Application of the in-house program modules, software and hardware made by well-known domestic and foreign suppliers (CS TEK, Oracle, Microsoft, SAP, HP, Cisco, EMC, VMware, Riverbed, Nortel, Dell, RedHat, Novell, NetIQ) allows to build the information system flexibly and efficiently for handling the Bank business tasks.

Furthermore, the transition to industrial solutions is a top priority task, and with this view the Bank shifts to the use of centralized B2 Core Banking system developed by CIEC TEK company (the city of Kharkov).

In 2018, the base functionality of the iFOBS industrial system for remote customer servicing replacing the in-house Client-Bank system was introduced, which allows to expand the range of services that a customer may request and receive without the need to visit the Bank office.

In 2018, in compliance with the new S.W.I.F.T. requirements regarding implementation of SWIFT Customer Security Framework Supplementary Guide – CSP) the fully updated software and engineering environment was successfully put into production operation, which considerably increase the security of currency payments through SWIFT system in the presence of the today's cyber threats.

The OpenWay DataMart processing system data storage was put into operation, which allows to receive various reports for taking managerial decisions.

The use of the Oracle BMP Suite platform enables the Bank to create and change efficiently the processes by reducing time for their commissioning.

Nature of business (external environment summary, where the Bank performs its activity, brief summary of the existing business model, core products and services).

External environment summary

Resumption of cooperation with the IMF, continuation of the budget consolidation policy and tight monetary policy pursued by the Government and the National Bank of Ukraine contributed to stabilization of macroeconomic situation in Ukraine. Furthermore, maintaining of relatively favorable foreign economic conditions and recovery of the domestic consumer and investment demand supported by household nominal income growth contributed to the general rehabilitation of the Ukrainian economy.

Source: The State Statistics Service of Ukraine

In accordance with data of The Sate Statistics Service of Ukraine, the real GDP growth in 2018 accelerated up to 3.3%. The stabilization of UAH exchange rate to main foreign currencies and increase of the NBU accounting rate, notwithstanding the growth of the administratively regulated prices and fee rates, contributed to decline in consumer inflation up to 9.8%.

Key macroeconomic indicators in 2017- 18

Indicators:	**As of December 31, 2017**	**As of December 31, 2018**
Real GDP, change in %	2.5	3.3
Consumer price index (CPI), change in % (*up to December of current year)*	13.7	9.8
Industrial output, change in %	0.4	1.6
Recorded unemployment, %	1.4	1.3
The NBU international reserves	18.8	20.8
Official exchange rate of Hryvnia to US dollar, UAH/USD	28.07	27.69

Source: The State Statistics Service of Ukraine

In 2018, the amount of Ukraine's favorable consolidated balance of payment grew up to USD 2.9 billion due to increase of revenues to financial account, including through expansion of cooperation with international financial institutions. Furthermore, favorable balance of the NBU exchange rate interventions in the Ukrainian Interbank Foreign Exchange Market amounted to USD 1.4 billion. Under such conditions, notwithstanding continuous growth of unfavorable balance of foreign trade with goods and services, according to results of 2018, the National Bank of Ukraine succeeded to increase its international reserves up to USD 20.8 billion.

Balance of Payment of Ukraine in 2017-18, USD million

Accounts	**As of December 31, 2017**	**As of December 31, 2018**
A. Current account	-2 442	-4 510
B. Capital account	-4	37
C. Financial account	- 5 012	- 7 350
D. Overall balance (=A+B-C)	2 566	2 877

Source: The State Statistics Service of Ukraine

Against the background of ongoing high inflationary pressure the NBU increased the accounting rate four times in successions (from 14.5% to 18.0%) in 2018. According to the NBU data the monetary base grew by 9.2%, money supply by 5.7%.

Existing business model envisages:

- focusing on ongoing implementation of the programs together with IFIs under lending to the export-oriented enterprises;
- expanding the number of commercial banks to which financing is provided under the IFI programs;
- focusing on existing and attraction of new customers for servicing of their export-import transactions and for provision of consultation support;
- expansion of corporate customer base;
- retain retail customers with significant account balances.

According to the Principles of Sate Banking Sector Strategic Reforming designed by the Ministry of Finance of Ukraine and approved at the Government meeting options of the strategic directions of further development are envisaged for Ukreximbank:

Taking into account amendments to the Law of Ukraine *On Banks and Banking* a new composition of the Supervisory Council of JSC Ukreximbank will be appointed in the near future, which after taking a decision by the Cabinet of Ministers of Ukraine on the principal (strategic) directions of the state-owned bank activities will ensure the development and approval of a new strategy of the Ukreximbank development.

Core products and services

Core products and services of the banking institution are:

- loans
- deposits
- cash and settlement services
- payment card transactions
- securities transactions
- trade finance transactions
- factoring
- services provided using remote servicing systems (Client-Bank system, internet banking, mobile banking).

The goals of management and strategy of achievement of these goals (information about priority of actions for achievement of results, highlighting of activities in the area of research and development)

The Ukreximbank development strategy envisages achievement of targets in compliance with the principal (strategic) directions of the state-owned bank activity defined by the superior body and it is focused on increase of the state-owned bank market value in long-term perspective.

Ukreximbank will pay special attention to financing of export and export transactions of Ukrainian companies, whose financing by private commercial banks is limited.

In accordance with the updated Principles of State Banking Sector Reforming the Ukreximbank strategic goals are envisaged in the scenarios of its development. Depending on selection of one or another scenario Ukreximbank must achieve the following key indicators:

1. Return on equity (ROE) (12-15%)
2. Profit for the year (UAH 1.6-2.3 billion)

The Bank plans for 2022 stipulate the profit for the year earning in the amount not less than UAH 2.1 billion and maintenance of ROE at the level not less than 16.9%.

Highlighting of activities in the area of research and development

In August 2018, Ukreximbank implemented SD Secure Mastercard SecureCode payment transaction secure technology. Similar technology of Visa payment system – Verified by Visa was implemented by the Bank as far back as in 2014.

SD Secure Mastercard SecureCode technology is the system of additional security of payment of online purchase, which is realized by using special codes for the transaction confirmation. The payment by using Mastercard SecureCode is performed quickly and comfortably. In view that each code is unique and valid only for one purchase the Bank customer does not need keep in mind combinations of numbers or keep the previously recorded codes, because they are automatically formed by the Bank. The payment will be authorized immediately after successful entry of the code. Thus, the efficient security of a payment card is provided against its unauthorized use in the Internet network by unauthorized persons.

The banking institution is shifted to the use of the centralized B2 Core Banking system, which will contribute to expanding the range of the Bank's realized services and reducing costs of banking transactions. In particular, the B2 Core Banking system operation will enable the Bank to optimize significantly the implementation process of the cash and settlement services, lending, international settlements, guarantee transactions, financing operations and many others. The powerful analytical module available in the system will serve as a reliable base for the Bank business analysis.

The system is designed for complex automation of the banking business and it is a full-fledged instrument for doing the banking business and allows to automate operation of the wide range of the Bank business processes and financial instruments.

Advantages of the bank automation by using B2 Core Banking system:

- product-oriented architecture. The operation with the maximum number of banking products was automated in this system compared with other Ukrainian made Core Banking systems.
- high level of automation of front-office and back-office operations and well as the operations of treasury and intrabank accounting with the wide range of operation modes.
- automation of the NBU reports generation. Flexibility, high versatility of the system and qualitative maintenance allows the Bank to respond promptly to often–changing NBU reporting requirements.
- availability of analytical sub-system allows to receive current and projection data of the Bank activity and other types of analytical information pursuant to requirements of both the Ukrainian and western banks (gap-analysis, etc).
- administration sub-system allows flexibly adjust the users' access rights to information as well as to control the administrator actions.
- B2 Core Banking system is a scalable one and efficiently functions both in small and in large banks, and maintains dynamic growth of processing information volumes without replacement of the system itself and significant changes in its adjustment.
- the system functions reliably in the heavy load mode, and its failure-reliability is maintained by sophisticated tools.
- the system is created on the base of the industrial DBMS manufactured by Oracle, which a leader in the market of date bases and software made for corporate systems.

Key financial and nonfinancial recourses, use thereof for achievement of goals (equitystructure, financial mechanism and cash flows)

In 2018, in order to achieve the target goals as to continuation of the joint with IFIs programs implementation intended for financing of the export-oriented enterprises and attraction of the new customers for servicing their export and import transactions, the Bank successfully put a number of measures in effect.

The impeccable reputation of JSC Ukreximbank as a reliable partner and borrower in the international capital markets together with its status of the state-owned bank enables the Bank to raise the long-term borrowings in the international markets.

Thus, Ukreximbank was the first Ukrainian bank, which entered the international capital markets after crises of 2014-2015, and it was a sole bank in Ukraine in 2018 that issued Eurobonds in the national currency in the amount of UAH 4.1 billion.

It is worth separate mentioning of additional borrowings in the amount of USD 88.6 million under

Joint with European Investment Bank Project on Support of the Deep and comprehensive Free Trade Area with Ukraine (Ukraine DCFTA Support Facility) for small-and medium-sized enterprises.

UAH, thousand

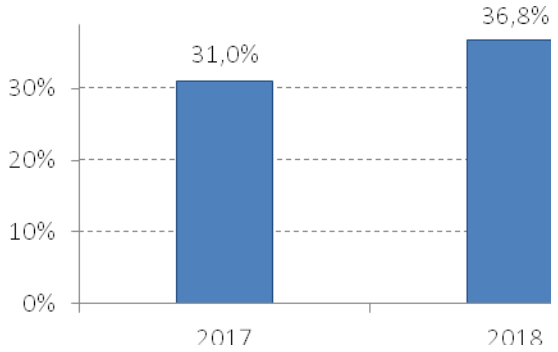
Liabilities	As at 31 December 2017	As at 31 December 2018	Dynamics Absolute value	%	Structure, % 2017	2018
Amounts due to credit institutions	23,283,787	24,405,913	1,122,126	5%	15%	16%
Amounts due to customers	90,501,500	82,163,124	(8,338,376)	-9%	58%	54%
Eurobonds issued	38,821,831	42,541,905	3,720,074	10%	25%	28%
Subordinated debt	3,615,792	3,584,690	(31,102)	-1%	2%	2%
Provision for credit-related commitments	6,168	72,625	66,457	-	0%	0%
Other liabilities	324,948	423,623	98,675	30%	0%	0%
Total liabilities	**156,554,026**	**153,191,880**	**(3,362,146)**	**-2%**	**100%**	**100%**

In its turn, the borrowed funds were channeled by the Bank for financing real sector of economy of Ukraine, for provision of long-term loans to enterprises of fuel and energy complex, machine building, transport, chemical industry, agriculture and other sectors on the most favorable terms and conditions for the borrowers, the IFI programs implementation, support of exporters and energy efficiency enhancement of domestic enterprises.

Besides, one of the Bank strategic goals was further diversification of income sources being reflected in the growth of net non-interest income share in the structure of the net operating income, which continues to demonstrate growth dynamics during the third successive year.

Thus, as per 2018 results this share was 36.8%, by +6 percent points more than level of 2017, and absolute growth of non-interest income was + UAH 41.4 million.

Share of non-interest income in the operating income structure

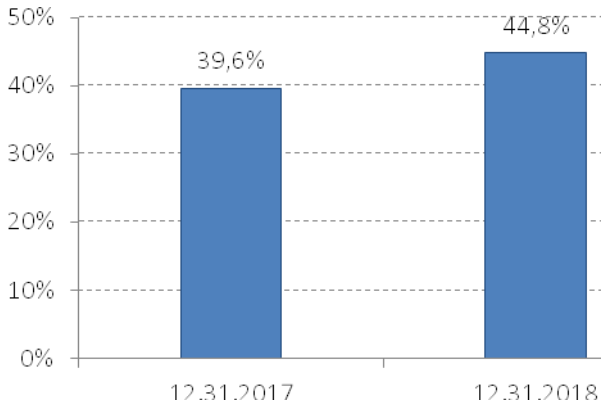


The growth of the Bank commission income was provided through efficient efforts aimed at expansion of the range of services, retail banking, easiness of access to services and facilitation of obtaining thereof, and as a result these efforts enabled not only to attract new customers, but also increase the volume of operations with the existing customers, namely: cash and settlement, foreign currency exchange and trade finance transactions.

Financing of the real sector of the Ukrainian economy continues to be a top priority task for JSC Ukreximbank, thus at year end of 2018 the share of the loan portfolio in the assets structure was 45% , +5 percent points growth from the year start.

Gradual renewal of lending allowed the Bank in increase the loan portfolio by implementing the strategy of re-orientation from investments in securities to investments in the real sector of economy, which is the Bank contribution to the stability of the country economy growth.

Share of the loan portfolio in the total structure of assets



The Bank capital is mainly formed from the statutory capital, which amounts UAH 38.73 billion as of 31.12.2018.

UAH, thousand

Equity structure of the Bank	As at 31 December 2018	As at 31 December 2017
Equity		
Share capital	38,730,042	38,730,042
Revaluation reserves	(816,406)	282,951
Result from transactions with the shareholder	635,104	635,104
Accumulated deficit	(30,260,073)	(25,747,076)
Reserve and other funds	162,926	162,926
Total equity	**8,451,593**	**14,063,947**

Liquidity

In the course of its business activity JSC Ukreximbank strictly complies with the NBU established liquidity ratios (H2, H5, H6 and LCR), reserve requirements, and also carries out the balanced policy as to the assets and liabilities management taking into account the Bank strategic goals and directions of its development through diversification of the respective portfolios by sources of their origination and maturities in main currencies (UAH, USD, and EURO).

With the consideration of needs in liquidity the Bank forms the resource base from the following sources: amounts due to customers in the internal market, borrowings made in the international markets: both as earmarked funds and general purpose funds (Eurobonds, direct loans provided by foreign banks and international financial institutions, etc.). The temporary excessive liquidity is invested in certificates of deposit, state bonds and interbank credits.

Performance results and prospects of further development (financial and nonfinancial indicators, which allow to understand the primary trends and factors that have an impact on business, the Bank performance results, connection thereof with the management goals and strategies for achievement of these goals, analysis of considerable changes in financial conditions, liquidity and performance results, reasons for changes in indicators within the reporting period and intention of the Bank strategy implementation in long-term perspective).

The reporting financial year was a logical result of the Bank's consistent, balanced and prudent policy in terms of the assets growth and full and timely reflection of risks related to the borrowers' financial conditions deterioration due to the 2014-2015 crisis.

Totally the profit for the years per the results of 2018 was UAH 805 million, which was the maximum amount of the profit for the year in the Bank history.

Top financial results achieved for the second consecutive year confirm that the Bank gets back on track of recovery and stable development.

In 2018, Ukreximbank maintained the balanced structure of asset-side transactions for efficient performance of customer transactions and financing of real sector of economy, and in this case the Bank liquidity level was sufficient for the timely fulfillment of its obligations in full.

Key indicators of JSC Ukreximbank performance

UAH, thousand

Indicators	As at 31 December 2017	As at 31 December 2018	Growth rates, %	Market share as of 31.12.2018*	Market position as of 31.12.2018*
Assets	170,617,973	161,643,473	-5.3%	11.89%	3
Loans to customers	67,607,544	72,496,358	7.2%	12.31%	1
Liabilities	156,554,026	153,191,880	-2.1%	12.71%	3
Amounts due to customers	90,501,500	82,163,124	-9.2%	8.32%	3
Equity	14,063,947	8,451,593	-39.9%	5.49%	4
Profit for the year	765,495	804,831	5.1%	-	-

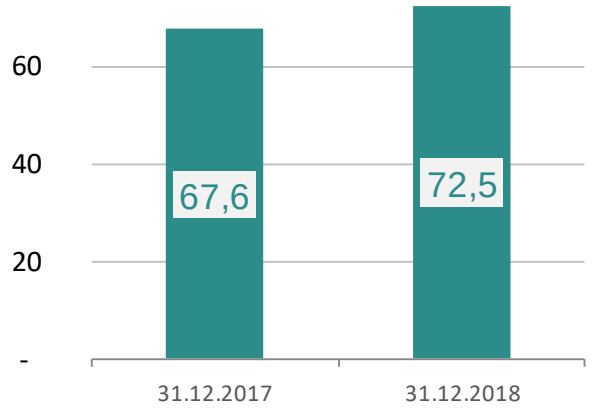
**among solvent banks.*

** Ukreximbank as per data of annual separate financial statement; preliminary estimates (prior to annual adjustments) obtained from the NBU site*

In the reporting year Ukreximbank continued to implement efficiently the state programs intended to boost the Ukrainian economy development and also took part in fulfillment of export development, energy efficient, energy saving, Ukrainian enterprises modernization programs joint with international financial institutions.

In the course of lending the Bank carried out prudential and reasonable policy: asset-side transactions were performed concurrently with the increase of efforts intended to minimized credit risks, improve the quality of services provided while lending to customers, maintain adequate yield from lending activities.

Loans to customers, UAH billion

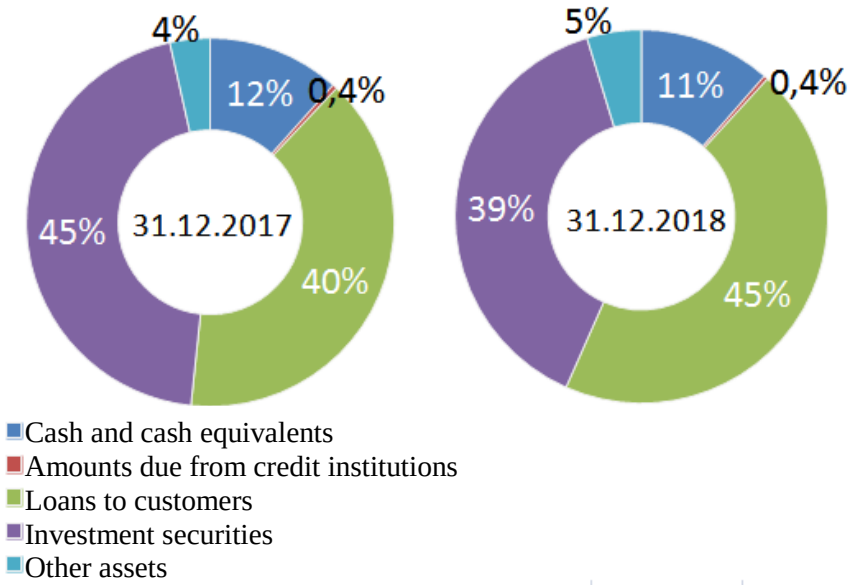


In 2018, the amount of the extended loans grew by + UAH 4.9 billion compared to the previous year (or by +7.2%).

Growth of asset-side transactions and optimization of the assets structure, efficient activity aimed at creation of the funding base of reasonable cost both in internal and international markets, customers' base growth and range of services expansion were key factors of generation by the Bank of net operating income in 2018.

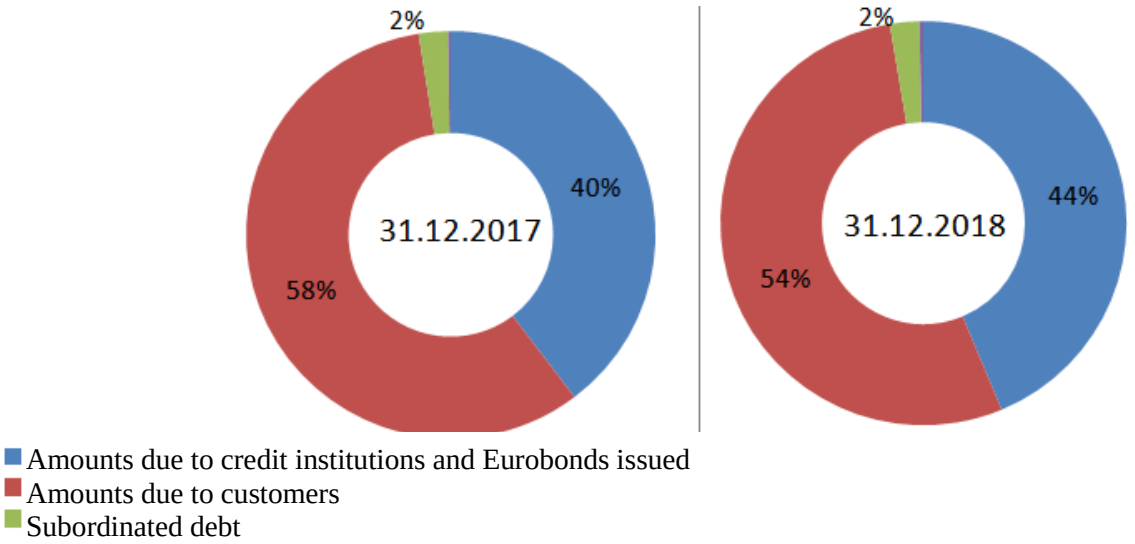
In the existing market conditions Ukreximbank also used the investments in the state bonds as the most effective market instrument from viewpoint of the cost-to-risk ratio.

Major changes in the assets structure



The most significant item in the Bank's liabilities is amounts due to customers, which are 54% as of 31.12.2018.

Major changes in the Bank's liabilities, UAH billions.



The Bank has increased the volume of amounts due to credit institutions and Eurobonds issued increased by UAH 4.8 billion or by 7.8%.

In the reporting period, the customer and investor confidence in Ukreximbank remained at a consistently high level, which made it possible to retain key resource-generating customers and ensure the stability of the resource base.

Prospects for further development

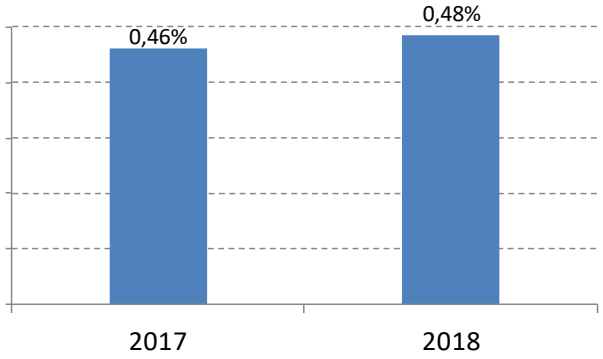
After determination by the Cabinet of Ministers of Ukraine of the main (strategic) activity areas of the state bank, the renewed Supervisory Council of Ukreximbank will ensure the development and approval of a new strategy for the development of the Bank, which will provide its market value increase in the long-term perspective.

Key performance indicators (performance indicators used by the management to assess the performance of the Bank in accordance with the established objectives, analysis of significant changes in the financial condition, liquidity and performance results compared with the target indicators, their changes during the reporting period);

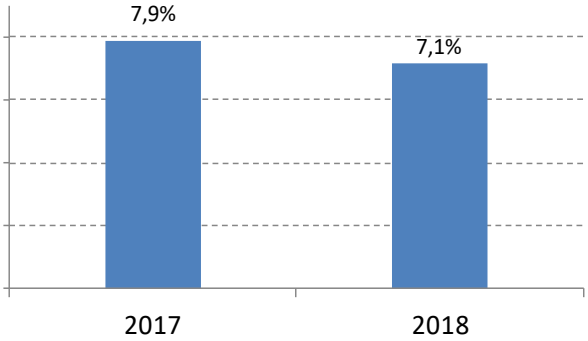
The main performance results of the Bank are:

- According to the results of 2018, the return on the Bank's assets slightly improved to 0.5% y-o-y.

Return on average assets



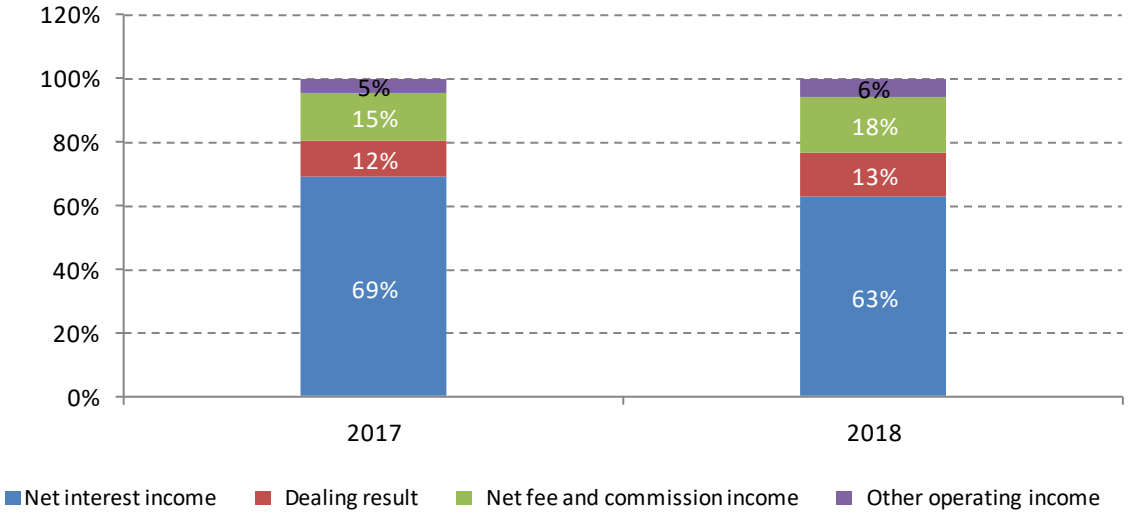
Return on average equity



- Return on equity for the second consecutive year is more than 7%.

Changes in return on assets and return on equity are reflection of the changes that have taken place in the Bank for the past 5 years and confirms the effectiveness of the chosen direction of development.

Components of operating income



In general, interest-bearing operations prevail in the structure of the Bank operating income, and accounted for 63% in 2018. At the same time, their share is gradually decreasing, and share of commission income and dealing income of the Bank is increasing. The share of net commission income increased up to 18%, or by 3 pp. compared to 2017. In 2018, Ukreximbank transferred dividends in the amount of UAH 588 million to the State Budget of Ukraine.

Key performance indicators

UAH, thousand

Performance indicators	As at 31 December 2017	As at 31 December 2018	Changes abs.	Changes %	Structure, % 2017	Structure, % 2018
Net interest income	**2,821,993**	**2,247,741**	**(574,252)**	**-20%**	**69%**	**63%**
Interest income	**12,335,686**	**12,089,114**	**(246,572)**	**-2%**	**100%**	**100%**
Loans to customers	6,908,278	7,789,950	881,672	13%	56%	64%
Investment securities	5,141,083	4,132,600	(1,008,483)	-20%	42%	34%
Amounts due from credit institutions	286,325	166,564	(119,761)	-42%	2%	1%
Interest expense	**(9,513,693)**	**(9,841,373)**	**(327,680)**	**3%**	**100%**	**100%**
Amounts due to customers	(4,389,571)	(3,837,274)	552,297	-13%	46%	39%
Eurobonds issued	(3,534,286)	(4,184,372)	(650,086)	18%	37%	43%
Amounts due to credit institutions	(1,307,382)	(1,503,708)	(196,326)	15%	14%	15%
Subordinated debt	(282,454)	(316,019)	(33,565)	12%	3%	3%
Non-interest income	**1,269,816**	**1,311,169**	**41,353**	**3%**	**31%**	**37%**
Net commission income	**606,363**	**627,473**	**21,110**	**3%**	**15%**	**18%**
Commission income	939,543	997,821	58,278	6%		
Commission expense	(333,180)	(370,348)	(37,168)	11%		
Dealing results	**476,475**	**478,238**	**1,763**	**0%**	**12%**	**13%**
Other income	**186,978**	**205,458**	**18,480**	**10%**	**5%**	**6%**
Net operating income	**4,091,809**	**3,558,910**	**(532,899)**	**-13%**	**100%**	**100%**
Operating expenses	**(1,681,192)**	**(2,149,719)**	**(468,527)**	**28%**		
Personnel expenses	(949,529)	(1,334,023)	(384,494)	40%		
Other operating expenses	(630,895)	(715,177)	(84,282)	13%		
Depreciation and amortisation	(100,768)	(100,519)	249	0%		
Operating profit	**2,410,617**	**1,409,191**	**(1,001,426)**	**-42%**	**-**	**-**
Revaluation	**(797,524)**	**(952,223)**	**(154,699)**	**19%**		
Costs of provisioning and assets modification	**(666,076)**	**452,999**	**1,119,075**	**-**		
Profit before tax	**947,017**	**909,967**	**(37,050)**	**-4%**		
Income tax expense	**(181,522)**	**(105,136)**				
Profit for the year	**765,495**	**804,831**	**39,336**	**5%**		

Information on entering into derivatives or derivative securities deeds by the issuer

The Bank did not make transactions with foreign currency derivatives, as well as transactions in foreign currencies with other derivative financial instruments, if their underlying assets are foreign exchange assets, forex rates, interest rates, indices.

Corporate Governance Report (according to the Law of Ukraine On Securities and the Stock Market):

1) Make reference to:

a) own code of corporate governance, governing the issuer.

It was not approved by the Supervisory Council of the Bank.

b) the code of corporate governance of the stock exchange, the association of legal entities or other code of corporate governance, that the issuer decided to apply:

JSC Ukreximbank does not apply the Code of Corporate Governance of the Stock Exchange, the association of legal entities, or other code of corporate governance.

c) all relevant information on corporate governance practices applied beyond the requirements of the law

It was not used.

2) If the issuer fails to meet the provisions of the corporate governance code specified in the second or third paragraph of point 1 of this part, please specify which parts of the corporate governance code the issuer fails to meet and the reasons for such failure. If the issuer decided not to apply certain provisions of the corporate governance code specified in the second or third paragraph of point 1 of this part, explain the reasons for such actions;

No failure.

3) Information about the general meeting of shareholders (participants)

According to Article 7 of the Law of Ukraine On Banks and Banking Activities, a Supreme Body of the state bank is a Supervisory Council. The General Meeting of Shareholders in the state bank is not held.

4) Information about the Supervisory Council and executive body of the issuer

Information about the Supervisory Council

Composition of the Supervisory Council (if any)

	Number of persons
Members of the Supervisory Council- shareholders	0
Members of the Supervisory Council- shareholder representatives	9
Members of the Supervisory Council-independent directors	0

Committees in the Supervisory Council

	Yes*	**No***
Audit committee		X
Job appointment committee		X
Awarding committee		X
Others (specify)		

"X" is put in appropriate boxes.

In case of evaluating the activities of committees, the information on their competence and effectiveness, as well as information on the quantity of meetings and name of the committees of the Supervisory Council, which held such meetings should be provided _____

Members of the Supervisory Council

Full name	Position	Independent member	
		Yes*	No*
Roman HREBA	Head of the Supervisory Council Member		X
Artem SHEVALIOV	Deputy Head of the Supervisory Council Member		X
Viacheslav VOLOSHYN	Member of the Supervisory Council		X
Oleh PARAKUDA	Member of the Supervisory Council		X
Oleh BATIUK	Member of the Supervisory Council		X
Serhii BALCHENKO	Member of the Supervisory Council		X
Tamara SMOVZHENKO	Member of the Supervisory Council		X
Vitalii DENYSENKO	Member of the Supervisory Council		X
Oleksii PEREVEZENTSEV	Member of the Supervisory Council		X

"X" is put in appropriate boxes.

Which of the requirements for the members of the Supervisory Council are set out in the internal documents of the joint stock company?

	Yes*	No*
Industry knowledge and industry experience	X	
Finance and management knowledge	X	
Personal characteristics (honesty, responsibility)		X
No conflict of interest	X	
Age limit		X
No requirements		X
Others (specify)		

"X" is put in appropriate boxes.

When was the last time of electing a new member of the Supervisory Council? How did he get acquainted with his rights and duties?

	Yes*	No*
The new member of the Supervisory Council got acquainted with internal documents of the joint stock company	X	
A meeting of the Supervisory Council was held at which the new member of the Supervisory Council was acquainted with his rights and duties		X
Special training was organized for the new member of the Supervisory Council (corporate governance or financial management training)		X
All members of the Supervisory Council were re-elected for the next term or no new members were elected.		X
Others (specify)		

"X" is put in appropriate boxes.

Have meetings of the Supervisory Council been held? Provide general description of the decisions taken at the meeting.

In 2018, 3 (three) meetings of the Supervisory Council were held by polling at which the following issues were considered:

1. Review of the report *Audit of the financial monitoring at JSC Ukreximbank dated 02.10.2017. Report for the Supervisory Council.*

2. Approval of the audit plan for 2018.

3. Approval of amendments to the terms and conditions of the audit service agreement entered into with Ernst & Young Audit Company, and the establishment of the amount of payment for audit services.

4. Determination by the audit firm for the external audit of the financial statements of JSC Ukreximbank for 2018, prepared in accordance with the requirements of the law of Ukraine, Ernst & Young Audit Services Limited Liability Company, approval of the terms and conditions of the agreement to be entered into with it and the establishment of the amount of payment for services.

5. Delegation of the powers of the Ukreximbank Supervisory Council to the Board of JSC Ukreximbank to ensure fulfillment of Ukreximbank's liabilities under loans received from refinancing operations.

How is the remuneration of members of the Supervisory Council determined?

	Yes*	**No***
Remuneration is a fixed amount		X
Remuneration is a percentage of net profit or an increase in the market value of shares		X
Remuneration is paid in the form of securities of the company		X
Supervisory Council members do not receive remuneration	X	
Others (specify)		

"X" is put in appropriate boxes.

Information on the functions of the Supervisory Council of JSC Ukreximbank:

The Supervisory Council of JSC Ukreximbank is a supreme governing body of the Bank, which controls the operation of the Bank Board for safekeeping of amounts due to customers, ensuring their repayment to depositors and protecting the interests of the state as a shareholder of the state bank, and also performs other functions specified in the Law of Ukraine On Banks and Banking.

The Supervisory Council of the Bank is aware of its role, task and fulfills the goals set under the approved development strategy and the powers determined by the Statute and internal regulations of JSC Ukreximbank.

The procedural issues of the Bank Supervisory Council are regulated by the Statute of JSC Ukreximbank and the Regulations on the Supervisory Council of JSC Ukreximbank.

Meetings of the Bank Supervisory Council are held at least once a quarter. Plans of regular meetings of the Bank Supervisory Council are approved by the decision of the Supervisory Council for each calendar year.

Out of plan meetings are called extraordinary meetings. Extraordinary meetings of the Supervisory Council are convened in the same manner as the regular meetings of the Supervisory Council.

The Supervisory Council meeting is chaired by the Chairman of the Supervisory Council or the Deputy Chairman of the Supervisory Council, according to the division of responsibilities approved by the Chairman of the Supervisory Council.

The agenda of the Supervisory Council meeting is approved by the Chairman of the Supervisory Council (the Deputy Chairman acting as the Chairman of the Supervisory Council). In case of convening an extraordinary meeting of the Bank Supervisory Council on the initiative of the members of the Supervisory Council, the Board, the agenda of the meeting of the Bank Supervisory Council is approved by the Chairman of the Bank Supervisory Council (the Deputy Chairman acting as the Chairman of the Supervisory Council) or by an ordinary majority of (eight) members of the Supervisory Council.

Extraordinary meetings of the Supervisory Council of the bank shall be convened by the Chairman of the Supervisory Council or by the initiative of a simple majority of (eight) members of the Supervisory Council, upon submission of the Board of the Bank.

Information about the executive body

According to the Statute of JSC Ukreximbank the permanent body of the Bank is the Board consisting of at least eight persons who manage operational (current) activities of the Bank and are responsible for the efficiency of the Bank operation, the execution of its statutory tasks, and the requirements of the applicable law.

The Board consists of the Chairman of the Board, the Deputy Chairman of the Board and other members of the Board.

In 2018, 60 meetings of the Board were held. Meetings took place in the presence of a quorum determined in accordance with the Statute (at least two thirds of actually appointed members of the Board).

The Board considered the issues, which are within its competence, in accordance with the Bank Statute. The main issues considered by the Board were:

- preparation and submission to the Supervisory Council of issues, which are subject to consideration and addressing by the Supervisory Council in accordance with the applicable law and the Bank Statute: review of annual financial statements/consolidated annual financial statements, together with an external audit report, business plan of the Bank development;
- approval of the key risk limits, the issues regarding the results of risk stress-testing, consideration of credit risk management reports based on the quarter results;
- approval of the most important rules, procedures, internal regulations;
- definition and approval of the organizational structure of the Bank;
- consent for the appointment of Heads of divisions of the Head Office, branches;
- approval of the decisions taken by the Credit Committee, the Retail Business Committee and the Asset Management Committee;
- other issues, consideration of which is in the Board competence according to the Bank Statute.

Decision making procedure.

The Board meetings are held as frequently as required, but at least once a month. The Chairman of the Board holds extraordinary meetings, if necessary.

The Board has the right to make decisions if least two thirds of actually appointed members of the Board are present at the meeting of the Board.

The decisions of the Board shall be taken by an ordinary majority of votes of the Board members participating at the Board meeting. In case of equal distribution of votes, the vote of the person chairing the meeting of the Board is decisive.

Analysis of the Board activity

Ensuring reliable and stable operation of the Bank and customer-oriented approach became priority goals of the Ukreximbank Board in the reporting year.

Evaluation of the Board activity

The quantitative composition of the Ukreximbank Board corresponds to the needs of the Bank, the total skills and experience of the Board members are optimal for the proper work of the Board.

The Chairman and members of the Board have professional experience, knowledge and competence necessary for efficient work of the Ukreximbank Board.

The Ukreximbank Board is aware of its role, task, and fulfills its goals within the framework of the approved development strategy and powers determined by the Bank Statute and internal regulations.

Members of the Executive body	Functional responsibilities
Oleksandr HRYTSENKO Chairman of the Board	Manages the operation of the Bank, organizes and coordinates the work of the Bank Board, directs it to the implementation the Bank Development Concept and the Bank current policy, manages the development and implementation of the Bank policy in the domestic and international forex markets, and directs and coordinates the activities of the Board members.
Oleg BELINSKYI Deputy Chairman of the Board, Member of the Board	Responsible for organization of the Bank operating activity, development of a business processes system for banking operations, development and implementation of fees and commissions management system of the Bank, development of a non-state corporate pension fund of JSC Ukreximbank, coordinates development, implementation and use of information technologies.
Volodymyr KOTOV Deputy Chairman of the Board, Member of the Board	Responsible for organization of work related to the security of the Bank (its physical protection, bank and commercial confidentiality, information security), collection of bad debts, pledged property disposal.
Svitlana MONASTYRSKA Member of the Board — Deputy Chairman of the Board	Responsible for development and implementation of the Bank development strategy for retail business, development and implementation of a unified external and internal communication policy, regional strategy, comprehensive development of the Bank network.
Serhii MYSKIV Member of the Board — Deputy Chairman of the Board	Responsible for organization of legal support of banking and current business activities of the Bank; ensures the protection of the Bank rights at courts; monitors compliance with the current law by all divisions of the Head Office and branches of the Bank
Olga ALIEKSIEIEVA Member of the Board	Responsible for the Bank compliance with accounting and tax policy, external audit, cooperation with the National Bank of Ukraine, logistic and management support, fire safety, civil defense of the Bank; carries out control of expenses related to construction, reconstruction, repair and maintenance of buildings and premises of the Head Office and branches of the Bank.
Viktoriia RUDA Member of the Board	Responsible for development and implementation of the Bank development strategy in terms of corporate business and SME business; organization of the current planning and implementation of measures for the corporate business and SME business development, providing the sale of products and services to corporate business and small and medium businesses, development and upgrading of bank products and sales channels for corporate business, small and medium-sized businesses.
Oleksandr SOKOLOV Member of the Board	Responsible for the internal financial monitoring system of the Bank, and currency control over forex transactions of the Bank.
Oleksandr SHCHUR Member of the Board	Responsible for the implementation of external loan agreements, development and implementation of the development strategy for the representative offices of the Bank, development and implementation of the Bank policy in the domestic and foreign currency and credit markets, coordinates the work of the Bank with foreign and Ukrainian correspondent banks.

5) Description of the internal control and risk management systems

Internal control system of JSC Ukreximbank

The internal control system of JSC Ukreximbank is developed and used in order to ensure the efficiency of transactions, provide sustainable, consistent and safety operation of the Bank, improve the bank transaction process, monitoring procedures and protect the interests of the founder, depositors and creditors of the Bank, ensure the efficiency of assets and liabilities management, risk management, ensure complete, timely and reliable accounting and providing of financial, statistical, managerial, tax and other reporting, fraud prevention, compliance, control over the internal control system efficiency.

- The Bank ensures the functioning of the internal control system through:
  - control over the compliance with the current law of Ukraine and internal regulations of the Bank by all employees of the Bank;
  - distribution of responsibilities;
  - control over the risk management system;
  - control over information security and information exchange;
  - implementation of internal control procedures;
  - internal control system monitoring;
  - implementation of internal audit procedures.

The internal control system covers all monitoring procedures at the Bank, operates constantly and at all levels.

A management information system and internal control and risk management reporting system are in place at the Bank. Employees of the Bank generate information to be used in the internal control system, or take other actions necessary for the control. The principles of the internal control system are:

- Efficiency and effectiveness means organization of a continuous internal control, integrated into the current activities of the Bank and understandable at all levels of the Bank employees.
- Distribution of responsibilities means avoidance of a situation where one person fully controls the function or type of activity of the Bank (separating the control function from the operations of the Bank).
- Integrity means coverage of all types of activities of the Bank and all its branches at all organizational levels.
- Timeliness means that the internal control system makes it possible to get information on the risk of loss before such losses are incurred, in order to prevent such bank losses and use appropriate adequate response measures.
- Independence means separating the functions of assessment of the internal control system efficiency and the functions of organization and implementation of the internal control system.
- Confidentiality means prevention of information disclosure to persons unauthorized to receive such information.

In accordance with the procedures introduced at the Bank, objects of the internal control system in relation to its main subjects are:

- For the Supervisory Council of the Bank – management reports of the Bank Board; annual profit and loss statement of the Bank; reports and proposals of the Internal Audit Division and Risk management Divisions of the Bank; other reports stipulated by the current law of Ukraine and internal regulations of the Bank. The Supervisory Council of the Bank ensures the operation of the internal control system and monitors its efficiency within its powers determined by the current law of Ukraine, the Bank Statute and internal regulations of the Bank.
- For the Board of the Bank – management reports of Planning and Analysis Division; financial, statistical and tax reporting; reports on the results of further audits of accounting control prepared by the Accounting and Reporting Division; management reports containing information about risks prepared by the Risk Management and Risk Management Methodology Division; management reports of the heads of divisions; management reports of managers and employees of the Bank involved in the internal control in accordance with their authorities, defined by internal regulations of the Bank; other reports stipulated by the current law of Ukraine and internal regulations of the Bank. The Board of the Bank is accountable to the Supervisory Council of the Bank. The Board of the Bank may delegate part of the functions of organizing the internal control system to the permanent authorized collegial bodies of the Bank. The Board of the Bank controls the performance of the functions delegated by it.
- For the Internal Audit Division – the activities of all subjects and objects involved in the organization of the internal control system of the Bank.
- For Chief Accountant and his deputies – banking accounting; processes of generation of financial, statistical and tax reporting.

- For risk management divisions of the Head Office – compliance with the limits of risk, limiting of risks (appetite limits, limiting of market (currency, interest rate) risks and liquidity risk), key risk indicators, risk evaluation results at both individual and portfolio levels, stress-testing results, management reports containing information about risks and risk management internal regulations.
- For the bank division involved in monitoring of the internal control system efficiency – the reports on the results of monitoring of the internal control system efficiency prepared by the Bank departments involved in the internal control system.
- For the Heads of the Bank departments and employees involved in internal control in accordance with the powers determined by the Bank internal regulations, decisions of the Bank management bodies and the authorized collegial bodies – the bank operations, conducted in the departments subordinated to them. The Heads of the departments ensure the further control over all operations of the department.

In addition, the Bank has internal control procedures that include:

- Control over the bank assets, including regular inventory, double control, limited access to the bank assets.
- Control over access to electronic banking systems, databases and software, including the development of procedures for the provision of appropriate permissions.
- Control over access to information that contains banking secrecy, which includes development of access granting policies and procedures.
- Control over the employees' authority to effect the Bank's transactions, which includes development of access granting policies and procedures.
- Reflection of the Bank's all transactions in the accounting records on the day when they are performed or on the following business day, if the transaction is performed when the Bank's business day (business hours) is over or on non-working days or holidays.
- The list of the Bank's steps (actions) to control preparation of accounting documents by the employees authorized to do that by the Bank's CEO or by another authorized officer of the Bank.
- Continuous monitoring and assessment of adequacy and efficiency of the internal control system.

The internal control over the functions of counteraction to legalization (laundering) of proceeds from crime and terrorism financing is carried out in accordance with the effective Law of Ukraine that governs the relations in prevention and counteraction to legalization (laundering) of proceeds from crime, terrorism financing, and financing of proliferation of weapons of mass destruction, including the regulations of the National Bank of Ukraine, and in accordance with the Bank's internal regulations that govern the Bank's financial monitoring.

JSC Ukreximbank's Risk Management System

JSC Ukreximbank deems creation of an efficient risk management system to be the cornerstone of the Bank's successful operation, achievement of strategic goals and plans under the present conditions, Bank's stability and avoiding unforeseen losses both for the Bank and the national banking sector in general in the future.

The Bank organizes and ensures the risk management system functioning in accordance y with the effective Law of Ukraine, including regulations, with consideration of the risk management recommendations of the Basel Committee on Banking Supervision, and the Bank's internal regulations and administrative documents.

The Bank's risk management system envisages continuous risk analysis in order to make timely and adequate managerial decisions on risk mitigation and reduction of related expenses.

The Bank's risk management system manages the following risks:

- credit risks;
- liquidity risks;
- market risks (interest rate and FX rate);
- operational risks.

The Bank's risk management function is performed by the following collective bodies: Supervisory Council, Management Board, Asset and Liability Management Committee (hereinafter ALMC), Credit Committee, Retail Business Committee, Workout Committee, other collective bodies of the Bank in accordance with their authorities.

The Bank's risk management system envisages that a number of effective risk management regulations of the Bank are in place, including the risk management strategy, risk management policy, credit risk limits, appetite limits, respective methodologies, models, rules, procedures, etc.

The risk management strategy determines the Bank's basic risk management principles that are detailed and elaborated in respective policies, methodologies, procedures, rules, instructions, and other internal regulations of the Bank. The risk management policy determines the Bank's risk management organization principles broken down by the Bank's risk types; the list of risks, assessment and main requirements to the Bank's risk management instruments (risk measurement instruments, risk minimization and control instruments).

The Bank's risk management regulatory documents are continuously reviewed and updated, including taking into account of changes in legislation.

To manage risks, the Bank carries out identification, assessment, continuous and quality analysis of risks, determination and establishment of acceptable risk level, risk estimations, assessment of capital value with account of risk assessment and/or estimation results, including with consideration of acceptability levels thereof broken by risk types, steps to mitigate / decrease the level of material risks and risk reporting (in particular, informing of the Supervisory Council, the Board of the Bank). To manage risks, the Bank uses respective instruments based on the nature of a respective risk type, its significance for the Bank, as well as with account of the current situation and macroeconomic indicators.

In order to determine and maintain the acceptable level of risks and minimize them, as well as to timely detect the inclination to this or that risk type, the Bank determines and establishes limits for each risk type. The limits are reviewed in case of changes of market conditions of the Bank's strategy, with consideration of proposals by business departments and/or risk management departments.

The Bank continuously monitors risks, indicators thereof, as well as of the actual steps to minimize risks, and efficiency thereof. In case of violation of risk limits/indicators and considerable increase of the risk level (maximum approach of actual risk indicators to set limits), the risk management departments inform the Bank's authorized collective bodies thereof.

In order to provide the estimated risk assessment, to determine the capacity to withstand the risks that the Bank encounters in its operations or that may occur in future, as well as to determine the Bank's capacity to withstand critical events on the financial market, the Bank carries out stress testing at least quarterly. Furthermore, in view of the dynamics of changes of certain types of assets and liabilities of the Bank, as well as the trends of changes in the economic and financial environments, the Bank may conduct an unscheduled stress testing (more frequently that quarterly).

Within the stress testing, the Bank carries out quantitative risk assessment: credit risk, market risk (FX rate and interest rate), and liquidity risk, and determines the impact thereof on the equity to determine the Bank's capacity to withstand the adverse events on the financial market. The stress testing results are communicated to ALMC, the Board of the Bank, and the Supervisory Council of the Bank.

The Bank's informational systems allow to register and store the necessary amount of initial data that allows to evaluate risks acceptability, to calculate risk indicators, statutory economic ratios, to determine the level of risks, to form reserves for the Bank's asset-side transactions, etc., and to promptly prepare reports.

The risk reporting system envisages timely notification of the Bank's management, including collective bodies, of the level of risks assumed by the Bank. The risk reporting system envisages preparation of a number of standard reports broken down by the risk types and submitting them for review to the Bank's management and/or authorized collective bodies of the Bank on a regular basis (daily, monthly, quarterly).

The managerial reports are submitted to the Supervisory Council of the Bank, the collective bodies of the Bank, and other users that use the information contained in managerial reports on risks to perform their functions.

Credit risk

In order to manage and mitigate credit risk, the Bank has established the credit policy, credit risk appetite limits, implemented a multilevel authorities system, established the criteria for selection of clients to perform credit transactions with, made a list of documents and information necessary to make decision on the Bank's borrowers, implemented the rating system, procedures/processes of loan extension, loan projects administration and monitoring, credit risk reporting system. The authorized collective bodies / the Bank's officers make decisions on credit transactions after the detailed analysis and comprehensive assessment of risks related to such transactions, in particular, risks inherent to clients' business[1], risks that may be encountered by a client as a result of being a member of a group, loan project risks, etc.

[1] The analysis of performance indicators is carried out over time for the recent periods and estimated indicators with consideration of the business plan, evaluation of its implementation with the impact of macroindicators and the industry

The credit division calculates the individual credit risk limit for transactions with a borrower/group, and the risk analysis department verifies and controls it within the preparation of a respective risk opinion. The individual risk limit for a borrower/group is calculated based on the financial reports data and with consideration of the business plan. If necessary, sublimits may be established as well (e.g. broken down by currencies, financed sectors, etc.). Limits and sublimits are approved by decisions of officers authorized to make credit decisions and are reviewed at least annually. The risk analysis department also verifies the risk group determined by the credit department and a borrower's rating, controls the quality of a borrower/group and loan project analysis performed by the credit department, and controls the quality and completeness of documents submitted by specialized divisions (including opinions) to analyze the credit risk. The credit risk analysis department also verifies and confirms the level of authorities to approve loans, within which the decision on establishing a risk limit / performance of credit transactions was made.

The credit decision is made by an authorized collective body/authorized officer in accordance with authorities granted (delegated) to them. The Bank follows the multilevel distribution of authorities limits as to decision-making regarding assumption of risks under credit transactions. The scope of delegated authorities (qualitative and quantitative parameters thereof) is determined based on the transactions risk level for the Bank and compliance with the credit risk appetite limits.

Authorities are distributed among the collective bodies and officers of the Bank through delegation (partial or full transfer) of authorities from the Board or through subdelegation of authorities from the collective body duly authorized by the Board to another collective body / officer.

The credit risk analysis division controls the adequacy of the level of decision-making authorities delegated to respective persons/collective bodies.

The credit administration department controls the compliance of the agreements entered into under credit transactions with the credit decision, including the risk limits per transaction. This department is also involved in monitoring and administration of credit transactions (in regard to compliance with all the terms and conditions of credit funds provision at the moment of extension thereof and post-control over fulfillment of obligations under the agreement on a periodic basis, including compliance with the established risk limit, timeliness and fullness of debt service payments, etc.).

The Bank also controls credit risk on the portfolio level by establishing respective limits, rules, methodologies, and models of credit risk assessment, reviews and updates them with account of the Bank's statistical data and macroeconomic factors.

Adequate credit risk assessment is performed monthly while determining the credit risk level in accordance with the requirements of the National Bank of Ukraine and creating reserves in accordance with the International Financial Reporting Standards; the assessment results are reviewed by the Bank's collective bodies that have respective authorities. The loan portfolio dynamics is analyzed from time to time; material changes and causes thereof are determined; credit risk reports are prepared and submitted for review to all the managerial chain levels, including the Supervisory Council of the Bank. E.g., reports on scopes and dynamics of the loan portfolio, level of credit risk and reserves, including the estimated ones, top concentrations, etc.

Liquidity risk

The Bank defines the liquidity risk as actual and potential risk that occurs due to the Bank's potential failure to timely fulfill its obligations without incurring unacceptable losses. In view of the trends on the interbank market of Ukraine – short-term financing in Hryvnias —some risks of short-term UAH liquidity are inherent in JSC Ukreximbank. However, the Bank has created a major liquidity cushion that includes, *inter alia*, the State Bonds. In view of the peculiarities of JSC Ukreximbank's business, the liquidity risk for key foreign currencies (USD, EUR) are minimized through attraction of funds from external markets, in particular, from International Financial Institutions.

Market risk

The Bank defines the market risk (interest rate, FX rate) as actual and potential risk that occurs due to adverse changes of market indicators such as foreign exchange rates or interest rates. JSC Ukreximbank minimizes the FX risk by closing the FX position to decrease potential losses from future exchange rates fluctuations. The interest rate risk is assessed based on how the market exchange rate changes impact the Bank's profitability indicators. In order to manage interest rate risks, the Bank assesses the impact of the market exchange rate changes broken down by assets and liabilities on the Bank's profitability indicators.

Operational risk

In order to create an effective operational risk management system at the Bank and to minimize the conflict of interest between risk assumption, limitation and control of the risk level, and the audit of the operational risk management system, the Bank's organizational structure is designed in accordance with the Three Lines of Defense model — segregation of responsibilities in the operational risk management process.

The first line of defense includes business divisions and support divisions of the Bank, which own all operational risks that occur within the spheres of their responsibility. The above divisions are responsible for detecting and assessing operational risks, taking managerial steps and reporting on such risks. The purpose of the first line of defense is risk management at the level of separate and stand-alone divisions that own and manage risks, including business units, as well as separate and stand-alone divisions that perform independent follow-up control (verification) within the processes and/or regarding transactions within the established limits.

The second line of defense is represented by the operational risk management division that carries out independent assessment of and control over the operational risk.

The third line of defense is represented by the Internal Audit Division that carries out independent assessment of the operational risk management system efficiency.

The Bank continuously works on improving the risk management system, including implementing/bringing in compliance with the Law of Ukraine, including regulations of the National Bank of Ukraine.

The Bank presently actively implements the requirements of the Regulation on Organization of the Risk Management System in Banks and Bank Groups of Ukraine approved by resolution of the Board of the National Bank of Ukraine No. 64 dared 11 June 2018 (hereinafter Regulation No. 64). With the purpose of effective functioning of the risk management system, in 2019–2020 The Bank will bring the risk management organizational structure, instruments and internal regulatory documents in compliance with the requirement of Regulation No. 64; formation, development, and support of the high culture of risk management in all fields of activity and at all organizational levels of the Bank, in particular through training of the Bank personnel for obtaining by them of new knowledge, skills and experience in the risk management field, correct and timely application of risk management instruments by the Bank employees, maintaining the high level of risk-communication regarding risk management at all operational levels, as well as for implementing the other requirements of Regulation No. 64.

All the steps taken and to be taken by the Bank in the upcoming years (2019–2020) in terms of implementation of the requirements of Regulation No. 64 are focused on increasing the risk management system efficiency and the Bank's capacity to withstand possible future disruptions and threats, as well as bringing the risk management system in compliance with the recommendations of Basel Committee on Banking Supervision regarding risk management.

Did your joint stock company establish a audit commission or create an auditor position? (yes, a audit commission was established / yes, an auditor position was created / no) **No**.

If a audit commission was established:

Number of audit commission members: **0**;

On average, how many times a year did the audit commission hold meetings in the last three years? **No audit commission was constituted**

*Under the statute of your joint stock company, what body (general shareholders meeting, supervisory council or an executive body) is authorized to address each if the following matters?**

	General shareholders meeting	**Supervisory council**	**Executive body**	**Is not within the authority of any body**
Determination of the main business directions (strategies)	No	Yes	No	No
Approval of business plans	No	No	Yes	No
Approval of the annual financial report, or the balance sheet, or the budget	No	Yes	No	No
Election and dismissal of the head and the members of the executive body	No	Yes	No	No
Election and dismissal of the head and the members of the supervisory council	No	No	No	Yes
Election and dismissal of the head and the members of the audit commission	No	Yes	No	No
Determination of the amount of remuneration for the head and the members of the executive body	No	Yes	No	No
Determination of the amount of remuneration for the head and the members of the supervisory council	No	No	No	No
Making decisions on material accountability of the executive body members	No	Yes	No	No
Making decisions on additional shares issue	No	No	No	Yes
Making decisions on redemption, sale and offering of own shares	No	No	No	Yes
Approval of an external auditor	No	Yes	No	No
Approval of agreements that are subject to conflict of interests	No	No	No	No

* put "yes" or "no" in respective boxes.

Does the joint stock company statute contain the provision that limits the authorities of an executive body regarding decisions on entering into agreements taking in account the amounts thereof on behalf of the joint stock company? (yes/no) **Yes**

Does the joint stock company statute or internal documents contain the provision on the conflict of interests, i.e. conflict between the personal interests of an officer or his/her related persons and his/her obligation to serve the interests of the joint stock company? (yes/no) **No**

What documents are envisaged at your joint stock company?

	Yes*	**No***
Regulation on general shareholders meeting		X
Regulation on the supervisory council	X	
Regulation on the executive body	X	
Regulation on the joint stock company officers		X
Regulation on the audit commission (or auditor)	X	
Regulation on joint stock company shares		X
Regulation on the profit distribution procedure		X
Other (specify)		

* put "X" in respective boxes.

*How do shareholders receive information on your joint stock company's activity?**

information on the joint stock company's activity	Information is disclosed at the general meeting	Information is disclosed in the public information database of the National Securities and Stock Market Commission regarding the securities market, or of through the person that discloses the regulated information on behalf of the stock market participants	Documents are provided at the joint stock company	Document copies are provided upon a shareholder's requires	Information is posted on the joint stock company's website
Financial reports, performance results	No	Yes	No	Yes	Yes
Information on shareholders holding 10 or more percent of share capital	No	Yes	No	Yes	Yes
Information on members of management bodies of the company	No	Yes	No	Yes	Yes
Statute and internal documents	No	No	No	Yes	Yes
Minutes of general shareholders meetings after they are held	No	No	No	No	No
Amount of remuneration of joint stock company's officers	No	No	Yes	Yes	No

* put "yes" or "no" in respective boxes.

Does the joint stock company prepare financial reports in accordance with the International Financial Reporting Standards (yes/no) **Yes**

On average, how many times a year was the joint stock company audited by an independent auditor (audit firm) during the reporting period?

	Yes*	No*
None		X
Rarer than annually		X
Annually		X
More frequently than annually	X	

* put "X" in respective boxes.

What body made the decisions on approval of an independent auditor (audit firms)?

	Yes*	No*
General shareholders meetings		X
Supervisory council	X	
Executive body		X
Other (specify)	-	

* put "X" in respective boxes.

Upon initiative of which body the audit commission (auditor) conducted the latest inspection?

	Yes*	No*
Upon own initiative		X
At the instruction of the general meeting		X
At the instruction of the supervisory council		X
At the petition of the executive body		X
At the request of the shareholders holding more than 10 percent of voting rights		X
Other (specify)	On 23 April 2018, the authorities of the head and the members of the Audit Commission of JSC Ukreximbank were terminated due to termination of the term of office, as determined in p. 2.5 of the Regulation on the Audit Commission of Joint Stock Company the State Export-import Bank of Ukraine, approved by the resolution of the Supervisory Council of JSC Ukreximbank. As of the reporting date, the Supervisory Council of JSC Ukreximbank has not made a decision on appointment of the audit commission members.	

* put "X" in respective boxes.

6) List of persons that directly or indirectly hold a significant stock of the issuer's shares

No.	Full name of the legal entity holder (holders) of name, surname, patronymic (if any) of the individual holder (holders) of a significant stock of shares	Identification code according to the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Organizations (for resident legal entities), code/number from the trade, banking or court register, legal entity registration certificate from a local authority of a foreign country (for non-resident legal entities)	Shareholder's (owner's) share (percent of the sharey capital)
1.	The State represented by the Cabinet of Ministers of Ukraine	-	100%

7) Information on any restrictions of the shareholders' (participants') participation rights and voting rights at the general meeting of the issuer

Total number of shares	Number of restricted shares	Grounds of restrictions	Date of restriction imposition
-	-	-	-

According to article 7 of the Law of Ukraine On Banks and Banking, the supreme governing body of a state-owned bank is the Supervisory Council. The general shareholders meetings are not held at a state-owned bank.

8) Procedure of appointment and dismissal of the issuer's officers, information on any remuneration or compensations to be paid to the issuer's officers is case of their dismissal

Supervisory Council:

According to the Law of Ukraine On Banks and Banking, the Statute of JSC Ukreximbank, and the Regulation on the Supervisory Council of JSC Ukreximbank, the supervisory council of a state-owned bank consists of member appointed by the Verkhovna Rada of Ukraine, the President of Ukraine, and the Cabinet of Ministers of Ukraine. The bank supervisory council members' term of office is five years.

The authorities of the appointed members of the supervisory council and/or each of the supervisory council member may be terminated by the resolution of the body that appointed such a person to the supervisory council member positions, not earlier than after a year from the appointment date.

Each supervisory council member is entitled to initiate termination of his/her authorities by sending a respective application to the body that appointed him/her. In such a case, the said member's authorities are terminated on the effective date in accordance with the effective Law of Ukraine by the resolution of a respective body that appointed him/her, unless another date is indicated in the respective resolution.

According to article 7 of the Law of Ukraine On Banks and Banking, (version of 09 February 2019), a state-owned bank's supervisory council members perform their functions with no material remuneration.

The bank supervisory council is presided by the Chairman elected by the Supervisory Council via open voting from among the council members.

Bank management board:

According to the Statute of JSC Ukreximbank and the Regulation on the Management Board of JSC Ukreximbank, the Management Board consists of the Chairman of the Board, Deputy Chairmen of the Board and other Members of the Board. The Chairman of the Board is appointed and dismissed by the Bank Supervisory Council. Deputy Chairmen of the Board and other Members of the Board are appointed and dismissed by the Bank Supervisory Council, including at the instigation of the Chairman of the Board.

In case of dismissal of officers from the Management Board of JSC Ukreximbank, they receive compensation in accordance with the effective Law, namely: monetary compensation for all unused annual vacation days, as well as additional vacation days for employees who have children (art. 83 of the Labor Code of Ukraine).

Chief Accountant:

According to the Statute of JSC Ukreximbank, the Chairman of the Board appoints and dismisses the Bank employees. In case of dismissal, employees receive compensation in accordance with the effective Law, namely: monetary compensation for all unused annual vacation days, as well as additional vacation days for employees who have children (art. 83 of the Labor Code of Ukraine).

9) Authorities of the issuer's officers

The supervisory council is exclusively authorized to:

1. Determine the Bank's key business areas and approve reports on performance thereunder.

2. Approve the Bank development strategy in accordance with the key business areas.

3. Appoint and dismiss the Chairman of the Board.

4. Appoint and dismiss Deputy Chairmen of the Board, other Members of the Board, including at the instigation of the Chairman of the Board, determine the personal and quantitative composition of the Audit Commission, early terminate the authorities of the entire personal composition of the Bank Audit Commission or any of the members thereof.

5. Determine the sources of capitalization and other financing of the Bank.

6. Control the activity of the Board of the Bank, making proposals on improvement thereof.

7. Approve the annual performance results of the Bank, including its subsidiaries; approve the reports of the Board of the Bank and steps to be taken based on the external audit findings, review and approve the reports of the Bank Audit Commission.

8. Distribute the Bank's profits and approve the terms, amounts, and procedure of annual dividends payments.

9. Make decisions on the Bank's losses coverage.

10. Approve the Bank recovery plan.

11. Make decision on establishment of subsidiaries and participation therein, reorganization and liquidation thereof, approval of statutes thereof.

12. Determine the Bank's organizational structure in terms of creation, reorganization and liquidation of stand-alone divisions (branches, sub-branches, representative offices, etc.), approve the regulations thereon.

13. Determine the operating procedures and plans of the Internal Audit Division and control the activity thereof.

14. Select an audit firm to carry out external audit and approve the terms and conditions of the agreement to be entered into with such a firm, determine the service fees amount, as well as review the Bank's external audit findings and make decision regarding such findings.

15. Approve the terms and conditions of civil and labor agreements entered into with the Chairman of the Board, Deputy Chairmen of the Board, and Members of the Board of the Bank, determine the amount of their remuneration, including incentive and compensatory payments.

16. Approve the budget of the Bank, including the Internal Audit Division, and the Bank development business plan.

17. Make decisions on the Bank's participation in groups.

18. Make decisions on material and/or disciplinary accountability of the Bank's officers – the Chairman of the Board, Deputy Chairmen of the Board, Members of the Board, and the Head of Internal Audit Division in cases stipulated by the Law.

19. Appoint and dismiss the Head of Internal Audit Division, approve the regulation on the internal audit.

20. Review reports and proposals submitted by the Internal Audit Division, the Risk Management Division.

21. Approve terms and conditions of assets disposal to the amount exceeding 10 (ten) percent of the Bank's share capital.

22. Approve the regulation on the Supervisory Council of the Bank.

23. Approve the regulation on the management Board of the Bank.

24. Approve the liquidating balance in case of the Bank termination.

25. Determine and approve risk management strategies and policies, as well as risk data lists and risk limits.

26. Ensure the functioning of the Bank internal control system and monitor the effectiveness thereof.

27. Control over the effectiveness of the risk management system

28. Approve the procedure for effecting transactions with the Bank related parties.

29. Manage the securities account, in which the Bank shares owned by the state are kept and accounted in terms of:

- entering into contracts for registration and safekeeping of titles to Bank shares owned by the state in the securities account;
- receiving reports on the execution of custodian transactions and other information related to the Bank shares owned by the state and submitting them to the Cabinet of Ministers of Ukraine;
- appointment of securities account managers with the authority to sign in accordance with the resolutions adopted by the Cabinet of Ministers of Ukraine, the instructions on registration of the titles to Bank shares owned by the state, restrictions on their circulation and other orders.

30. Adopt resolutions on injections in authorized capital of legal entities in the event that the Bank share in the authorized capital of such legal entities amounts to 50% or more (purchase of shares, interests, stakes), except for acquisition of shares, interests, stakes as a result of exercising the right of the pledgee).

31. Adopt resolutions on withdrawal from the founders or participants of legal entities or the sale of corporate rights (shares, interests, stakes) in case when the bank's share in the authorized capital of such legal entities amounts to 50% or more.

32. Create (including through acquisition) the subsidiary banks, branches and representative offices on the territory of foreign states after obtaining a permit of the National Bank, reorganize and liquidate them, approve their statutes (regulations thereon).

33. Adopt resolutions on creation of committees of the supervisory council and approve regulations thereon, appoint (elect) and recall the chairmen and members thereof.

34. Appoint an extraordinary audit of the Bank.

35. Approve the provisions of the Bank regulations, which are required to be approved by the Bank Supervisory Council, which approval is provided for by the Bank Statute.

36. Perform other functions in accordance with the law and the Bank Statute.

Supervisory Council Chairman:

Is entitled to participate in Bank Board meetings, as well as in meetings of all Bank's management and control bodies with the right of an advisory vote, to receive copies of all resolutions of the Bank's management and control bodies in compliance with the requirements of banking secrecy law.

Supervisory Council Members are entitled to:

1. Participate in the meetings of the Bank Supervisory Council, vote on all issues on the agenda, make proposals on agenda items, including drafting relevant resolutions of the Supervisory Council and / or nominating accordance with this Regulation, their candidates for appointing by the Supervisory Council to the respective positions.

2. Receive from the Bank any information related to the Bank's activities, except for information constituting the bank secrecy, within 5 business days from the date of receipt by the Chairman of the Board of the Bank of the relevant request. To be present at meetings of the Bank Board with a right of an advisory vote.

3. Take part in official investigations according to the procedure established by the resolution of the Supervisory Council.

4. Subject to the resolution of the Chairman of the Supervisory Council or the proposal of the majority of the Supervisory Council members arrange audio and / or video recording of meetings of the Supervisory Council, the Bank Board and / or the Bank Audit Commission.

5. Participate in the convening of an extraordinary meeting of the Bank Supervisory Council in cases stipulated by this Regulation.

6 Make proposals as to amendments to the agenda of meetings of the Supervisory Council.

7. Receive copies of the minutes of meetings of the Supervisory Council and documents approved by it, certified by the signature of the Chairman of the Supervisory Council or the person performing his/her duties.

8. Receive copies of documents submitted to the Supervisory Council.

9. Invite, subject to approval of the Supervisory Council Chairman, the third parties to the meeting of the Bank Supervisory Council.

10. Delegation and / or assignment by members of the Supervisory Council of their powers to the third parties is not allowed.

11. The Supervisory Council Chairman is entitled to receive information constituting bank secrecy within 5 business days from the day of receipt by the Chairman of the Bank Board of the relevant request of the Supervisory Council Chairman.

The Bank Board is exclusively authorized to:

1. Ensure the implementation of resolutions of the Bank Supervisory Council.

2. Submit to the Bank Supervisory Council the issues, which in accordance with the law and the Bank Statute, are subject to consideration and resolving by the Bank Supervisory Council, prepare the respective documents and proposals on these issues.

3. Approve the current plans of the Bank operation, financial plan, cost estimates for the Bank needs.

4. Prepare for approval by the Bank Supervisory Council of the Bank budget, including by the internal audit department, and the Bank development business plan.

5. Review the annual financial statements / consolidated annual financial statements of the Bank, together with the opinions of the external audit and submit them to the Bank Supervisory Council.

6. Administrate the Bank activity, its accounting and reporting, internal banking control, automation of banking operations.

7. Consider issues related to the Bank operating activities, its divisions, branches, representative offices, sub-branches, subsidiaries.

8. Control over compliance by the bank employees with the requirements of the law.

9. Approve the most important rules, procedures and other internal regulations, the approval of which does not fall within the competence of the Bank Supervisory Council.

10. Determine the basic principles of asset-side and liability-side operations.

11. Approve the procedure for establishing interest rates for asset-side and liability-side operations, amounts of fees and other commissions charged for the Bank services.

12. Adopt a resolution on the private placement, splitting or consolidation of the Bank shares, approve the results of entering into agreements with the first owners in the process of private placement of the Bank shares, results of private placement of the Bank shares, report on the results of private placement of the Bank shares on the basis of relevant acts of the Cabinet of Ministers of Ukraine.

13. Determine a system, terms and conditions and rates of payment and stimulation of labor of the Bank staff.

14. Adopt resolutions on social security and protection of the Bank employees.

15. Adopt resolutions on provision of charity.

16. Review the audit documents, reports of the Bank branch managers and adopt resolutions based on the results thereof.

17. Approve and design the organizational structure of the Head Office and the standard structure of the Bank branches and sub-branches.

18. Prepare proposals for establishment in accordance with the specified procedure of branches, sub-branches, representative offices, Bank subsidiaries and participation in them, as well as their reorganization and liquidation, consider the drafts of their statutes, regulations related thereto and submission thereof to the Bank Supervisory Council for making a resolution.

19. Approve the appointment of the senior officers of the Head Office divisions, branches, representative offices, heads of subsidiaries in accordance with the list of positions approved by the Board.

20. Adopt resolutions on organization and coordination of the work of branches, representative offices, sub-branches, subsidiaries and control over the fulfillment of assignments vested in them.

21. Adopt resolutions on foundation of charitable or other non-profit organizations, unions or associations, other profitable and non-profit associations or participation of the Bank in them and its joining to them.

22. Adopt resolutions on investing in authorized capital of legal entities (purchase of shares, interests, stakes) in the event that the Bank share in the authorized capital of such legal entities will amount less than 50% and in the cases of acquisition of shares, interests, stakes as a result of exercising the right of the pledgee.

23. Take resolutions on withdrawal from the founders or participants of legal entities or the sale of corporate rights (shares, interests, stakes) in case when the Bank share in the authorized capital of such legal entities amounts to less than 50%.

24. Enter into agreements on the property disposal in accordance with the law and the Bank Statute in the amount not exceeding 10 percent of the Bank authorized capital.

25. Adopt resolutions on writing-down the Bank assets, including at the expense of allowances, shortages and losses of its inventory.

26. Adopt resolutions and grant permits for realization or writing-down of pledged property, including shares, interests, stakes placed on the Bank books towards repayment of indebtedness under loans and other liability-side operations;

27. Establish the permanent bodies (committees, commissions, groups), to which, if necessary, the certain powers of the Bank Board of the Bank may be delegated.

28. Approve the Bank symbols.

29. Adopt resolutions on pledging the Bank property as collateral to secure its obligations.

30. Ensure preparation of a draft Bank development strategy for approval by the Bank Supervisory Council.

31. Determine the form and establish the procedure for monitoring the Bank activities.

32. Implement the strategy, the business plan and risk management policies approved by the Supervisory Council, ensure the implementation of procedures for detection, assessment, control and monitoring of risks.

33. Ensure the Bank information systems security and security of the Bank systems used to keep the customer assets in safety.

34. Inform the Bank Supervisory Council on the Bank performance indicators, detected violations of the law, the Bank internal regulations and any deterioration in the Bank financial condition or the threat of such a deterioration, the level of risks arising in the course of the Bank activities.

34. Approve the internal regulations governing the activities of the Bank divisions and branches/sub-branches (in addition to the regulations on the Bank divisions and branches/sub-branches) in accordance with the Bank development strategy.

35. Adopt resolutions on placement of securities by the Bank.

36. Adopt resolutions on redemption of securities placed by the Bank, other than shares.

37. Adopt resolutions on selection (replacement) of a custodian and / or clearing house and approve the terms and conditions of the contract to be entered into with it, and determine the amount of fees for its services.

38. Initiate extraordinary meetings of the Bank Supervisory Council;

39. Draft proposals as to the changes in the amount of the Bank share capital.

40. Address other issues related to the management of the Bank business, issues, powers to address which are delegated to him\her by the Bank Supervisory Council, issues submitted to the Board by the resolution of the Board Chairman, except for issues that fall within the competence of the Cabinet of Ministers of Ukraine and the Bank Supervisory Council.

The Chairman of the Board is authorized to:

1. Manage the Board activities and bear personal responsibility for implementation of tasks entrusted to the Board.

2. Dispose the Bank property and funds in accordance with the law and the Statute.

3. Submit proposals to the Supervisory Council regarding the appointment and dismissal of the Deputy Chairman of the Board, the Board Members and the head of the internal audit division.

4. Distribute responsibilities between the Deputy Chairmen of the Board and other Board Members and determine their responsibilities.

5. Issue powers of attorney on behalf of the Bank, sign agreements, including foreign economic agreements (contracts), is entitled to establish another procedure for signing agreements (contracts) and other obligations and documents on behalf of the Bank.

6. Sign statements of claim on behalf of the Bank.

7. Approve the rules, procedures, regulations related to divisions and other internal regulations, in particular methodological ones, the approval of which does not fall within the competence of the Board and the Supervisory Council.

8. Sign the Statute, amendments thereto, including by means of restatement approved by the relevant enactments of the Cabinet of Ministers of Ukraine for the further registration.

9. Issue orders and instructions on the Bank activities.

10. Approve the staffing chart of the Bank.

11. Adopt resolutions on provision of financial aid to the Bank employees.

12. Appoint and dismiss from office the Bank employees, establish position salaries, bonuses, apply measures of material incentives for employees, take disciplinary and material actions against employees.

13. Sign documents required for registration of the Bank issues of shares in case of adoption by the Cabinet of Ministers of resolutions on increase of the Bank share capital.

14. Carry out other powers on behalf of the Bank.

15. Perform other functions on behalf of the Bank Supervisory Council and the Bank Board.

16. Participate in meetings of the Bank Supervisory Council with an advisory vote.

17. May not be in charge of the Bank divisions.

18. Has the right to delegate certain powers to the Deputy Chairmen of the Board, Board Members and other Bank employees.

Chief Accountant is authorized to:

1. Develop the Bank accounting policy in order to identify common principles and methods for accounting the transactions conducted by the Bank based on the applicable law and international financial reporting standards.

2. Ensure compliance with the unified accounting principles established at the Bank.

3. Exercise control over recording on the accounts of all operations conducted by the Bank.

4. Arrange and draft unified rules for preparation of the Bank financial statements in accordance with international financial reporting standards, applying the principles, methods and procedures specified in these standards, and preparing the Bank financial statements in accordance with the international financial reporting standards.

5. Ensure timely and qualitative drafting of the Bank statistical reports in accordance with the requirements of the National Bank of Ukraine and submission of files with financial indicators to the National Bank of Ukraine.

6. Arrange the drafting and submission of the Bank tax reports in accordance with the requirements of the applicable law of Ukraine and effect budget settlements by paying taxes, duties and mandatory payments to the budget.

7. Perform an inventory of the Bank assets and liabilities in order to provide fairness of representations made in the Bank accounting and financial reports.

10) The auditor's information regarding the corporate management report

The auditor's information regarding the corporate management statement is specified in the independent auditor's report to JSC Ukreximbank annual financial statements for the year ended December 31, 2018.

Information of JSC Ukreximbank as a financial institution specified by the Law of Ukraine On Financial Services and State Regulation of the Financial Services Market

11) The purpose of the financial institution activity

The purpose of the Bank's activity is to create favorable conditions for the development of the economy and support of the domestic producer, servicing export and import transactions, credit and financial support for the processes of restructuring, enhancement and materialization of the production and trade potential of the economy sectors and enterprises that are export-oriented or carry out activities related to production of import-substituting products, as well as the to obtain profit in the Bank and its shareholder's interests by means of:

- raising funds in the international and domestic markets and attract investments in the economy of Ukraine, first of all in its priority sectors;
- obtaining and granting loans by and on behalf of the Cabinet of Ministers of Ukraine or other state body authorized in accordance with the law, servicing the corresponding portion of the external national debt of Ukraine under the loans borrowed by the state or under the state guarantees, when the Bank acts as an Agent of the Government of Ukraine;
- financing and guaranteeing the export and import operations of enterprises;
- provision of financial and credit support to entities involved in the foreign economic activity for promotion of domestic products to the foreign markets;
- implementation of a set of measures for financing investment projects, including at the expense of budget and borrowed funds, funds of business entities, foreign investments and loans, support of investment projects and control over the rational use of the resources involved;
- provision of banking services, transactions in the money, currency and stock markets, including in the field of foreign economic activity;
- cooperation with international financial organizations, governmental, non-governmental organizations and credit and financial institutions of foreign countries on attracting funds to the economy of Ukraine;
- other activities and other operations performed in accordance with the law, licenses, permits provided by the National Bank or other authorized bodies and under the Statute provisions.

12) Compliance / non-compliance with the principles or the corporate governance code (with reference to the source), deviations and reasons for such deviations during the year

The Bank Supervisory Council did not approve the corporate governance code.

13) List of owners of qualifying shareholding (including persons exercising control over the financial institution), their compliance with the requirements of the law and changes in their composition within the year

As at 31 December 2018, 100% of JSC Ukreximbank authorized equity was owned by the state represented by the Cabinet of Ministers of Ukraine. Address: 12/2, Hrushevskoho Street, 01008, Kyiv, USREOU: N / A

14) The composition of the supervisory council of the financial institution and changes therein with the year, including the committees formed by it

The supervisory council composition

Full Name	Position
Roman HREBA	Head of the Supervisory Council Member
Artem SHEVALIOV	Deputy Head of the Supervisory Council Member
Viacheslav VOLOSHYN	Member of the Supervisory Council
Oleh PARAKUDA	Member of the Supervisory Council
Oleh BATIUK	Member of the Supervisory Council
Serhii BALCHENKO	Member of the Supervisory Council
Tamara SMOVZHENKO	Member of the Supervisory Council
Vitalii DENYSENKO	Member of the Supervisory Council
Oleksii PEREVEZENTSEV	Member of the Supervisory Council

Changes in 2018

In accordance with Decree of the President of Ukraine No. 174/2018 dated June 21, 2018, Mr. Oleksii PEREVEZENTSEV - the State Secretary of the Ministry of Economic Development and Trade of Ukraine was appointed a member of the Bank Supervisory Council.

In accordance with Decree of the President of Ukraine No. 127/2018 dated May 15, 2018, Mr. Vitalii DENYSENKO - Director of the Department for Planning and Monitoring of Financial-Economic Activity and Bankruptcy of the State Property Fund of Ukraine was appointed a member of the Bank Supervisory Council.

In accordance with the Resolution of the Cabinet of Ministers of Ukraine No.1116 dated 12.12.2018 Issues of the Supervisory Council of Joint Stock Company The State Export-Import Bank of Ukraine and Public Joint Stock Company "State Savings Bank of Ukraine|", the powers of Mrs. Oksana MARKAROVA, the Supervisory Council Member were terminated in accordance with part 2 of Article 7 of the Law of Ukraine On the Cabinet of Ministers of Ukraine. No other person is elected instead of a person, whose powers were terminated.

The committees in the supervisory board were not created.

15) The composition of the executive body of the financial institution and its change within the year

The Bank Board Members:

Full Name	Title
Oleksandr HRYTSENKO	Chairman of the Board
Oleg BELINSKYI	Deputy Chairman of the Board, Member of the Board
Volodymyr KOTOV	Deputy Chairman of the Board, Member of the Board
Svitlana MONASTYRSKA	Member of the Board — Deputy Chairman of the Board
Serhii MYSKIV	Member of the Board — Deputy Chairman of the Board
Olga ALIEKSIEIEVA	Member of the Board
Viktoriia RUDA	Member of the Board
Oleksandr SOKOLOV	Member of the Board
Oleksandr SHCHUR	Member of the Board

There were no changes in the composition of the Bank Board.

16) Facts of violation by the members of the Bank Supervisory Council and Bank Board of the internal rules resulted in damage caused to the Bank or consumers of financial services

Facts of violations by the members of the Bank Supervisory Council and Bank Board of the internal rules resulted in damage caused to the Bank or consumers of financial services are not available.

17) Remedial actions taken by the public authorities towards the Bank during the year, including the Bank Supervisory Council and Bank Board

According to the resolution of the public authorities, JSC Ukreximbank was fined in the amount of UAH 70.6 thousand during the year.

18) Amount of remuneration for the year of the Bank Supervisory Council Members and Bank Board Members

In accordance with Article 7 of the Law of Ukraine On Banks and Banking (in the wording before 09.02.2019), members of the Supervisory Council of the state-owned bank perform their functions without obtaining any material remuneration.

The remuneration of the JSC Ukreximbank Board members in 2018 amounted to UAH 49,530, 663.25.

19) Significant risk factors that influenced the activities of the financial institution during the year

In 2018, the Bank was influenced by the same risk factors as the other banking institutions and the banking system of Ukraine as a whole, in particular, external factors (macrofactors, including economic and legislative ones) had a significant impact.

In 2018, the bank started to apply IFRS 9, introducing appropriate methods and procedures for measuring impairment of financial instruments and creation of provisions in accordance with requirements of IFRS 9. Besides, due to macroeconomic factors in 2018, appropriate methods and models of the Bank risk assessment were updated, including in the part of credit risk - the model of determination of PD default probability is revised.

20) Availability in a financial institution of a risk management system and its key characteristics

The Bank has a comprehensive risk management system. Key system characteristics are disclosed in p.5 (section "Risk Management System").

21) Results of the internal audit (control) system operation during the year as well as the data specified in the notes to the financial and consolidated financial statements in accordance with the accounting rules (standards)

The main objective of the Internal Audit Division (hereinafter - the Division) is to maintain and increase the Bank's value by conducting unfair internal audits on the basis of a risk-oriented approach, providing recommendations and sharing knowledge / information with divisions and the Bank management. The Division ensures the permanent supervision and monitoring of the adequacy of the Bank internal control system and operational procedures, the impartial and unfair assessment of the Bank financial, operational system, other systems and control procedures, assessment and analysis of compliance of the management and the Bank staff with the provisions of law, the Statute, the Bank internal regulations regarding conducting operations to the extent of the bank license and permission for individual banking operations provided by the National Bank of Ukraine.

During 2018, the Division worked in accordance with the plan approved by the resolution of JSC Ukreximbank Supervisory Council. The Division conducted 17 audits.

The Internal Audit Division submits reports quarterly and annually to JSC Ukreximbank Supervisory Council and every six months to the National Bank of Ukraine.

The Supervisory Council bears the responsibility for the establishment and approval of objectives in the risk and capital management. At the same time, the Bank has separate independent divisions responsible for risk management and control. The following bodies and officers are responsible for risk management at the Bank: the Board, the Assets and Liabilities Management Committee (ALCO), the Credit Committee, the Retail Business Committee, the Risk Management Director, the Risk Management and Risk Management Methodology Division, the Credit Risk Analysis Division, the Credit Operations and Pledge Administration Division, the Internal Control Division, Treasury Division, Securities Division, Assets and Liabilities Management Division, Internal Audit Division.

The Bank risk management processes are audited annually by the Internal Audit Division in terms of both the adequacy of the control procedures and the Bank's compliance with these procedures. The results of the audit, opinions and recommendations are submitted for consideration to the Bank Board and the Supervisory Council.

22) Facts of assets disposal during the year in excess of the size established in the Statute of a financial institution

During the year 2018, JSC Ukreximbank did not dispose assets in the amount exceeding the amount specified in the Statute.

23) Results of asset evaluation in the event of sale/purchase thereof during the year in the amount exceeding the amount specified in the Bank Statute

During 2018, JSC Ukreximbank did not sell or buy assets in the amount exceeding the amount specified in the Bank Statute.

24) Transactions with related parties, including within an industry-financial group or other association performed during the year. Such information is not a commercial secret

Information on transactions with related parties is disclosed in Note 30 Related Party Transactions of JSC Ukreximbank annual financial statements for the year ended December 31, 2018.

25) Application of recommendations of the financial services markets state regulatory bodies in relation to the auditor's report

Recommendations (requirements) of the financial services markets state regulatory bodies in relation to the auditor's report were not provided.

26) Information on the external auditor of the financial institution supervisory council appointed during the year

Ernst & Young Audit Services LLC audit company was engaged to act as an external auditor of the financial statements of JSC Ukreximbank JSC for 2018.

27) External auditor activities, in particular:

- total audit activity experience is more than 25 years;
- the number of years, during which the audit services were provided to such financial institution: 3 years;
- list of other audit services provided to such financial institution during the year: n/a;
- cases of conflicts of interest and / or combinations of internal auditor functions: n/a;
- rotation of auditors in the financial institution over the last five years: PricewaterhouseCoopers Audit LLC (2013-2015), Ernst & Young Audit Services LLC (for 2016-2018);
- penalties applied to the auditor by the Audit Chamber of Ukraine during the year, and the facts of submission of false financial reports of the institution, as confirmed by the auditor's report, detected by the financial services markets state regulatory authorities: n/a.

28) Protection of the rights of consumers of financial services by the financial institution, in particular:

Availability of appeal handling mechanism: appeals are handled at the Bank in accordance with the Law of Ukraine On Citizens' Appeal, other regulations of Ukraine, as well as JSC Ukreximbank internal regulatory documents;

Surname, name and patronymic of the officers of the financial institution authorized to handle appeals: the Bank customers' appeals are considered by the Chairman of the Board of the Bank (in accordance with Article 16 of the Law of Ukraine On Citizens' Appeal and clause 40 of the Statute of the Joint Stock Company The State Export and Import Bank of Ukraine approved by Resolution of the Cabinet of Ministers of Ukraine No. 1250dated 10.08.2000), as well as the officers authorized by the Chairman of the Board of the Bank, being entitled to sign the replies to such appeals, and in case of disagreement of a citizen with the resolution related to his/her appeal, the appeal are resolved in court;

The status of consideration by the financial institution during the year of appeals concerning the provision of financial services (nature, number of appeals received and the number of appeals satisfied): Within the reporting period, the Bank duly considered and satisfied 27 different appeals regarding provision of banking services;

Existence of lawsuits in court regarding the provision of financial services by the financial institution and the results of consideration thereof:

Head Office and branches

Individual 1 - Left without consideration
Individual 2 - Under consideration
Individual 3 - Under consideration
Individual 4 - Denied
Individual 5 - Under consideration
Individual 6 - Under consideration
Individual 7 - Under consideration
Individual 8 - Under consideration
Individual 9 – Under consideration in the court of cassation
Individual 10 – Left without amendments
Individual 11 - Satisfied
Individual 12 - Under consideration
Individual 13 – Denied
Individual 14 - Under consideration
Individual 15 - Under consideration
Individual 16 - Denied
Individual 17 - Under consideration
Individual 18 - Under consideration
Individual 19 - Under consideration
Individual 20 - Under consideration
Individual 21 - Under consideration
Individual 22 - Denied
Individual 23 - Under consideration
Individual 24 – Court hearing was not held
Individual 25 - Under consideration
Individual 26 - Under consideration
Individual 27 – Information not available
Individual 28 - Under consideration in the Supreme Court
Individual 29 - Under consideration
Individual 30 - Under consideration
Individual 31 - Under consideration
Individual 32 - Under consideration
Individual 33 - Under consideration
Individual 34 - Under consideration

Legal entity1 - Under consideration in the Supreme Court
Legal entity 2 – Under consideration
Legal entity 3 – Under consideration
Legal entity 4 – Under consideration
Legal entity 5 – Under consideration
Legal entity 6 - Denied satisfaction
Legal entity 7 - Denied satisfaction
Legal entity 8 – Denied

Translation from Ukrainian original

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Independent auditor's report

To the Shareholder of Joint Stock Company "The State Export-Import Bank of Ukraine"

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries (together referred to as "the Bank"), which are presented on pages 37 to 122 and comprise the consolidated statement of financial position (consolidated balance sheet) as at 31 December 2018, the consolidated statement of profit and loss (consolidated income statement), the consolidated statement of comprehensive income, the consolidated statement of changes in equity (consolidated statement of equity) and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements for the preparation of financial statements established by Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

Basis for opinion

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

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond

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to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Transition to IFRS 9 "'Financial Instruments"	
The Bank has applied IFRS 9 "***Financial instruments***" (IFRS 9) from 1 January 2018. IFRS 9 replaced IAS 39 "***Financial Instruments: Recognition and Measurement***" and has significantly changed accounting framework related to financial instruments, in particular: ▸ the existing approach to classification and measurement by replacing the existing categories with new categories of financial instruments, based on business model and product characteristics, and ▸ impairment methodology by replacing the incurred loss model with an expected credit loss (ECL) model that incorporates forward-looking information. As permitted by IFRS 9, its requirements were applied retrospectively without restating comparative information for 2017. Differences between previously reported carrying amounts and new carrying amounts of financial instruments as at 31 December 2017 and 1 January 2018 amounting to UAH 4,814,221 thousand have been recognised in the opening retained earnings. The impact of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs and changes in the classification and measurement of financial instruments, is detailed in Note 5 to the consolidated financial statements.	Our audit procedures included the assessment of the methodology implemented by the Bank to apply the new IFRS 9 accounting principles, testing of input data, analysis of the models and assumptions applied at the date of the transition to IFRS 9 "***Financial Instruments***", 1 January 2018. With respect to classification and measurement, we assessed the accounting policy used by the Bank, compared it with the requirements of IFRS 9; and verified the business model assessment and the contractual cash flows tests for a sample of financial instruments. Our sample was risk based and covered a range of different types of financial instruments. With respect to impairment, we involved our experts for analysis of the methodology and models used by the Bank to apply the new IFRS 9 accounting principles. We evaluated the validation procedures performed by the Bank's experts related to models with forward-looking information of macro-economic factors considering multiple scenarios. With respect to allowance for expected credit losses calculated on a collective basis, we checked correctness of identification and calculation of triggers for significant increase in credit risk and credit impairment, staging identification, probabilities of default (PD), loss given defaults (LGD) and recalculated ECLs. We also performed procedures in relation to testing of the underlying models including the inputs to those models and their mathematical accuracy.

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Key audit matter	How our audit addressed the key audit matter
Given the complexity of the application of IFRS 9, the assessment of the impacts of the first-time adoption of IFRS 9 was significant to our audit and was one of the key audit matters.	With respect to allowance for expected credit losses calculated on an individual basis, for a sample of loans using risk-based approach, we tested triggers for significant increase in credit risk and credit impairment, resulted in staging identification, and the assumptions underlying assessment of financial condition of the counterparty, forecasts of future cash flows and valuation of underlying collateral which were incorporated in multiply scenarios. We compared the assumptions underlying the impairment identification for individually assessed borrowers as at 31 December 2017 and 1 January 2018. We assessed the Bank's information about the transition to IFRS 9 "Financial Instruments" disclosed in the consolidated financial statements.
Allowance for expected credit losses of loans to customers	
The appropriateness of allowance for expected credit losses of loans to customers was significant to our audit because it is a key area of judgment for management. The Bank's ECL allowance calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include: ▸ the Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life-time ECL basis; ▸ development of ECL models, including the various formulas and the choice of inputs; ▸ determination of associations between macroeconomic scenarios and, economic inputs, such as GDP growth, inflation and import growth indices,	Our audit procedures included the assessment of the consistency of the methodology used by the Bank for the assessment of the ECL allowance under IFRS 9, testing of input data, analysis of the models and assumptions as at 31 December 2018 and for the year then ended. With respect to allowance for expected credit losses calculated on an individual basis, our audit procedures comprised the following: ▸ we tested triggers for significant increase in credit risk and credit impairment, resulted in staging identification for a sample of loans using risk-based approach; ▸ we tested the assumptions underlying assessment of financial condition of the counterparty, forecasts of future cash flows and valuation of underlying collateral which were incorporated in multiply scenarios for a sample of loans using risk-based approach.

Key audit matter	How our audit addressed the key audit matter
and the effect on PDs, exposures at default (EAD) and LGDs; ▸ selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models; ▸ the estimation of the amount and timing of future cash flows and collateral values. The use of different assumptions could produce significantly different estimates of impairment of loans to customers. Taking into account the significance of the loans to customers balances and high level of subjectivity of assumptions, we considered that assessment for expected credit losses of loans to customers was a key audit matter. The Bank's management approaches to assessing and managing credit risk are described in Note 11 and Note 26 to the consolidated financial statements.	With respect to allowance for expected credit losses calculated on a collective basis, our audit procedures comprised the following: ▸ we tested the design and operating effectiveness of the Bank's internal controls regarding correctness of identification and calculation of triggers for significant increase in credit risk and credit impairment, staging identification, PDs, LGDs; ▸ we tested the design and operating effectiveness of the Bank's internal controls in respect of ECL allowance calculation; ▸ we tested the models with forward-looking information which included updated statistical information for 2018 year, including the inputs to those models and their mathematical accuracy. We analysed associated disclosures in Note 11 and Note 26 to the consolidated financial statements in respect of allowance for expected credit losses of loans to customers.
Valuation of indexed state bonds at fair value through profit or loss	
Valuation of indexed state bonds with the embedded foreign exchange derivatives at fair value through profit or loss was a key area of judgments for management due to complexity of estimations regarding the choice of variable inputs, such as risk-free rates in national and foreign currencies, current spot rate and volatility of exchange rate, and subjective valuation techniques. Taking into account the significance of the carrying amount of indexed state bonds at fair value through profit or loss to the consolidated financial statements and related estimation uncertainty, we considered valuation of the above assets to be a key audit matter.	Our audit procedures in respect of the valuation of indexed state bonds at fair value through profit or loss included inquiries of the Bank's management about the significant assumptions applied, assessment and testing of inputs used, assessing mathematical accuracy of the calculation and comparing the results in the models to the amounts recognised in the consolidated statement of financial position as at 31 December 2018. We assessed the Bank's disclosures in relation to the state bonds at fair value through profit or loss.

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Key audit matter	How our audit addressed the key audit matter
Notes 12 and 27 to the consolidated financial statements provide information on the indexed state bonds at fair value through profit or loss.	
Valuation of deferred tax assets	
The Bank has significant recognised and unrecognised deferred tax asset balances as at 31 December 2018. Recognition of deferred tax asset is dependent on the availability of future taxable profits. There is an inherent uncertainty involved in forecasting future taxable profits. The analysis of the recognition and recoverability of deferred tax asset was one of the matters of most significance in our audit because the amounts are material, the assessment process is judgmental, and is based on assumptions that are affected by expected future market and economic conditions.	Our audit procedures included evaluation of the Bank's deferred tax asset assumptions in relation to the availability of sufficient future taxable profits based on the business plan and the forecast, discussions of underlying judgements with the Bank's management, testing tax positions and timing of future deductions. In addition, we assessed the historical accuracy of management's estimates by comparing budgeted and actual data. We also compared the assumptions used in the business plan and the forecast with available banking market information and the overall Ukrainian economy projections.
Notes 4 and 16 to the consolidated financial statements provide information on the judgements and amounts of deferred tax asset.	We also analysed and tested the deferred tax asset disclosures prepared by the Bank and presented in the consolidated financial statements.

Other information included in the Annual Information of the Issuer of Securities for 2018

Other information comprised the information included in the Bank's Consolidated Management Report (Consolidated Governance Report) (including the Corporate Governance Report, but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and other information in the Annual Information of the Issuer of Securities, which is expected to be made available to us after that date. Management is responsible for the other information.

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

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

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Responsibilities of management and the Supervisory board for the consolidated financial statements

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

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

The Supervisory board is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the Bank's subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Bank. We remain solely responsible for our audit opinion.

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

We also provide the Supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report in accordance with requirements of Section IV paragraph 11 "Instruction on preparation and publication of financial statements of banks in Ukraine" as approved by Resolution of the Board of National Bank of Ukraine No. 373 dated 24 October 2011 (as amended)

In accordance with Section IV paragraph 11 "Instruction on preparation and publication of financial statements of banks in Ukraine" as approved by Resolution of the Board of National Bank of Ukraine №373 dated 24 October 2011 (as amended) ("Instruction No. 373"), we report the following:

In our opinion, based on the work undertaken in the course of our audit of the Bank's consolidated financial statements, Consolidated Management Report is prepared in accordance with requirements of Instruction No. 373 and information given is consistent with the financial statements.

We are required to report if we have identified material misstatements in the Management report in light of the knowledge and understanding obtained during the course of the audit of the Bank's financial statements. We have nothing to report in this regard.

Report on other legal and regulatory requirements

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

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Appointment of the Auditor and period of the engagement

We were first appointed as independent auditors to perform a statutory audit of the Bank's consolidated financial statements on 13 April 2017 by the Supervisory board. Our appointment has been renewed annually by the Supervisory board. The period of total uninterrupted engagement for performing the statutory audit of the Bank is three years.

Consistency of the independent auditor's report with the additional report to the Supervisory board

We confirm that this independent auditor's report is consistent with the additional report to the Supervisory board of the Bank, which we issued on 24 April 2019 in accordance with Article 35 of Law No. 2258-VIII.

Provision of non-audit services

We declare that no prohibited non-audit services referred to in Article 6 paragraph 4 of Law No. 2258-VIII were provided. In addition, there are no non-audit services which were provided by us to the Bank and which have not been disclosed in the consolidated financial statements or the Bank's Consolidated Management Report.

The partner in charge of the audit resulting in this independent auditor's report is Studynska Y.S

For and on behalf of Ernst & Young Audit services LLC

Svistich O.M.
General Director

Registration number in the Register of auditors and audit firms: 101250

Studynska Y.S.
Partner

Registration number in the Register of auditors and audit firms: 101256

Pryshchepko I.Y.
Auditor

Registration number in the Register of auditors and audit firms: 101251

Kyiv, Ukraine
25 April 2019

Ernst & Young Audit Services LLC is included in the Register of auditors and audit firms, registration number: 3516.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONSOLIDATED BALANCE SHEET)

As at 31 January 2018

(thousands of Ukrainian hryvnia)

	Notes	*31 December 2018*	*31 December 2017*
Assets			
Cash and cash equivalents	7	18,545,858	19,866,217
Amounts due from credit institutions	10	569,890	699,739
Loans to customers	11	72,496,358	67,607,544
Investment securities:	12		
- at fair value through profit or loss		26,653,561	28,072,289
- available-for-sale		–	48,254,711
- held-to-maturity		–	96,022
- at fair value through other comprehensive income		35,789,095	–
- at amortised cost		49,855	–
Current income tax assets	16	161,080	122,321
Investment property	13	1,153,243	1,260,398
Property and equipment	14	1,646,109	1,641,014
Intangible assets	15	54,266	49,505
Deferred income tax asset	16	2,033,021	2,138,292
Non-current assets held for sale		39,614	42,005
Other assets	17	2,451,523	767,916
Total assets		**161,643,473**	**170,617,973**
Liabilities			
Amounts due to credit institutions	18	24,405,913	23,283,787
Amounts due to customers	19	82,163,124	90,501,500
Eurobonds issued	20	42,541,905	38,821,831
Subordinated debt	21	3,584,690	3,615,792
Provision for credit-related commitments	23	72,625	6,168
Other liabilities	17	423,623	324,948
Total liabilities		**153,191,880**	**156,554,026**
Equity	22		
Share capital		38,730,042	38,730,042
Revaluation reserves		(816,406)	282,951
Result from transactions with the shareholder		635,104	635,104
Accumulated deficit		(30,260,073)	(25,747,076)
Reserve and other funds		162,926	162,926
Total equity		**8,451,593**	**14,063,947**
Total equity and liabilities		**161,643,473**	**170,617,973**

Authorised for release and signed

25 April 2019

Chairman of the Board **O.V. Hrytsenko**

Chief Accountant **N.A. Potemska**

V.M. Medko
247-89-16

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

(CONSOLIDATED INCOME STATEMENT)

For the year ended 31 December 2018

(thousands of Ukrainian hryvnia)

	Notes	*2018*	*2017*
Interest income			
Interest income calculated using effective interest rate:			
- loans to customers		7,789,950	6,908,278
- investment securities other than at fair value through profit or loss		–	3,934,400
- investment securities at fair value through other comprehensive income		2,895,190	–
- investment securities at amortised cost		11,075	–
- amounts due from credit institutions		166,564	286,325
Other interest income:			
- investment securities at fair value through profit or loss		1,226,335	1,206,683
		12,089,114	**12,335,686**
Interest expense			
Amounts due to customers		(3,837,274)	(4,389,571)
Eurobonds issued		(4,184,372)	(3,534,286)
Amounts due to credit institutions		(1,503,708)	(1,307,382)
Subordinated debt		(316,019)	(282,454)
		(9,841,373)	**(9,513,693)**
Net interest income		**2,247,741**	**2,821,993**
Net modification loss from financial assets measured at amortised cost		(778,755)	–
Allowance for loan impairment charge	9	–	(666,076)
Allowances for other impairment and provisions	9	–	18,419
Reversal of expenses for expected credit losses	9	1,261,067	–
Net losses on impairment of credit-related commitments	9	(29,313)	–
Commission income		997,821	939,543
Commission expense		(370,348)	(333,180)
Net gains/(losses) on investment securities at fair value through profit or loss		(1,422,103)	258,257
Net gains/(losses) from available-for-sale investment securities:			
- dealing		–	(14)
- reversal on impairment		–	3,413
- losses reclassified from other comprehensive income at redemption		–	(53,148)
Net losses on investment securities at fair value through other comprehensive income reclassified from other comprehensive income at redemption		(52,803)	–
Net gains/(losses) from foreign currencies:			
- dealing		478,028	475,807
- translation differences		553,897	(907,659)
Net gains/(losses) from precious metals:			
- dealing		210	682
- revaluation		(382)	(2,658)
Other income		205,458	186,978
Personnel expenses	25	(1,334,023)	(949,529)
Depreciation and amortisation	14, 15	(100,519)	(100,768)
Other operating expenses	25	(746,009)	(745,043)
Profit before tax		**909,967**	**947,017**
Income tax expense	16	(105,136)	(181,522)
Profit for the year		**804,831**	**765,495**

Authorised for release and signed

25 April 2019

Chairman of the Board **O.V. Hrytsenko**

Chief Accountant **N.A. Potemska**

V.M. Medko 247-89-16

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(thousands of Ukrainian hryvnia)

	Notes	*2018*	*2017*
Profit for the year		**804,831**	**765,495**
Other comprehensive loss			
Other comprehensive loss to be reclassified to the consolidated statement of profit and loss (the consolidated income statement) in subsequent periods			
Net losses on investment securities available-for-sale	22	–	(144,584)
Net loss on investment securities at fair value through other comprehensive income	22	(1,014,931)	–
Income tax related to components of other comprehensive income		–	–
Other comprehensive loss not to be reclassified to the consolidated statement of profit and loss (the consolidated income statement)			
Revaluation of property and equipment	22	–	(271,333)
Income tax related to components of other comprehensive income		–	(3,002)
Other comprehensive loss for the year, net of tax		**(1,014,931)**	**(418,919)**
Total comprehensive (loss)/income for the year		**(210,100)**	**346,576**

Authorised for release and signed

25 April 2019

Chairman of the Board **O.V. Hrytsenko**

Chief Accountant **N.A. Potemska**

V.M. Medko
247-89-16

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONSOLIDATED STATEMENT OF EQUITY)

For the year ended 31 December 2018

(thousands of Ukrainian hryvnia)

	Share capital	*Revaluation reserve*	*Result from transactions with the shareholder*	*Accumulated deficit*	*Reserve and other funds*	*Total equity*
At 1 January 2017	**31,008,041**	**725,335**	**–**	**(26,536,036)**	**162,926**	**5,360,266**
Profit for the year	–	–	–	765,495	–	765,495
Other comprehensive loss for the year	–	(418,919)	–	–	–	(418,919)
Total comprehensive income for the year	**–**	**(418,919)**	**–**	**765,495**	**–**	**346,576**
Effect of the initial recognition of state bonds received as the shareholder's contribution (Note 22)	–	–	635,104	–	–	635,104
Depreciation of revaluation reserve, net of tax (Note 22)	–	(18,029)	–	18,029	–	–
Transfer of revaluation reserve at disposal (Note 22)	–	(5,436)	–	5,436	–	–
Increase in share capital (Note 22)	7,722,001	–	–	–	–	7,722,001
At 31 December 2017	**38,730,042**	**282,951**	**635,104**	**(25,747,076)**	**162,926**	**14,063,947**
Impact of adopting IFRS 9 (Note 5)	–	(71,168)	–	(4,743,053)	–	(4,814,221)
Restated opening balance under IFRS 9	**38,730,042**	**211,783**	**635,104**	**(30,490,129)**	**162,926**	**9,249,726**
Profit for the year	–	–	–	804,831	–	804,831
Other comprehensive loss for the year	–	(1,014,931)	–	–	–	(1,014,931)
Total comprehensive loss for the year	**–**	**(1,014,931)**	**–**	**804,831**	**–**	**(210,100)**
Depreciation of revaluation reserve, net of tax (Note 22)	–	(13,258)	–	13,258	–	–
Profit distributed for payment of dividends (Note 22)	–	–	–	(588,033)	–	(588,033)
At 31 December 2018	**38,730,042**	**(816,406)**	**635,104**	**(30,260,073)**	**162,926**	**8,451,593**

Authorised for release and signed

25 April 2019

Chairman of the Board **O.V. Hrytsenko**

Chief Accountant **N.A. Potemska**

V.M. Medko
247-89-16

CONSOLIDATED STATEMENT OF CASH FLOWS (direct method)

For the year ended 31 December 2018

(thousands of Ukrainian hryvnia)

	Notes	*2018*	*2017*
Cash flows from operating activities			
Interest received		10,983,682	10,713,444
Interest paid		(9,147,472)	(9,309,543)
Commissions received		954,532	940,365
Commissions paid		(370,071)	(332,899)
Result from dealing in foreign currencies and precious metals		478,238	476,489
Personnel expenses		(1,298,241)	(884,572)
Other operating income received		125,507	145,935
Other operating and administrative expenses paid		(689,231)	(633,826)
Cash flow from operating activities before changes in operating assets and liabilities		**1,036,944**	**1,115,393**
Net (increase)/ decrease in operating assets			
Amounts due from credit institutions		135,145	844,122
Loans to customers		(8,610,367)	(6,092,764)
Other assets		(1,731,536)	(64,241)
Net increase/ (decrease) in operating liabilities			
Amounts due to credit institutions		(209,292)	(784,945)
Amounts due to the National Bank of Ukraine		(2,424)	1,765
Amounts due to customers		(7,481,738)	1,404,766
Other liabilities		50,983	25,167
Net cash flows from operating activities before income tax		**(16,812,285)**	**(3,550,737)**
Income tax paid in advance		(105,880)	(22,871)
Net cash flows from operating activities		**(16,918,165)**	**(3,573,608)**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		42,976,965	20,717,619
Purchase of investment securities		(32,115,352)	(14,828,226)
Dividends received		560	106
Proceeds from sale of non-current assets held for sale		1,821	-
Purchase of property, equipment and intangible assets		(111,375)	(86,699)
Proceeds from sale of property and equipment		76	129,859
Purchase of investment property		-	(1,555)
Proceeds from sale of investment property		104,136	13,709
Net cash flows from investing activities		**10,856,831**	**5,944,813**
Cash flows from financing activities			
Part of profit allocated for payment of dividends		(588,033)	–
Proceeds from Eurobonds issued	8	4,020,167	–
Proceeds from borrowings from credit institutions	8	6,334,445	1,363,320
Repayment of borrowings from credit institutions	8	(4,735,876)	(5,981,091)
Net cash flows from financing activities		**5,030,703**	**(4,617,771)**
Effect of exchange rates changes on cash and cash equivalents		(284,387)	734,266
Effect of expected credit losses on cash and cash equivalents		(5,341)	–
Net change in cash and cash equivalents		**(1,320,359)**	**(1,512,300)**
Cash and cash equivalents, 1 January		**19,866,217**	**21,378,517**
Cash and cash equivalents, 31 December	7	**18,545,858**	**19,866,217**

Authorised for release and signed

25 April 2019

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Notes on pages 42-122 form an integral part of these annual consolidated financial statements.

1. Principal activities

Public Joint Stock Company "The State Export-Import Bank of Ukraine" ("Ukreximbank") was founded in 1992. Ukreximbank operates under banking licence No.2 dated 5 October 2011 and a general licence of the National Bank of Ukraine to conduct foreign currency transactions No. 2-2 dated 18 November 2016.

As at 31 December 2018 and 2017, 100% of Ukreximbank's shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

Ukreximbank's head office is located in Kyiv at 127 Antonovycha Str. It has 22 branches and 39 operating outlets (31 December 2017: 24 branches and 41 operating outlets) and two representative offices located in London and New-York. Ukreximbank and its branches form a single legal entity.

Traditionally, the main focus of Ukreximbank's operations was the servicing of various export-import transactions. Currently Ukreximbank's customer base is diversified and includes a number of large industrial and State owned enterprises. Ukreximbank accepts deposits from the public and makes loans, transfers payments in Ukraine and internationally, exchanges currencies, invests funds and provides cash and settlements, and other banking services to its customers.

One of the main activities of Ukreximbank is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government with other foreign governments. Ukreximbank acts as an agent, on behalf of the Ukrainian Government, with respect to loans from foreign financial institutions based on the aforementioned agreements.

The Bank's aim (in accordance with the Charter) is to create favourable conditions for economic development and support domestic producers, export and import operations, credit and financial support of restructuring processes, strengthening and implementation of industrial and trade potential of industries and manufacturers that are export-oriented or carry out activities related to the production of import-substituting products, and also gains received in the interests of the Bank and its shareholder.

Ukreximbank prepares the separate annual financial statements and annual consolidated financial statements that comprise performance indicators of Ukreximbank and its subsidiaries: "Leasing Company Ukreximleasing" and "Eximleasing" Ltd (together referred to as the "Bank").

"Ukreximleasing", a 100% owned subsidiary was founded in 1997 and operates in Ukraine in the trading and leasing business.

"Eximleasing" LLC, a 100% owned subsidiary was founded in 2006 and registered in Ukraine, and operates in the trading and leasing business.

2. Basis of preparation

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The annual consolidated financial statements are prepared under the historical cost convention except as disclosed in the *Summary of significant accounting policies*, for example, investment securities at fair value through other comprehensive income, investment securities at fair value through profit or loss and investment property are measured at fair value, buildings are measured at revalued amount, assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

These annual consolidated financial statements are presented in thousands of Ukrainian hryvnia ("UAH"), unless otherwise indicated.

3. Summary of significant accounting policies

Changes in accounting policies

In the reporting year, the Bank applied IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018.

The Bank recognised the cumulative transition effect in retained earnings as of 1 January 2018 and did not restate comparative information. The information about the impact that the application of IFRS 9 has on the Bank's annual consolidated financial statements is disclosed in Note 5.

(a) Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on the entity's business model for managing the financial assets and the instruments' contractual cash flow characteristics.

IAS 39 *Financial Instruments: Recognition and Measurement* measurement categories of financial assets (financial investments held-to-maturity; financial investments available for sale; financial assets at fair value through profit or loss; loans and receivables) have been replaced by:

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments held for other purposes are measured at fair value through profit or loss (FVPL).

The classification and measurement of financial liabilities remained largely unchanged from the current IAS 39 requirements.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms as at fair value through profit or loss (FVPL).

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

(b) Changes to impairment assessment

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in Note 26. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 5.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 as amended in April 2016 and established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the Bank's revenue including interest income, gains/(losses) on operations with investment securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*.

The adoption of IFRS 15 did not impact the Bank's financial position and the results of the Bank's operations.

The application of the following amendments and improvements to standards and interpretations had no impact on the Bank's consolidated financial statements:

- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*;
- Amendments to IAS 40 *Transfers of Investment Property*;
- Amendments to IAS 28 *Investments in associates and joint ventures*.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value for financial instruments traded in active market at the reporting date is based on publicly available market prices or direct dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Financial assets and liabilities

Initial recognition

Date of recognition

Financial assets and liabilities, except loans to customers and amounts due to customers, are recognised on the transaction date, i.e. the date when the Bank becomes a party to the agreement specifying the terms of the respective instrument. These are regular purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Loans to customers are recognised when funds are transferred to the customers' accounts. Amounts due to customers are recognised when funds are transferred to accounts with the Bank.

Initial measurement of financial instruments

Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Receivables are measured at the transaction price. If the fair value of financial instruments at initial recognition differs from the transaction price, the Bank recognises Day 1 gain or loss.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

All financial assets, except for equity and derivative instruments, are classified and measured at initial recognition based on the business model used by the Bank to manage a particular group of assets, which a financial asset being classified is attributed to, as well as the characteristics of contractual cash flows from this financial asset.

The business model is determined at the level of groups of financial assets that are managed collectively to achieve a particular business goals.

All groups of debt financial assets should be held within one of three business models:

- Business model whose objective is to hold financial assets in order to collect contractual cash flows (BM 1);
- Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (BM 2);
- Business model whose objective is collecting maximum cash flows from sale of assets or business model other than BM 1 and BM 2 (BM 3).

The Bank may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

At the date of initial recognition of each debt financial asset, other than those classified by the Bank as measured at FVPL for the purpose of eliminating or significantly reducing a measurement or recognition inconsistency, as well as those managed under BM 3, the Bank performs an analysis of contractual cash flows from such financial asset.

The main objective of the contractual cash flows analysis (SPPI test) is to determine whether the terms of agreement on a financial asset conform to the underlying loan agreement and identify the terms of agreement which result in additional risks and/or additional volatility of contractual cash flows not inherent with the underlying loan agreement.

The Bank performs SPPI test at the level of a separate debt financial asset/group of debt financial assets of the respective category of assets managed under BM 1 or BM 2.

Depending on the business model and the results of the SPPI test, the debt financial assets can be classified as follows:

- Assets at amortised cost (BM 1, SPPI test passed);
- Assets at fair value through other comprehensive income (BM 2; SPPI test passed);
- Assets at fair value through profit or loss (BM 1 or BM 2 and SPPI test failed, BM 3).

Financial assets and liabilities measurement categories

Before 1 January 2018, financial assets were classified under IAS 39 as follows:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments;
- Available-for-sale financial assets.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss at initial recognition were included to "Investment securities" of the consolidated statement of financial position (consolidated balance sheet).

Financial assets included in this category were initially recognised if they met the following criteria:

- Such classification eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or recognising the gains and losses on them; or
- Assets are part of a group of financial assets, financial liabilities or both that are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

If it was not possible to determine the value of embedded derivative separately at the acquisition date or at the end of the next financial reporting period, the Bank measured such financial assets at fair value through profit or loss.

(b) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity were classified as held-to-maturity when the Bank had the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period were not included in this classification. Held-to-maturity investments were subsequently measured at amortised cost. Gains and losses were recognised in the consolidated statement of profit and loss (the consolidated income statement) when investments impaired as well as through the amortisation process.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These loans and receivables were not entered into with the intention of either immediate or short-term resale and were not classified as trading securities or investment securities available-for-sale. Such assets were carried at amortised cost using the effective interest method. Gains and losses were recognised in the consolidated statement of profit and loss (the consolidated income statement) when loans and receivables were derecognised or impaired as well as through the amortisation process.

(d) Available-for-sale financial assets

Available-for-sale financial assets were non-derivative financial assets available-for-sale or those not classified to any of the above three categories. After initial recognition available-for sale financial assets were measured at fair value with gains or losses being recognised as separate component in other comprehensive income until the disposal or until the investment was determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income was reclassified to the consolidated statement of profit and loss (the consolidated income statement). At that, interest calculated under the effective interest method were recognised in the consolidated statement of profit and loss (the consolidated income statement).

Investments in equity instruments having no market price in the active market, in the event that their fair value could not be measured reliably, were accounted for at cost less any allowance for impairment.

From 1 January 2018, the Bank classifies all its financial assets based on the business model used to manage financial assets and the contractual terms of such assets as measured at:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVPL).

The Bank classifies and measures derivative instruments and instruments held for trading at FVPL. The Bank may, at its discretion, classify financial instruments as measured at FVPL if such classification will eliminate or significantly reduce a measurement or recognition inconsistency.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Financial liabilities, other than credit-related commitments and financial guarantees, are measured at amortised cost or at FVPL if they are held for trading and are derivative instruments, or at the Bank's discretion are classified at FVPL.

Amounts due from credit institutions, loans to customers, investment securities at amortised cost

Before 1 January 2018, amounts due from credit institutions, loans to customers, investment securities held-to-maturity included non-derivative financial assets with fixed or determinable payments, as well as financial investments classified as held-to-maturity when the Bank had the intention and ability to hold them to maturity.

From 1 January 2018, the Bank measures financial assets at amortised cost only if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (BM 1);
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when financial assets are derecognised or impaired, as well as through the amortisation process.

Debt instruments at fair value through other comprehensive income

Under IFRS 9, the Bank applies a new category and measures debt instruments at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:

- A debt instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (BM 2);
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. SPPI criteria are met).

These instruments include assets classified as available-for-sale financial investments under IAS 9 before 1 January 2018.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Equity instruments at fair value through other comprehensive income

From 1 January 2018, upon initial recognition of equity financial assets, the Bank occasionally elects to classify irrevocably some of such assets as equity instruments at FVOCI when they meet the definition of equity under IAS 32 and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

Financial assets and financial liabilities at fair value through profit or loss (FVPL)

This category includes financial assets and financial liabilities not held for trading and which, upon initial recognition, were classified as such at the Bank's discretion or should be measured at fair value under IFRS 9.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, the debt instruments that do not correspond to a "basic lending arrangement", such as Ukrainian state bonds that provide for indexation of the nominal value by maturity according to the changes in the average interbank UAH/USD exchange rate per month prior to the date of issue and per month prior to the maturity date (Note 12), are measured at FVPL.

Financial assets at FVPL are recognised in the statement of financial position at fair value. Changes in fair value are recognised in profit or loss. Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate.

Financial guarantees, letters of credit and credit-related commitments

In the normal course of business the Bank issues financial guarantees in the form of letters of credit, guarantees and avals. Financial guarantees are initially recognised as other liabilities in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount of amortised commission and, under IAS 39, the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or, under IFRS 9, an ECL provision.

Increase in liability related to financial guarantee agreements is recognised in the consolidated statement of profit and loss (the consolidated income statement). The commission received is recognised in the consolidated statement of profit and loss (consolidated income statement) on a straight-line basis over the term of the guarantee agreement.

The contractual nominal value of financial guarantees is not recorded in the statement of financial position.

Reclassification of financial assets and financial liabilities

The Bank reclassifies all financial assets at fair value only when it changes its business model of management thereof, except for those determined upon initial recognition as measured at FVPL. Financial liabilities are never reclassified.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, amounts due from credit institutions and reverse repurchase agreements "repos" that mature within ninety days of the date of origination and are free from contractual encumbrances, and are not impaired individually.

Precious metals

Gold and other precious metals are recorded at fair value, which approximate the NBU bid prices and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded as revaluation differences from precious metals in the consolidated statement of profit and loss (the consolidated income statement).

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position (the consolidated balance sheet) and in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions, the NBU or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash and cash equivalents, amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and is accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the annual consolidated financial statements. Securities borrowed are not recorded in the annual consolidated financial statements, unless they are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated statement of profit and loss (the consolidated income statement). The obligation to return them is recorded at fair value as a trading liability.

3. Summary of significant accounting policies (continued)

Derivative financial instruments

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets. These financial instruments are held within the business model whose objective is collecting maximum cash flows from sale (BM 3) and are carried at fair value through profit or loss. The fair values are derived based on quoted market prices or valuation models that take into account current and contractual market prices of the underlying instruments and any other relevant factors. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit and loss (the consolidated income statement) as net gains/(losses) from foreign currencies and precious metals dealing.

Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non−derivative host contract with the effect that some of the cash flows of the combined instrument vary. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

An embedded derivative that is a component of a hybrid instrument of the host that is a financial asset is not separated but is recorded as part of such a hybrid financial instrument classified as a whole as designated at fair value through profit or loss.

Derivatives embedded in financial liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value through profit or loss.

Before 1 January 2018, under IAS 29 derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative, their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the statement of profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the National Bank of Ukraine, amounts due to credit institutions, amounts due to customers, debt securities issued, loans received from international and other financial organisations and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the borrowings are derecognised as well as through the amortisation process.

3. Summary of significant accounting policies (continued)

Derivative financial instruments (continued)

If the Bank purchases its own debt, it is removed from the consolidated statement of financial position (the consolidated balance sheet) and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of profit and loss (the consolidated income statement).

Leases

i. Finance – Bank as a lessor

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

ii. Operating – Bank as a lessee

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

iii. Operating – Bank as a lessor

The Bank presents assets subject to operating leases in the consolidated statement of financial position (the consolidated balance sheet) according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of profit and loss (the consolidated income statement) on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position (consolidated balance sheet) only when there is a legally enforceable right to set off the recognised amounts and there is an intention to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Impairment of financial assets under IAS 39 (policy applicable before 1 January 2018)

Financial assets carried at amortised cost

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists for amounts due from credit institutions and loans to customers carried at amortised cost that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

3. Summary of significant accounting policies (continued)

Impairment of financial assets under IAS 39 (policy applicable before 1 January 2018) (continued)

Financial assets carried at amortised cost (continued)

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an impairment allowance account and the amount of the loss is recognised in the consolidated statement of profit and loss (the consolidated income statement). Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated impairment allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is reduced by adjusting the impairment allowance account. If a write-off is later recovered, the recovery is credited to the consolidated statement of profit and loss (the consolidated income statement).

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

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

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

Held-to-maturity investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit and loss (the consolidated income statement).

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated statement of profit and loss (the consolidated income statement).

3. Summary of significant accounting policies (continued)

Impairment of financial assets under IAS 39 (policy applicable before 1 January 2018) (continued)

Available-for-sale financial assets

For available-for-sale financial assets, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments available-for-sale investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its acquisition cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit and loss (consolidated income statement), is reclassified from other comprehensive income and recognised in the consolidated statement of profit and loss (the consolidated income statement). Impairment losses on equity investments are not reversed through the consolidated statement of profit and loss (the consolidated income statement); increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as amounts due from credit institutions and loans to customers. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of profit and loss (the consolidated income statement). If, in a subsequent year the fair value of a debt instrument increases and the increase is objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit and loss (the consolidated income statement), the impairment loss is reversed through the consolidated statement of profit and loss (the consolidated income statement).

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan. When assessing whether or not to derecognise a financial asset, amongst others, the Bank considers such factors as a change in currency of a financial assets, change in counterparty, interest rate revision to the market rate, as well as whether the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in derecognition of a financial asset, based on the change in cash flows discounted at the original effective interest rate, the Bank records a modification gain or loss from modification of financial assets.

Derecognition other than for substantial modification

Financial assets

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

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

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of profit and loss (the consolidated income statement).

Asset management

The Bank provides fiduciary management services construction financing funds ("CFF"). The Bank acts as an agent in such arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management business. Accordingly, the Bank does not recognise liabilities relating to the funds under management. Funds under management are not legal entities under the laws of Ukraine. The management of fund activity is effectively delegated to the Bank. The funds keep their current accounts in the Bank to the extent to which the funds are not invested in eligible assets, which meet the investment profile for the fund.

Taxation

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Summary of significant accounting policies (continued)

Taxation (continued)

Ukraine also has various operating taxes, which are assessed on the Bank's activities. These taxes are recorded in other operating expenses in the consolidated statement of profit and loss (the consolidated income statement).

Property and equipment

Equipment is carried at cost excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment.

Following initial recognition at cost, buildings and land are subsequently carried at their revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

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

The transfer from the property revaluation reserve to retained earnings / (accumulated deficit) is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Specifically, the accumulated depreciation at the revaluation date is subtracted from the original (revalued) cost of property, plant and equipment, and the resulting net carrying amount is revalued to its fair value. The revalued amount of an asset as at the revaluation date equals its fair value and the accumulated depreciation equals zero. Upon disposal, any revaluation of property relating to the particular asset being sold is transferred to retained earnings / (accumulated deficit).

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

	Years
Buildings	15-75 years
Furniture, fittings and other assets	2-25 years
Equipment and computers	2-15 years
Motor vehicles	5 years

Leasehold improvements (refurbishment costs for premises under lease contract) are depreciated over a period not exceeding the leasing period

The asset's residual values, useful lives and methods are reviewed and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses unless they qualify for capitalisation.

3. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets are measured at initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of five to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Investment property

Investment property is property held to earn rental income or for capital appreciation and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value.

Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement in gains/(losses) less (losses)/ gains on revaluation of investment property in the year in which they arise.

Assets held for sale

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

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

The Bank measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss if events or changes in circumstance indicate that the carrying amount of assets held for sale may be impaired.

Provisions for other losses

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other benefit obligations

The Bank has contribution pension plan separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The contribution payable to a contribution plan is in proportion to the services rendered to the Bank by the employees, age of employees and years working for the Bank and is recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability. The Bank has no other post-retirement benefits or significant other compensated benefits requiring accrual.

3. Summary of significant accounting policies (continued)

Share capital

Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Gain or loss arising from transactions with the shareholder is recognised in equity under "Result from transactions with the shareholder".

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial institutions and investments.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position (the consolidated balance sheet) but are disclosed unless the possibility of any future outflow is considered remote. A contingent asset is not recognised in the consolidated statement of financial position (the consolidated balance sheet) but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense

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

Interest and similar income and expense

Under IFRS 9, interest income on all financial instruments measured at amortised cost or, at discretion, at FVPL is calculated by applying the effective interest method. Interest income on financial instruments measured at FVOCI under IFRS 9 is calculated by applying the effective interest method. Effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the financial instrument and are an integral part of the effective interest rate, but not future credit losses.

If expected cash flows from financial assets are reviewed for reasons not related to credit risk, the adjustment is disclosed in the statement of financial position as a positive or negative change in the carrying amount of the asset and as an increase or decrease in interest income. The amount of this adjustment is subsequently amortised and recognised in profit or loss as interest income.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets, except for credit-impaired financial assets.

When a financial asset becomes credit-impaired and, accordingly, is attributed to Stage 3, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired financial asset, the Bank calculates interest income using the credit-adjusted EIR to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

3. Summary of significant accounting policies (continued)

Recognition of income and expense (continued)

Before 1 January 2018, the Bank recognised interest income on impaired financial assets on the amortised cost of such an asset using the effective interest rate applied to discount estimated cash flows when determining the impairment of a financial asset.

Commission income

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

- *Fee income earned from services that are provided over a certain period of time*

Fees arising for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

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

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Foreign currency translation

Annual consolidated financial statements are presented in Ukrainian hryvnia ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of profit and loss (the consolidated income statement) as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2018 and 2017 were UAH 27.6883 and UAH 28.0672 to 1 US dollar and UAH 31.7141 and UAH 33.4954 to 1 euro, respectively.

Future changes in accounting policies

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

The amendment is effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The amendments must first be applied to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with the amendments, the Bank does not expect any effect on its financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The Bank will apply interpretation from its effective date. The Bank believes that the above amendments will have no impact on its financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Bank.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases− Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees− leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 16 Leases (continued)

Lessees are also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Bank plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application. The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Bank will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Bank's application of IFRS 16 will have no material impact on the Bank's consolidated statement of financial position.

4. Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Expected credit losses / Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining the expected credit losses and impairment of financial assets. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions (than are based primarily on historical data) regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit loss basis;
- The Bank's internal credit grading model, which assigns probabilities of default to the individual grades;
- Segmentation by special characteristics of the separate arrays of assets (groups) for which similar calculation models will be used for ECL calculation;
- Determination of associations between macroeconomic scenarios and economic inputs, such as the consumer price index, GDP growth, export/import growth, and the effect on probabilities of default, exposures at default and loss given defaults;
- Identification of individual scenarios for significant assets (except those attributed to Stage 1) including the determination of probability of obtaining cash flows from different sources of origin for various options of the development of events (optimistic, basic, pessimistic).

4. Significant accounting judgments and estimates (continued)

Expected credit losses / Impairment losses on financial assets (continued)

As at 31 December 2018, expected credit losses on financial assets under IFRS 9 amounted to UAH 70,187,801 thousand (as at 31 December 2017, the estimated allowance under IAS 39 amounted to UAH 52,953,378 thousand. Details are provided in Notes 7, 10, 11, 12, 17, and 26.

Deferred income tax asset

The recognised deferred tax asset in the amount of UAH 2,033,021 thousand (31 December 2017: UAH 2,138,292 thousand) represents income taxes recoverable through future deductions from taxable profits. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. Future taxable profits and the amount of tax benefits that are probable in the future are based on a 3-year business plan and forecast for 2020-2023 prepared by management. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the management expectations include stabilisation of the economy of Ukraine together with the recovery of the whole banking sector's profitability in 2019, as well as moderate growth in loan portfolio and reduced loan loss provisions charges due to the expected improvement in the economy. Taking into account planned future profits for 2019-2023 and the fact that current Ukrainian tax legislation does not place limits on the term of utilization of tax losses carried forward, management believes that it is appropriate to recognise the deferred tax asset.

5. Effect of transition to IFRS 9

Implementation of IFRS 9

The table below represents the reconciliation of the carrying value of financial assets and liabilities when they are transferred from their previous rating categories in IAS 39 to their new rating categories when they are accounted for in accordance with IFRS 9 as at 1 January 2018:

Financial assets/ liabilities	*Measurement under IAS 39*		*Reclassification*	*Revaluation of expected credit losses (ECL)*	*Measurement under IFRS 9*	
	Category	*Amount*			*Category*	*Amount*
Cash and cash equivalents	Loans and receivables	19,866,217	–	–	Amortised cost	19,866,217
Amounts due from credit institutions	Loans and receivables	626,848	–	(35,131)	Amortised cost	591,717
Amounts due from credit institutions	Assets at fair value through profit or loss	72,891	–	–	Fair value through profit or loss	72,891
Loans to customers	Loans and receivables	67,607,544	–	(4,575,706)	Amortised cost	63,031,838
Investment securities:						
- at fair value through profit or loss	Assets at fair value through profit or loss	28,072,289	–	–	Fair value through profit or loss	28,072,289
- available-for-sale	Assets available-for-sale	48,254,711	(48,254,711)	–	n/a	n/a
to: Fair value through other comprehensive income		–	48,254,711	(7,374)	Fair value through other comprehensive income	48,247,337
- held-to-maturity	Assets held to maturity	96,022	(96,022)	–	n/a	n/a
to: Amortised cost		–	96,022	–	Amortised cost	96,022
Other financial assets	Loans and receivables	400,758	–	(156,868)	Amortised cost	243,890
Provision for credit-related commitments	n/a	(6,168)	–	(39,142)	n/a	(45,310)
Deferred tax asset		–	–	–		–
Total				**(4,814,221)**		

As at 31 December 2017, all financial liabilities of the Bank were accounted for at amortised cost, except the attracted gold-denominated deposits accounted for at FVPL under IAS 39. From 1 January 2018, all financial liabilities of the Bank have been still classified at amortised cost, except the attracted gold-denominated deposits classified at FVPL under IFRS 9.

The table below shows the effect of transition to IFRS 9 on revaluation reserves and accumulated deficit:

	Revaluation reserves and accumulated deficit
Revaluation reserves	
Balance as at 31 December 2017 under IAS 39	**282,951**
Recognition of expected credit losses for financial assets at FVOCI	(71,168)
Deferred tax asset	–
Balance as at 1 January 2018 under IFRS 9	**211,783**
Accumulated deficit	
Balance as at 31 December 2017 under IAS 39	**(25,747,076)**
Recognition of expected credit losses for financial assets and credit related commitments	(4,814,221)
Adjustment of allowance for impairment of financial assets at fair value through other comprehensive income (reclassification to revaluation reserve)	71,168
Deferred tax asset	–
Balance as at 1 January 2018 under IFRS 9	**(30,490,129)**
Total changes in equity due to application of IFRS 9	**(4,814,221)**

The following table reconciles the aggregate allowances for impairment of financial assets under IAS 39 and provisions for commitments and contingencies in accordance with IAS 37 to the ECL allowances under IFRS 9:

Financial assets/liabilities	***Allowance for impairment of financial assets and credit-related commitments under IAS 39/IAS 37 as at 31 December 2017***	***Other changes***	***Revaluation of expected credit losses (ECL)***	***Expected credit losses under IFRS 9 as at 1 January 2018***
Amounts due from credit institutions	874,451	12,082(A)	35,131	921,664
Loans to customers	48,266,639	13,022,903(A)	4,575,706	65,865,248
Investment securities:				
- available for sale under IAS 39/at FVOCI under IFRS 9, including:				
- debt investment securities	3,431,646	786,375(A)	7,374	4,225,395
- equity instruments	71,168	(71,168)(B)	–	–
Other financial assets	309,474	–	156,868	466,342
Provision for credit-related commitments	6,168	–	39,142	45,310
Deferred tax asset	–	–	–	–
	52,959,546	**13,750,192**	**4,814,221**	**71,523,959**

(A) Other changes relate to the recognition of allowance for impairment of the accrued interest income from the impaired financial assets on a gross basis during the transition to the model of accounting under IFRS 9. Those changes did not affect the carrying values of such financial assets.

(B) Other changes relate to the reclassification of ECL allowance from retained earnings to revaluation reserves during the transition to the model of accounting under IFRS 9. This change did not affect the carrying values of such financial assets.

6. Segment information

For management purposes, the Bank recognizes the following operating segments (business units):

Retail banking	Business Unit focusing on servicing retail customers on the full list of products, and selling products that are mainly in standardized form (as per the tariffs approved and the standard procedures) and generally do not require individual approach.
Corporate banking	Business Unit focusing on corporate customers selling products that require individual approach and are mainly offered to corporate clients.
Interbank and investments business	Business Unit focusing on the provision of services to participants in the financial markets (money, currency, stock, etc.) and the sale of products related to transactions on the financial markets.

The Board monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured taking into account income and expenses from other segments.

Unallocated amounts include:

- Income tax receivables and payables, the share of assets and costs associated with the work of the Bank's top management, i.e. personnel performing general management functions at the level of the whole Bank's system and the Bank's staff, supporting directly the work of top management;
- The result of the revaluation of open currency position (except for part of the open currency position allocated by the Bank for carrying out operations on purchase/sale/conversion of cash foreign currency and precious metals and conversion of non-cash foreign currency);
- The difference between inter-segment revenues and costs of all business lines, obtained as a result of transfer rates.

For the purposes of segment reporting interest is split on the basis of uniform transfer rates set by the Assets and Liabilities Committee based on the borrowing rate of the Bank.

During the twelve months ended 31 December 2018 the Bank had revenues from transactions with a single external customer that accounted for more than 10% of the total income of the Bank, namely: UAH 3,869,019 thousand (twelve months of 2017: UAH 4,827,725 thousand). Revenue from transactions with this external customer is reflected in the segment "Interbank and investments business".

Analysis of the Bank's revenue by banking products and services is presented in the consolidated statement of profit and losses (consolidated income statement) as interest income and expenses and Note 24.

6. Segment information (continued)

The following table presents income and expenses, profit and loss, asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2018:

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
External					
Interest income	473,284	7,327,750	4,288,080	–	12,089,114
Commission income	539,954	431,125	26,742	–	997,821
Other income	34,338	77,093	67,490	26,537	205,458
Net modification gains from financial assets measured at amortised cost	–	–	–	651	651
Reversal of expenses for expected credit losses	–	1,317,511	70,797	–	1,388,308
Reversal of expenses for impairment of credit-related commitments	12,730	–	382	–	13,112
Net gains from foreign currencies	145,073	193,576	155,945	537,331	1,031,925
Net gains from precious metals	389	1	–	–	390
Income from other segments	2,592,035	2,702,030	6,304,213	(11,598,278)	–
Total income	**3,797,803**	**12,049,086**	**10,913,649**	**(11,033,759)**	**15,726,779**
Interest expense	(1,774,822)	(2,064,384)	(6,002,167)	–	(9,841,373)
Commission expense	(215,862)	(147,120)	(6,923)	(443)	(370,348)
Net modification losses from financial assets measured at amortised cost	(1,158)	(778,248)	–	–	(779,406)
Expected credit losses expenses	(120,041)	–	–	(7,200)	(127,241)
Net losses on impairment of credit-related commitments	–	(42,425)	–	–	(42,425)
Net losses on investment securities at fair value through profit or loss	–	–	–	(1,422,103)	(1,422,103)
Net losses on investment securities at fair value through other comprehensive income reclassified from other comprehensive income at redemption	–	–	–	(52,803)	(52,803)
Net losses from precious metals	–	–	(550)	(12)	(562)
Personnel expenses	(611,544)	(420,894)	(96,854)	(204,731)	(1,334,023)
Depreciation and amortisation	(59,350)	(28,816)	(3,954)	(8,399)	(100,519)
Other operating expenses	(464,869)	(178,181)	(26,042)	(76,917)	(746,009)
Expenses from other segments	(371,717)	(5,830,514)	(3,824,489)	10,026,720	–
Segment results	**178,440**	**2,558,504**	**952,670**	**(2,779,647)**	**909,967**
Income tax expense					(105,136)
Profit for the year					**804,831**
Assets and liabilities as at 31 December 2018					
Segment assets	5,326,389	73,785,888	80,141,547		159,253,824
Unallocated assets				2,389,649	2,389,649
Total assets					**161,643,473**
Segment liabilities	36,498,494	46,129,782	70,354,835		152,983,111
Unallocated liabilities				208,769	208,769
Total liabilities					**153,191,880**
Other segment information					
Capital expenditure	(73,024)	(29,964)	(4,114)	(8,740)	(115,842)

6. Segment information (continued)

The following table presents income and expenses, profit and loss, asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2017:

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
External					
Interest income	437,804	6,489,340	5,408,542	–	12,335,686
Commission income	526,763	387,166	25,614	–	939,543
Other income	15,216	113,884	5,465	52,413	186,978
Net gains from foreign currencies	149,256	165,049	211,562	–	525,867
Net gains from precious metals	490	–	2,587	–	3,077
Gains from investment securities available-for-sale	–	–	–	3,407	3,407
Gains from investment securities at fair value through profit and loss	–	–	–	258,257	258,257
Reversal of loan impairment allowance	41,449	–	–	1	41,450
Reversal of allowances for other impairment and provisions	–	4,500	46,279	–	50,779
Income from other segments	2,603,929	3,162,623	5,486,154	(11,252,706)	–
Total income	**3,774,907**	**10,322,562**	**11,186,203**	**(10,938,628)**	**14,345,044**
Interest expense	(1,898,426)	(2,492,154)	(5,123,113)	–	(9,513,693)
Commission expense	(206,500)	(115,544)	(10,671)	(465)	(333,180)
Loan impairment charge	–	(682,126)	(25,400)	–	(707,526)
Net losses from foreign currencies	–	–	–	(957,719)	(957,719)
Net losses from precious metals	–	–	–	(5,053)	(5,053)
Losses on investment securities available-for-sale	–	–	(8)	(53,148)	(53,156)
Personnel expenses	(444,820)	(303,344)	(72,722)	(128,643)	(949,529)
Depreciation and amortisation	(59,801)	(28,521)	(4,304)	(8,142)	(100,768)
Other operating expenses	(396,622)	(179,265)	(29,385)	(139,655)	(744,927)
Allowances for other impairment and provisions	(31,740)	–	–	(620)	(32,360)
Losses on initial recognition of financial assets	–	–	(116)	–	(116)
Expenses from other segments	(312,486)	(5,182,262)	(4,960,569)	10,455,317	–
Segment results	**424,512**	**1,339,346**	**959,915**	**(1,776,756)**	**947,017**
Income tax expense					(181,522)
Profit for the year					**765,495**
Assets and liabilities as at 31 December 2017					
Segment assets	5,122,802	67,677,723	95,345,081		168,145,606
Unallocated assets				2,472,367	2,472,367
Total assets					**170,617,973**
Segment liabilities	36,091,973	54,774,212	65,426,841		156,293,026
Unallocated liabilities				261,000	261,000
Total liabilities					**156,554,026**
Other segment information					
Capital expenditure	(52,323)	(23,475)	(3,545)	(6,705)	(86,048)

The significant part of loss for twelve months of 2018 and 2017 from investment securities at fair value through profit and loss related to government bonds revaluation adjusted for exchange rate shift.

6. Segment information (continued)

Geographical information

Most revenues and capital expenditure relates to Ukraine. The Bank has no significant revenue from other countries. The analysis of assets and liabilities by the geographical principle is provided in Note 26.

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2018	*31 December 2017*
Current accounts with other credit institutions	8,792,208	9,243,485
Term deposits with other credit institutions up to 90 days	3,906,258	–
Current account with the National Bank of Ukraine	2,952,279	5,383,134
Overnight deposits with other credit institutions	1,741,038	1,257,692
Cash on hand	1,159,416	1,428,646
Deposits certificates of the National Bank of Ukraine up to 90 days	–	2,553,260
	18,551,199	**19,866,217**
Less: allowance for impairment	(5,341)	–
Cash and cash equivalents	**18,545,858**	**19,866,217**

As at 31 December 2018, included in current accounts with other credit institutions is UAH 8,123,777 thousand placed on current accounts with five OECD banks (31 December 2017: UAH 8,517,033 thousand placed on current accounts with five OECD banks and other banks). These banks are the main counterparties of the Bank in performing international settlements. The placements have been made under normal banking terms and conditions.

As at 31 December 2018, overnight deposit in the amount of UAH 1,741,038 thousand was placed with one OECD bank under market interest rate (31 December 2017: UAH 1,257,692 thousand).

8. Changes in liabilities in financial activities

Changes in cash flows from financing activities in the statement of cash flows for 2017 and 2018 were as follows:

	Borrowings from credit institutions	*Eurobonds issued*	*Subordinated debt*	*Total*
Carrying amount at 31 December 2016	**25,268,686**	**37,562,345**	**3,495,895**	**66,326,926**
Additions	1,363,320	–	–	1,363,320
Repayments	(5,981,091)	–	–	(5,981,091)
Translation differences	662,078	1,217,262	110,380	1,989,720
Other	58,459	42,224	9,517	110,200
Carrying amount at 31 December 2017	**21,371,452**	**38,821,831**	**3,615,792**	**63,809,075**
Additions	6,334,445	4,020,167	–	10,354,612
Repayments	(4,735,876)	–	–	(4,735,876)
Translation differences	(451,368)	(509,629)	(51,132)	(1,012,129)
Other	187,844	209,536	20,030	417,410
Carrying amount at 31 December 2018	**22,706,497**	**42,541,905**	**3,584,690**	**68,833,092**

"Other" includes the effect of accrued but unpaid interest on borrowings from credit institutions, issued Eurobonds and subordinated debt. The Bank classifies the paid interest as cash flows from operating activities.

9. Expenses for allowance for impairment

The table below shows the ECL charges/reversal for 2018 recorded in profit or loss:

	Stage 1 Collective	*Stage 2 Collective*	*Stage 2 Individual*	*Stage 3 Collective*	*Stage 3 Individual*	*Other*	*Total*
Cash and cash equivalents	5,341	–	–	–	–	–	5,341
Amounts due from credit institutions	(12,664)	–	–	–	(53,842)	–	(66,506)
Loans to customers	452,319	76,231	(341,725)	62,030	(1,483,432)	–	(1,234,577)
Investment securities at fair value through other comprehensive income	(1,837)	–	–	–	–	–	(1,837)
Other financial assets	36,512	–	–	–	–	–	36,512
Other non-financial assets	–	–	–	–	–	7,694	7,694
Guarantees	1,084	1	–	–	–	–	1,085
Credit-related commitments	24,429	813	(2,543)	1,094	1,748	–	25,541
Letters of credit	2,684	–	–	–	–	–	2,684
Avals on promissory notes	3	–	–	–	–	–	3
	507,871	**77,045**	**(344,268)**	**63,124**	**(1,535,526)**	**7,694**	**(1,224,060)**

The table below shows the impairment charges/reversal by financial assets under IFRS 39 and estimated commitments and contingencies on financial liabilities under IFRS 37 for 2017 recorded in profit and loss.

	Impairment allowance charge/reversal
Amounts due from credit institutions	27,845
Loans to customers	638,231
Other assets	(19,333)
Guarantees and commitments	914
	647,657

10. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2018	*31 December 2017*
Loans and deposits		
Ukrainian banks	811,659	1,150,873
OECD banks	202,981	205,759
CIS and other banks	58,732	70,187
	1,073,372	**1,426,819**
Amounts due from other credit institutions		
Current accounts with other credit institutions in precious metals	131,701	72,891
Other amounts due from credit institutions	210,689	74,480
	1,415,762	**1,574,190**
Less: allowance for impairment	(845,872)	(874,451)
Amounts due from credit institutions	**569,890**	**699,739**

10. Amounts due from credit institutions (continued)

As at 31 December 2018, loans and deposits due from credit institutions include UAH 261,733 thousand of security deposits placed mainly in respect of customers' transactions such as letters of credit, guarantees (31 December 2017: UAH 275,967 thousand).

As at 31 December 2018, other amounts due from credit institutions include amounts due on transactions with cash for the amount of UAH 136,247 thousand (31 December 2017: UAH 22 thousand).

The following tables show an analysis of changes in gross carrying amount and corresponding ECL on amounts due from credit institutions during 2018:

	Stage 1	*Stage 3*	*Total*
Gross carrying amount at 1 January 2018 under IFRS 9	**618,137**	**968,135**	**1,586,272**
New assets originated or purchased	200,070	–	200,070
Assets derecognized/(repaid)	(110,789)	(18)	(110,807)
Changes in carrying amount	(100,911)	(137,228)	(238,139)
Translation differences	(20,986)	(648)	(21,634)
Gross carrying amount at 31 December 2018	**585,521**	**830,241**	**1,415,762**

	Stage 1	*Stage 3*	*Total*
Allowance at 1 January 2018 under IFRS 9	**36,933**	**884,731**	**921,664**
New assets originated or purchased	4,243	–	4,243
Assets derecognized/(repaid)	(13,748)	–	(13,748)
Changes in allowance	(3,159)	(53,842)	(57,001)
Translation differences	(8,638)	(648)	(9,286)
Allowance at 31 December 2018	**15,631**	**830,241**	**845,872**

The movements in allowance for impairment of amounts due from credit institutions during 2017 are as follows:

	Loans and deposits
At 1 January 2017	**845,865**
Charge	27,845
Translation differences	741
At 31 December 2017	**874,451**

11. Loans to customers

Loans to customers comprise:

	31 December 2018	*31 December 2017*
Commercial loans	134,331,150	115,044,665
Overdrafts	1,457,972	709,605
Finance lease receivables	1,360,897	67,299
Promissory notes	74,717	52,614
	137,224,736	**115,874,183**
Less: allowance for impairment	(64,728,378)	(48,266,639)
Loans to customers at amortised cost	**72,496,358**	**67,607,544**

11. Loans to customers (continued)

Commercial loans

The following tables show an analysis of changes in gross carrying amount and corresponding ECL on commercial loans during 2018:

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*POCI*	*Total*
Gross carrying amount at 1 January 2018 under IFRS 9	**46,505,346**	**–**	**503,037**	**74,212,985**	**6,846,200**	**–**	**128,067,568**
New assets originated or purchased	19,982,185	–	–	–	–	1,779,821	21,762,006
Assets derecognized/(repaid)	(7,496,257)	(76,340)	(168,692)	(7,263,205)	(383,959)	–	(15,388,453)
Transfer to Stage 1	432,265	(373,180)	(56,106)	–	(2,979)	–	–
Transfer to Stage 2	(2,169,886)	3,991,968	543,754	(2,358,418)	(7,418)	–	–
Transfer to Stage 3	(3,662,837)	(1,132,089)	(127,158)	5,176,125	(254,041)	–	–
Changes in carrying amount	(1,198,120)	(138,413)	(124,725)	2,900,583	419,598	(41,982)	1,816,941
Translation differences	(628,116)	99,538	(1,930)	(1,298,958)	(67,481)	(29,965)	(1,926,912)
Gross carrying amount at 31 December 2018	**51,764,580**	**2,371,484**	**568,180**	**71,369,112**	**6,549,920**	**1,707,874**	**134,331,150**

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Allowance at 1 January 2018 under IFRS 9	**1,043,848**	**–**	**39,958**	**58,421,343**	**6,329,729**	**65,834,878**
New assets originated or purchased	676,392	–	–	–	–	676,392
Assets derecognized/(repaid)	(140,191)	(2,972)	(4,008)	(399,604)	(278,610)	(825,385)
Transfer to Stage 1	14,689	(11,179)	(1,178)	–	(2,332)	–
Transfer to Stage 2	(197,345)	573,955	19,760	(391,625)	(4,745)	–
Transfer to Stage 3	(246,498)	(40,256)	(41,203)	725,153	(397,196)	–
Transfer to POCI	–	–	–	(1,704,856)	–	(1,704,856)
Interest income adjustment	–	–	–	2,564,098	288,360	2,852,458
Recoveries	–	–	–	23,625	2,730	26,355
Changes in allowance	(129,656)	(332,959)	79,870	(1,084,536)	341,818	(1,125,463)
Translation differences	(22,052)	11,758	(1,537)	(1,043,502)	(21,040)	(1,076,373)
Allowance at 31 December 2018	**999,187**	**198,347**	**91,662**	**57,110,096**	**6,258,714**	**64,658,006**

Overdrafts

The following tables show an analysis of changes in gross carrying amount and corresponding ECL on overdrafts during 2018:

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Gross carrying amount at 1 January 2018 under IFRS 9	**708,479**	**–**	**1,107**	**–**	**19**	**709,605**
New assets originated or purchased	1,463,639	–	–	–	–	1,463,639
Assets derecognized/(repaid)	(762,645)	–	(6,463)	–	–	(769,108)
Transfer to Stage 1	39,708	(39,708)	–	–	–	–
Transfer to Stage 2	(123,019)	94,412	28,607	–	–	–
Transfer to Stage 3	(40,213)	(59,455)	(2,408)	59,455	42,621	–
Changes in carrying amount	93,952	4,751	(8,565)	1,514	(42,316)	49,336
Translation differences	4,500	–	–	–	–	4,500
Gross carrying amount at 31 December 2018	**1,384,401**	**–**	**12,278**	**60,969**	**324**	**1,457,972**

11. Loans to customers (continued)

Overdrafts (continued)

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Allowance at 1 January 2018 under IFRS 9	**23,632**	**–**	**68**	**–**	**15**	**23,715**
New assets originated or purchased	37,694	–	–	–	–	37,694
Assets derecognized/(repaid)	(21,697)	–	(944)	–	–	(22,641)
Transfer to Stage 1	1,569	(1,569)	–	–	–	–
Transfer to Stage 2	(10,144)	9,472	672	–	–	–
Transfer to Stage 3	(761)	(2,109)	(651)	2,109	1,412	–
Changes in allowance	1,026	(5,794)	1,313	708	(1,178)	(3,925)
Translation differences	123	–	–	–	–	123
Allowance at 31 December 2018	**31,442**	**–**	**458**	**2,817**	**249**	**34,966**

Finance lease receivables

The following tables show an analysis of changes in gross carrying amount and corresponding ECL on finance lease receivables:

	Stage 1 Collective	*Stage 3 Individual*	*Total*
Gross carrying amount at 1 January 2018 under IFRS 9	**62,654**	**4,645**	**67,299**
New assets originated or purchased	1,351,486	–	1,351,486
Assets derecognized/(repaid)	(52,408)	–	(52,408)
Changes in carrying amount	(5,480)	–	(5,480)
Gross carrying amount at 31 December 2018	**1,356,252**	**4,645**	**1,360,897**

	Stage 1 Collective	*Stage 3 Individual*	*Total*
Allowance at 1 January 2018 under IFRS 9	**1,243**	**4,645**	**5,888**
New assets originated or purchased	29,727	–	29,727
Assets derecognized/(repaid)	(956)	–	(956)
Changes in allowance	(216)	–	(216)
Allowance at 31 December 2018	**29,798**	**4,645**	**34,443**

Promissory notes

The following tables show an analysis of changes in gross carrying amount and corresponding ECL on promissory notes during 2018:

	Stage 1 Collective
Gross carrying amount at 1 January 2018 under IFRS 9	**52,614**
New assets originated or purchased	207,037
Assets derecognized/(repaid)	(187,632)
Changes in carrying amount	2,698
Gross carrying amount at 31 December 2018	**74,717**

11. Loans to customers (continued)

Promissory notes (continued)

	Stage 1 Collective
Allowance at 1 January 2018 under IFRS 9	**767**
New assets originated or purchased	2,588
Assets derecognized/(repaid)	(2,401)
Changes in allowance	9
Allowance at 31 December 2018	**963**

In 2018, the Bank recognised POCI assets. Undiscounted expected credit losses on initial recognition of such POCI amounted to UAH 1,816,879 thousand.

A reconciliation of the allowance for impairment of loans to customers by class during 2017 is as follows:

	Commercial loans	*Overdrafts*	*Finance lease receivables*	*Promissory notes*	*Total*
At 1 January 2017	**45,512,446**	**31,920**	**5,135**	**1,306**	**45,550,807**
Charge/(reversal) for the year	642,389	(4,779)	905	(284)	638,231
Recoveries	98,834	–	–	–	98,834
Amounts written-off	(133,029)	–	(152)	–	(133,181)
Translation differences	2,111,946	2	–	–	2,111,948
At 31 December 2017	**48,232,586**	**27,143**	**5,888**	**1,022**	**48,266,639**
Individual impairment	46,966,970	16	4,644	–	46,971,630
Collective impairment	1,265,616	27,127	1,244	1,022	1,295,009
	48,232,586	**27,143**	**5,888**	**1,022**	**48,266,639**
Total amount of individually impaired loans before the allowance for impairment of such assets	68,037,199	19	4,645	–	68,041,863

Credit-impaired loans

For the year ended 31 December 2018, the interest income accrued on credit-impaired loans amounted to UAH 2,465,529 thousand (31 December 2017: UAH 1,519,423 thousand).

In accordance with the Ukrainian law, loans may only be written off with the approval of the Bank's Board.

11. Loans to customers (continued)

Modified loans

The Bank derecognises a financial asset, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financial instrument, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in derecognition, based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification gains or loss.

	2018
Loans to customers modified during the period	
Amortised cost before modification	19,681,307
Net modification loss	(778,755)

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions - cash or securities;
- For commercial lending - charges over real estate properties, inventory and trade receivables;
- For retail lending - mortgages over residential properties and vehicles.

The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

As at 31 December 2018, UAH 1,152,540 thousand of customer deposits are pledged as collateral for loans to customers (31 December 2017: UAH 470,144 thousand) (Note 19).

The analysis of collateral value for credit-impaired assets (stage 3) taken in to accounted by the Bank when assessing the impairment of assets is provided in Note 26.

In 2018, the Bank effected the repayment of loans to customers through the pledged property. The value of pledged property used for repayment of loans to customers amounted to UAH 258,680 thousand (2017: UAH 248,310 thousand).

Concentration of loans to customers

As at 31 December 2018, the Bank has a concentration of loans represented by UAH 60,937,944 thousand due from ten largest borrowers (44.41% of gross loan portfolio) (31 December 2017: UAH 55,624,357 thousand or 48.00%). The allowance of UAH 11,063,820 thousand has been recognised against these loans (31 December 2017: UAH 20,763,109 thousand).

11. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans have been extended to the following types of customers:

	31 December 2018	*31 December 2017*
Legal entities	103,567,422	86,366,875
State entities	31,594,636	28,107,432
Individuals	1,973,096	1,382,786
Municipal and utility entities	89,582	17,090
	137,224,736	**115,874,183**

Loans are made principally within Ukraine to companies of the following industry sectors:

	31 December 2018	*%*	*31 December 2017*	*%*
Agriculture and food industry	20,165,323	14.7	15,755,661	13.6
Extractive industry	16,678,009	12.2	17,946,195	15.5
Trade	15,006,412	10.9	13,356,071	11.5
Chemical industry	14,345,801	10.4	10,506,859	9.1
Power engineering	13,118,945	9.6	8,906,034	7.7
Real estate	10,255,613	7.5	8,939,303	7.7
Metallurgy	8,632,084	6.3	6,424,502	5.5
Mechanical engineering	8,570,178	6.2	8,543,387	7.4
Construction	7,321,231	5.3	6,459,215	5.6
Production of construction materials	5,895,931	4.3	5,207,854	4.5
Hotels and restaurants	3,794,473	2.8	4,667,735	4.0
Transport and communications	2,957,642	2.1	1,676,440	1.4
Production of rubber and plastic goods	2,937,244	2.1	2,540,034	2.2
Individuals	1,973,096	1.4	1,382,786	1.2
Pulp and paper industry	1,732,238	1.3	1,114,220	1.0
Professional, scientific and technical activities	632,466	0.5	14,835	0.0
Metal processing	560,264	0.4	369,100	0.3
Light industry	498,227	0.4	347,765	0.3
Wood processing	433,774	0.3	293,125	0.3
Other processing activities	377,151	0.3	365,368	0.3
Finance	377,124	0.3	428,583	0.4
Other	961,510	0.7	629,111	0.5
Total	**137,224,736**	**100.0**	**115,874,183**	**100.0**

As at 31 December 2018, "Other" category included debts on loans issued to customers are registered in the Republic of Crimea in the amount of UAH 450,954 thousand (31 December 2017: (UAH 270,030 thousand) with UAH 450,954 thousand of allowance for impairment of these loans (31 December 2017: UAH 270,030 thousand).

11. Loans to customers (continued)

Concentration of loans to customers (continued)

Corporate lending portfolio includes finance lease receivables. They may be analysed as follows:

	31 December 2018	*31 December 2017*
Gross investment in finance leases, receivable:		
Within 1 year	764,468	50,007
From 1 to 5 days	3,478,375	28,724
	4,242,843	**78,731**
Future investments in finance leases	(1,320,336)	–
Unearned future finance income on finance leases	(1,561,610)	(11,432)
Net investment in finance leases	**1,360,897**	**67,299**

	31 December 2018	*31 December 2017*
Net investment in finance leases, receivable:		
Within 1 year	377,554	41,282
From 1 to 5 days	983,343	26,017
Net investment in finance leases	**1,360,897**	**67,299**

12. Investment securities

Investment securities at fair value through profit or loss

As at 31 December 2018, investment securities at FVPL with the carrying value of UAH 26,653,561 thousand (31 December 2017: UAH 28,072,289 thousand) are represented by Ukrainian state bonds. The conditions of issue of those securities provide for indexation of the nominal value by maturity according to the changes in the average interbank exchange rate of Hryvnia to US Dollar per month prior to the date of issue and per month prior to the maturity date. Coupon yield is not subject to indexation.

Investment securities at fair value through other comprehensive income and available-for-sale investment securities

	31 December 2018	*31 December 2017*
Ukrainian state bonds	–	46,698,684
Corporate bonds	–	1,540,930
Corporate shares	–	15,097
Available-for-sale investment securities	**–**	**48,254,711**
Ukrainian state bonds	34,371,218	–
Corporate bonds	1,401,274	–
Corporate shares	16,603	–
Investment securities at fair value through other comprehensive income	**35,789,095**	**–**

12. Investment securities (continued)

Investment securities at fair value through other comprehensive income and available-for-sale investment securities (continued)

The Bank at its own discretion has designated some of its equity investments previously classified as available-for-sale as equity investments at FVOCI on the basis that these are not held for trading. Such investments primarily include mandatory shares in exchanges and clearing houses, investments arising when the Bank received equity shares in exchange for debt settlement, and strategic investments in other banks.

The following tables show an analysis of changes in the gross carrying amount and expected credit losses on investment securities at fair value through other comprehensive income during 2018:

	Stage 1	*Stage 3*	*Total*
Gross carrying amount at 1 January 2018 under IFRS 9	**48,254,711**	**4,218,021**	**52,472,732**
New assets originated or purchased	31,996,184	–	31,996,184
Assets derecognized/(repaid)	(43,002,320)	–	(43,002,320)
Changes in carrying amount	(684,915)	–	(684,915)
Translation differences	(769,028)	–	(769,028)
Gross carrying amount at 31 December 2018	**35,794,632**	**4,218,021**	**40,012,653**

	Stage 1	*Stage 3*	*Total*
Allowance at 1 January 2018 under IFRS 9	**7,374**	**4,218,021**	**4,225,395**
Changes in allowance	(1,837)	–	(1,837)
Allowance at 31 December 2018	**5,537**	**4,218,021**	**4,223,558**

Investment securities at amortised cost and investment securities held to maturity

	31 December 2018		*31 December 2017*	
	Nominal value	*Carrying amount*	*Nominal value*	*Carrying amount*
Ukrainian state bonds	–	–	98,164	96,022
Held-to-maturity investments	–	**–**		**96,022**
Ukrainian state bonds	49,082	49,855	–	–
Investment securities at amortised cost		**49,855**	**–**	**–**

13. Investment property

The movements of investment property are as follows:

	2018	*2017*
Investment property as at 1 January	**1,260,398**	**1,344,074**
Transfer from property and equipment	–	6,579
Additions	3,081	1,620
Disposals	(79,877)	(12,556)
Net loss from fair value remeasurement	(30,359)	(39,274)
Transfer to non-current assets held for sale	–	(40,045)
Investment property as at 31 December	**1,153,243**	**1,260,398**

In 2018, the Bank revalued its investment property. The valuation was performed by internal appraiser specialist who has appropriate professional qualifications and years of experience in valuation of similar properties in Ukraine. The basic valuation approach applied was the comparative approach.

The Bank leased out a portion of its investment property under operating lease agreements. Future minimum receivables under non-cancellable operating leases comprise the following:

	31 December 2018	*31 December 2017*
Within 1 year	10,676	15,123
From 1 to 5 days	8,746	374
Future minimum receivables under non-cancellable operating lease	**19,422**	**15,497**

In 2018, the Bank recognised rental income of UAH 34,068 thousand (2017: UAH 32,990 thousand) included in other income in the consolidated statement of profit and loss (the consolidated income statement).

14. Property and equipment

The movements of property and equipment were as follows:

	Buildings	*Leasehold improvements*	*Computers and equipment*	*Furniture, fittings and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
At 31 December 2017	**1,437,871**	**5,958**	**481,601**	**239,853**	**20,509**	**55,550**	**2,241,342**
Additions	–	–	76,125	13,230	1,568,123	674	1,658,152
Disposals	(14)	(545)	(15,949)	(1,534)	(1,568,275)	(962)	(1,587,279)
Transfers	4,690	321	–	–	–	(5,011)	–
At 31 December 2018	**1,442,547**	**5,734**	**541,777**	**251,549**	**20,357**	**50,251**	**2,312,215**
Accumulated depreciation							
At 31 December 2017	**(2,172)**	**(5,176)**	**(388,821)**	**(184,167)**	**(19,992)**	**–**	**(600,328)**
Charge for the year	(25,136)	(443)	(43,439)	(14,588)	(329)	–	(83,935)
Disposals	14	545	15,983	1,463	152	–	18,157
At 31 December 2017	**(27,294)**	**(5,074)**	**(416,277)**	**(197,292)**	**(20,169)**	**–**	**(666,106)**
Net book value							
At 31 December 2017	**1,435,699**	**782**	**92,780**	**55,686**	**517**	**55,550**	**1,641,014**
At 31 December 2018	**1,415,253**	**660**	**125,500**	**54,257**	**188**	**50,251**	**1,646,109**

14. Property and equipment (continued)

	Buildings	*Leasehold improvements*	*Computers and equipment*	*Furniture, fittings and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
At 31 December 2016	**1,878,618**	**9,010**	**449,689**	**233,002**	**20,848**	**139,024**	**2,730,191**
Additions	132	–	36,057	7,929	–	10,389	54,507
Disposals	–	(3,568)	(4,145)	(1,036)	(339)	(90,079)	(99,167)
Transfer to investment property	(6,570)	–	–	(42)	–	–	(6,612)
Transfers	3,268	516	–	–	–	(3,784)	–
Deduction of accumulated depreciation on re-evaluation	(91,486)	–	–	–	–	–	(91,486)
Revaluation of property and equipment	(346,091)	–	–	–	–	–	(346,091)
At 31 December 2017	**1,437,871**	**5,958**	**481,601**	**239,853**	**20,509**	**55,550**	**2,241,342**
Accumulated depreciation							
At 31 December 2016	**(62,768)**	**(8,347)**	**(348,707)**	**(170,548)**	**(19,149)**	**–**	**(609,519)**
Charge for the year	(30,902)	(288)	(44,257)	(14,675)	(1,182)	–	(91,304)
Disposals	–	3,459	4,143	1,035	339	–	8,976
Transfer to investment property	12	–	–	21	–	–	33
Write-off of accumulated depreciation on re-evaluation	91,486	–	–	–	–	–	91,486
At 31 December 2017	**(2,172)**	**(5,176)**	**(388,821)**	**(184,167)**	**(19,992)**	**–**	**(600,328)**
Net book value							
At 31 December 2016	**1,815,850**	**663**	**100,982**	**62,454**	**1,699**	**139,024**	**2,120,672**
At 31 December 2017	**1,435,699**	**782**	**92,780**	**55,686**	**517**	**55,550**	**1,641,014**

As at 31 December 2018, buildings, leasehold improvements and other items of property equipment include assets with the cost or revalued amount of UAH 425,166 thousand which are fully depreciated (31 December 2017: UAH 365,321 thousand). These assets are still used by the Bank.

As at 31 December 2018, the Bank had capital commitments for the acquisition of property and equipment of UAH 3,872 thousand (31 December 2017: UAH 4,616 thousand).

As at 1 March and 1 August of each year, the Bank performs testing of fair value of buildings. On the basis of such testing the deviation between fair value of buildings and their carrying value is calculated. The Bank analyses the calculated deviations for the significance of the impact on its financial statements and carries out a revaluation in case of significant deviation.

In addition, regardless of the results of buildings fair value testing, the Bank carries out a valuation no less than once every three years. The latest valuation was performed in 2017 by independent appraisers and fair value was determined using comparative and income approaches based on market information.

If the buildings were reported at cost as at 31 December 2018, the carrying amount would be as follows:

	31 December 2018 (revalued)	*31 December 2018 (at cost)*	*31 December 2017 (revalued)*	*31 December 2017 (at cost)*
Cost	1,442,547	1,046,065	1,437,871	1,041,422
Accumulated depreciation	(27,294)	(189,444)	(2,172)	(177,567)
Net book value	**1,415,253**	**856,621**	**1,435,699**	**863,855**

15. Intangible assets

The movements in intangible assets were as follows:

	Computer software and licenses
Cost	
At 31 December 2017	**112,365**
Additions	21,345
Disposals	(4,879)
At 31 December 2018	**128,831**
Accumulated depreciation	
At 31 December 2017	**(62,860)**
Charge for the year	(16,584)
Disposals	4,879
At 31 December 2018	**(74,565)**
Net book value	
At 31 December 2017	**49,505**
At 31 December 2018	**54,266**

	Computer software and licenses
Cost	
At 31 December 2016	**80,228**
Additions	32,191
Disposals	(54)
At 31 December 2017	**112,365**
Accumulated depreciation	
At 31 December 2016	**(53,450)**
Charge for the year	(9,464)
Disposals	54
At 31 December 2017	**(62,860)**
Net book value	
At 31 December 2016	**26,778**
At 31 December 2017	**49,505**

As at 31 December 2018, intangible assets with a cost of UAH 41,334 thousand were fully amortised (31 December 2017: UAH 41,085 thousand). These assets are still used by the Bank.

As at 31 December 2018, the Bank had capital commitments for the acquisition of intangible assets of UAH 7,740 thousand (31 December 2017: UAH 19,125 thousand).

16. Income tax

The income tax charge comprises:

	31 December 2018	*31 December 2017*
Current tax charge	135	(816)
Deferred tax	(105,271)	(180,706)
Income tax expense	**(105,136)**	**(181,522)**

As at 31 December 2018, Ukrainian corporate income tax was calculated as taxable income less allowable expenses at the rate of 18% (31 December 2017: 18%).

Income tax assets and liabilities consist of the following:

	31 December 2018	*31 December 2017*
Tax assets	161,080	122,321
Deferred income tax asset	2,033,021	2,138,292
Tax assets	**2,194,101**	**2,260,613**

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax charge based on the statutory rate with the actual rate is as follows:

	2018	*2017*
Profit before tax	**909,967**	**947,017**
Statutory tax rate	18%	18%
Income tax charge at the statutory rate	**(163,794)**	**(170,463)**
Changes in unrecognised deferred tax asset	68,758	124,491
Income recognised for tax purposes only	–	(114,319)
Non-deductible expenditures	(10,100)	(21,231)
Income tax expense	**(105,136)**	**(181,522)**

16. Income taxes (continued)

Deferred tax assets and liabilities include:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*		
	1 January 2017	*In the consolidated statement of profit and loss (consolidated income statement)*	*In the consolidated statement of comprehensive income*	*31 December 2017*	*Effect of application of IFRS 9*	*In the consolidated statement of profit and loss (consolidated income statement)*	*In the consolidated statement of comprehensive income*	*31 December 2018*
Tax effect of deductible temporary differences								
Allowances for impairment of assets and liabilities	2,700,931	328,984	–	3,029,915	374,405	(1,877,800)	–	1,526,520
Valuation of financial instruments	67,737	(22,134)	26,025	71,628	–	–	195,498	267,126
Accrued interest on the debt obligations	717,822	(717,822)	–	–	–	–	–	–
Other assets	3,334	(3,334)	–	–	–	–	–	–
Unused tax losses carried forward	–	48,804	–	48,804	–	1,699,771	–	1,748,575
Deferred income tax asset	**3,489,824**	**(365,502)**	**26,025**	**3,150,347**	**374,405**	**(178,029)**	**195,498**	**3,542,221**
Unrecognised deferred tax asset	**(1,103,342)**	**124,491**	**(26,025)**	**(1,004,876)**	**(374,405)**	**68,758**	**(195,498)**	**(1,506,021)**
Recognised deferred tax asset	**2,386,482**	**(241,011)**	**–**	**2,145,471**	**–**	**(109,271)**	**–**	**2,036,200**
Tax effect of deductible temporary differences								
Property and equipment and intangible assets	(64,482)	60,305	(3,002)	(7,179)	–	4,000	–	(3,179)
Deferred tax liabilities	**(64,482)**	**60,305**	**(3,002)**	**(7,179)**	**–**	**4,000**	**–**	**(3,179)**
Net deferred tax asset	**2,322,000**	**(180,706)**	**(3,002)**	**2,138,292**	**–**	**(105,271)**	**–**	**2,033,021**

The information on the professional judgements applied by the management for the recognition of deferred tax assets is provided in Note 4.

17. Other assets and liabilities

Other assets comprise:

	31 December 2018	*31 December 2017*
Other financial assets		
Other accrued income	363,981	328,468
Transit accounts on operations with payment cards	169,002	156,452
Accounts receivable on operations with customers	64,987	215,757
Accrued service fee on financial guarantees issued	18,804	9,431
Other	122	124
	616,896	**710,232**
Less: allowance for impairment	(389,595)	(309,474)
Other financial assets	**227,301**	**400,758**
Other assets		
Advance payments	1,688,710	57,179
Other tax assets, except those related to income tax	463,496	259,635
Precious metals	83,634	61,197
Cash the availability of which is not confirmed	34,855	35,471
Inventories	32,743	25,313
Other	3,017	1,368
	2,306,455	**440,163**
Less: allowance for impairment	(82,233)	(73,005)
Other assets	**2,224,222**	**367,158**
Total other assets	**2,451,523**	**767,916**

Advance payments include the amount of advance payment for the acquisition of the items to be provided by the Bank for finance lease in the amount of UAH 1,568 1,568 thousand. The respective value added tax amount for such advance payment is included in "Other tax assets except for those related to income tax" in the amount of UAH 313,625 thousand. Also, the Bank received advance payments under finance lease transactions in the amount of UAH 564,524 thousand (Note 19).

Other liabilities comprise:

	31 December 2018	*31 December 2017*
Other financial liabilities		
Transit accounts on operations with customers	31,643	6,126
Transit accounts on operations with payment cards	29,771	31,921
Liabilities on financial guarantees issued	8,756	7,123
Accrued expenses	6,481	4,173
Other financial liabilities	**76,651**	**49,343**
Other liabilities		
Accrued unused vacations	111,952	74,213
Accrued salary	71,727	74,453
Payables to the Individual Deposit Guarantee Fund	64,542	53,775
Payables on taxes and mandatory contributions, except for income tax	38,040	27,705
Deferred income	27,329	29,196
Payables on the Bank's business activities	22,627	8,996
Accrued pension contributions	1,800	1,030
Other	8,955	6,237
Other liabilities	**346,972**	**275,605**
Total other liabilities	**423,623**	**324,948**

17. Other assets and liabilities (continued)

The following tables show an analysis of changes in gross carrying amount and corresponding ECL on other financial assets (except for transit accounts on operations with payment cards) during 2018:

	Stage 1 Collective
Gross carrying amount at 1 January 2018 under IFRS 9	**553,780**
New assets originated or purchased	88,436
Assets derecognized/(repaid)	(186,865)
Changes in carrying amount	(5,825)
Translation differences	(1,632)
Gross carrying amount at 31 December 2018	**447,894**

	Stage 1 Collective
Allowance at 1 January 2018 under IFRS 9	**466,342**
New assets originated or purchased	5,710
Assets derecognized/(repaid)	(10,978)
Transfer to POCI	(109,304)
Changes in allowance	41,780
Translation differences	(3,955)
Allowance at 31 December 2018	**389,595**

The following tables show an analysis of changes in ECL on other financial assets during 2018:

Allowance at 1 January 2018 under IFRS 9	**73,005**
Charge/(reversal)	7,694
Translation differences	1,534
Allowance at 31 December 2018	**82,233**

Movements in allowance for other assets during 2017 are provided in the table below:

	Other assets
At 1 January 2017	**400,408**
Charge/(reversal)	(19,333)
Amounts written-off	(2,170)
Translation differences	3,574
At 31 December 2017	**382,479**

18. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2018	*31 December 2017*
Loans from international financial organisations	22,475,335	20,896,851
Current accounts	1,612,142	1,823,814
Loans and deposits from other banks	318,435	560,689
Correspondent account with the NBU	–	2,424
Other amounts due to credit institutions	1	9
Amounts due to credit institutions	**24,405,913**	**23,283,787**
Held as security against guarantees (Note 23)	–	–

As at 31 December 2018, current accounts include UAH 1,236,727 thousand placed by five Ukrainian banks (31 December 2017: UAH 1,234,719 thousand placed by five Ukrainian banks). The placements have been made under normal banking terms and conditions.

As at 31 December 2018, overall amount due to credit institutions includes UAH 1,698,941 thousand received from Ukrainian banks (31 December 2017: UAH 1,909,175 thousand).

As at 31 December 2018, loans and deposits received from other banks and loans from international financial organisations include UAH 231,162 thousand under agreements with foreign creditors for the purpose of funds attraction for guarantee and insurance coverage of export credit agencies received from OECD banks and UAH 21,369 thousand under the trade financing agreements (31 December 2017: UAH 474,601 thousand and UAH 23,813 thousand, respectively). These loans are denominated in euros (31 December 2017: in euros) and bear fixed and floating interest rates and are matched in maturity with loans to customers issued by the Bank under the above mentioned financing programmes.

As at 31 December 2018, loans from international financial organisations include loans from the International Bank for Reconstruction and Development (IBRD) within the Second Project of Export Development and Additional Financing for the Second Project of Export Development with a carrying amount of UAH 5,732,611 thousand (31 December 2017: UAH 6,099,080 thousand). The loans are denominated in US dollars, bear interest rates LIBOR(6m)USD + spread EIB, which is reviewed twice a year, with the current interest rate: 3.12% and 3.55% p.a., respectively. Loans mature in 2026 and 2041.

Loans from international financial institutions include the loan from the IBRD under the Project on Energy Efficiency in the amount of UAH 4,543,506 thousand (31 December 2017: UAH 4,778,533 thousand). The loan is denominated in US dollars, bears interest rate LIBOR(6m)USD + spread EIB, which is reviewed twice a year, with the current interest rate 3.33% p.a.. The loan matures in 2040.

Loans from international financial institutions include the loan from the IBRD under the Project Access to Long Term Finance in the amount of UAH 876,659 thousand. The total amount of these loans under the loan agreements is USD 150,000 thousand. . The loan is denominated in US dollars, bears interest rate LIBOR(6m)USD + spread EIB, which is reviewed twice a year, with the current interest rate 3.55% p.a.. The loan matures in 2052.

As at 31 December 2018, loans from international financial institutions include loans from the European Investment Bank ("EIB") under the loan for SMEs and Mid-Caps and loan under the Deep and Comprehensive Free Trade Area (DCFTA) Initiative between EU and Ukraine totalling UAH 5,166,848 thousand (31 December 2017: UAH 3,302,977 thousand) The total amount of these loans under the loan agreements is EUR 360,000 thousand. Loan tranches are denominated in US dollars and mature in 2023, bear fixed and floating interest rate for each tranche: LIBOR(6m)USD + spred EIB, floating interest rate are reviewed twice a year, with the current interest rate: 5.027%, 6.12888% and 6.42788% p.a., respectively.

Loans from international financial institutions also include loans from the European Bank of Reconstruction and Development ("EBRD") under the Program of loans to SMEs aimed at supporting the DCFTA with Ukraine. The amount of loan under the Loan Agreement is equivalent to USD 25,000 thousand. . The loan is denominated US dollars and is accounted for by the Bank in UAH at the fixed interest rate of 18.1% p.a. The loan matures in 2021.

For the purposes of the consolidated cash flow statement presentation, the Bank allocates funds attracted from credit institutions between operating and financing activities. Funds raised from the Ukrainian banks were included in the funds for operating activities, and funds from other banks were included in the funds for financing activities.

Loan agreements with international financial organisations and come other banks provide for various covenants and restrictions (Note 23).

19. Amounts due to customers

Amounts due to customers comprise:

	31 December 2018	*31 December 2017*
Current accounts:		
- Legal entities	18,106,953	17,517,732
- Budget financed organizations	6,592,570	6,825,732
- Individuals	4,110,000	4,017,437
- Funds under the Bank's management	1	1
	28,809,524	**28,360,902**
Time deposits:		
- Legal entities	31,235,635	41,077,335
- Individuals	22,117,965	21,063,263
	53,353,600	**62,140,598**
Amounts due to customers	**82,163,124**	**90,501,500**
Held as security against loans to customers (Note 11)	1,152,540	470,144
Held as security against letters of credit (Note 23)	1,020,095	350,089
Held as security against guarantees and avals (Note 23)	899,741	470,238
Advance payments received under finance leas (Note 17)	564,524	–
Held as security against undrawn loan commitments (Note 23)	12,800	12,137

As at 31 December 2018, legal entities current accounts included funds of ten largest customers in the amount of UAH 6,395,321 thousand (35.3% of legal entities current accounts) (31 December 2017: UAH 3,945,266 thousand, or 22.5%).

As at 31 December 2018, individuals' current accounts included funds of ten largest customers in the amount of UAH 130,176 thousand (3.2% of individuals' current accounts) (31 December 2017: UAH 140,703 thousand, or 3.5%).

As at 31 December 2018, term deposits of legal entities included funds attracted from five customers in the amount of UAH 20,365,656 thousand (65.2% of term deposits of legal entities) (31 December 2017: UAH 29,041,841 thousand, or 70.7%).

As at 31 December 2018, term deposits of individuals included funds attracted from ten customers in the amount of UAH 1,280,491 thousand (5.8% of term deposits of individuals) (31 December 2017: UAH 1,242,393 thousand, or 5.9%).

As at 31 December 2018, term deposits of legal entities included funds raised in gold, which are accounted at fair value through profit or loss in the amount to UAH 13,682 thousand (31 December 2017: UAH 15,878 thousand).

The return of term deposit on customer's request prior to the date of maturity or occurrence of other events specified in the agreement could be done only in cases provided for by the deposit agreement.

19. Amounts due to customers (continued)

An analysis of customer accounts by economic sector is as follows:

	31 December 2018	*%*	*31 December 2017*	*%*
Individuals	26,227,965	31.9	25,080,700	27.7
Agriculture and food industry	20,326,311	24.7	29,252,217	32.3
Budget financed organizations	6,592,570	8.0	6,825,732	7.5
Trade	5,850,084	7.1	6,176,607	6.8
Mechanical engineering	3,411,351	4.2	4,168,734	4.6
Finance	2,520,362	3.1	2,365,596	2.6
Professional, scientific and technical activities	2,498,456	3.0	3,129,411	3.5
Power engineering	2,198,647	2.7	1,209,384	1.3
Extractive industry	1,992,093	2.4	526,133	0.6
Transport and communications	1,594,116	1.9	1,050,228	1.2
Construction	1,297,347	1.6	1,025,845	1.1
Metal processing	901,708	1.1	902,170	1.0
Information and telecommunications	723,266	0.9	1,692,675	1.9
Real estate	600,222	0.7	661,627	0.7
Production of construction materials	568,994	0.7	680,606	0.8
Processing	445,426	0.5	509,829	0.6
Chemical industry	354,178	0.4	583,796	0.6
Metallurgy	298,995	0.4	229,820	0.3
Personal services	293,734	0.4	248,019	0.3
Education	254,173	0.3	201,930	0.2
Health protection	240,137	0.3	284,422	0.3
Wood processing	228,925	0.3	277,697	0.3
Production of rubber and plastic goods	121,919	0.1	117,304	0.1
Light industry	94,669	0.1	97,668	0.1
Pulp and paper industry	85,526	0.1	78,810	0.1
Hotels and restaurants	74,758	0.1	167,975	0.2
Other	2,367,192	3.0	2,956,565	3.3
Amounts due to customers	**82,163,124**	**100.0**	**90,501,500**	**100.0**

Funds under the Bank's management

The Bank acts as an asset manager in respect of certain funds related to construction financing. Amounts due to funds under the Bank's management are as follows:

	2018	*2017*
At 1 January	**1**	**8,077**
Funds attracted from individuals	60	218
Invested funds	(60)	(8,294)
At 31 December	**1**	**1**

20. Eurobonds issued

	31 December 2018			*31 December 2017*		
	Nominal value ('000)	***Currency***	***Carrying value***	***Nominal value ('000)***	***Currency***	***Carrying amount***
April 2010 issue	500,000	USD	14,044,589	500,000	USD	14,243,831
October 2010 issue	250,000	USD	7,022,294	250,000	USD	7,121,916
January 2013 issue	500,000	USD	14,355,526	500,000	USD	14,546,737
April 2013 issue	100,000	USD	2,871,105	100,000	USD	2,909,347
March 2018 issue	4,051,000	UAH	4,248,391	–	–	–
Eurobonds issued			**42,541,905**			**38,821,831**

In March 2010, the Bank, through BIZ Finance PLC (structured company registered in the United Kingdom) issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.375% p.a. and maturity in April 2015.

In October 2010, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 250,000 thousand (UAH 1,998,250 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.375% p.a. and maturity in April 2015

and were consolidated and form a single series with the notes issued in April 2010.

Issued Eurobonds in the form of loan participation notes with a par value of USD 750,000 thousand and maturity in 2015 were reprofiled on 20 July 2015 on the following conditions:

- The coupon rate of 9.625% p.a.;
- Maturity date was rescheduled for 7 years, i.e. to 27 April 2022 with 50% of the principle amount payable on 27 April 2019 and the remaining part of the principle amount payable in six equal semi-annual payments from 27 October 2019 through 27 April 2022.

As the change in terms did not result in derecognition of existing debt, after amending the terms of these Eurobonds the Bank continued to recognise these liabilities at amortised cost using new recalculated effective interest rate.

In January 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.75% p.a. and maturity in April 2018

In April 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 thousand (UAH 799,300 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.75% p.a. and maturity in April 2018 and were consolidated and form a single series with the notes issued in January 2013.

Issued Eurobonds in the form of loan participation notes with a par value of USD 600,000 thousand and maturity in 2018 were reprofiled on 23 July 2015 on the following conditions:

- The coupon rate of 9.75% p.a.;
- Maturity date was rescheduled for 7 years, i.e. to 22 January 2025 with 50% of the principle amount payable on 22 January 2021 and the remaining part of the principle amount payable in eight equal payments from 22 July 2021 through 22 January 2025.

As the change in terms did not result in derecognition of existing debt, after amending the terms of these Eurobonds the Bank continued to recognise these liabilities at amortised cost using new recalculated effective interest rate.

In March 2018, the Bank, through BIZ Finance PLC (structured company registered in Great Britain) issued Eurobonds in the form of loan participation notes with a par value of UAH 4,051,000 thousand. The bonds had a fixed coupon rate of 16.5% p.a. and maturity in March 2021.

21. Subordinated debt

In February 2006, the Bank obtained a loan of USD 95,000 thousand (UAH 2,630,385 thousand) from Credit Suisse International. This loan was funded by 8.4% loan participation notes issued on a limited recourse basis by Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

In November 2006, the Bank obtained a further loan of USD 30,000 thousand (UAH 830,648 thousand) from Credit Suisse International. This loan was funded by 8.4% loan participation notes, which were consolidated and form a single series with the securities issued in February 2006. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

On 29 May 2015, the Bank as a borrower, the Credit Suisse International as a creditor and Biz Finance Plc as a new creditor signed the second supplementary loan agreement under which Credit Suisse International was replaced with Biz Finance Plc. from the date if its signing.

On 9 July 2015, the Bank and Biz Finance Plc. signed the Agreement on amendments and revisions to the loan agreement (the Agreement on funds borrowing under subordinated debt terms) of USD 125,000 thousand dated 7 February 2006 as amended by the Supplement loan agreement dated 9 November 2006 and the second Supplementary loan agreement dated 29 May 2015, as follows:

- Starting 9 August 2015, the interest rate was changed to 7% p.a. + 6m Libor rate and as at 31 December 2018 comprises 9.52238%;
- Maturity date was rescheduled for 7 years, i.e. to 9 April 2023 with 50% of the principle amount payable on 9 April 2020 and the remaining part of the principle amount payable in six equal semi-annual payments from 9 October 2020 through 9 February 2023.

As at 31 December 2018, the carrying amount of above mentioned loan was UAH 3,584,690 thousand (31 December 2017: UAH 3,615,792 thousand).

22. Equity

As at 31 December 2018, the Bank's authorised issued share capital comprised 26,490,412 (31 December 2017: 26,490,412) ordinary registered shares with a nominal value of UAH 1,462.04 per share (31 December 2017: 1,462.04 per share). As at 31 December 2018, 26,490,412 ordinary registered shares were fully paid and registered (31 December 2017: 26,490,412 shares were fully paid and registered).

In February 2017 according to the Resolution of the Cabinet of Ministers of Ukraine No 54 dated 1 February 2017, the Bank's share capital was increased by UAH 3,022,000 thousand through the issue of 2,066,975 additional shares with the nominal value of UAH 1,462.04 each with 100 percent of these shares kept by the State. These shares were registered in March 2017.

The State of Ukraine acquired the additional issue of shares by exchanging them to Ukrainian state bonds with the indexed nominal value of UAH 3,022,001 thousand.

As at the date of initial recognition, the difference between the nominal and fair value of Ukrainian state bonds in the amount of UAH 635,104 thousand was recognised in equity as the result of transactions with the shareholder.

In March 2017 according to Resolution #123 of the Cabinet of Ministers of Ukraine of 06 March 2017, the Bank's share capital was increased by UAH 4,700,001 thousand through the issue of 3,214,687 additional shares with the nominal value of UAH 1,462.04 each with 100 percent of these shares kept by the State. These shares were registered in April 2017.

The State of Ukraine acquired the additional issue of shares by exchanging them to Ukrainian state bonds in the amount UAH 4,700,001 thousand.

22. Equity (continued)

The movements in share capital were as follows:

	Number of shares	*Nominal amount, UAH'000*	*Restated cost, UAH'000*
At 1 January 2017	**21,208,750**	**31,008,041**	**31,008,041**
Shares issued	5,281,662	7,722,001	7,722,001
At 31 December 2017	**26,490,412**	**38,730,042**	**38,730,042**
Shares issued	–	–	–
At 31 December 2018	**26,490,412**	**38,730,042**	**38,730,042**

Movements in revaluation reserves

Movements in revaluation reserves were as follows:

	Property revaluation reserve	*Unrealised gains/ (losses) on investment securities at fair value through other comprehensive income*	*Revaluation reserves*
At 1 January 2017	**1,021,863**	**(296,528)**	**725,335**
Depreciation of revaluation reserve, net of tax	(18,029)	–	(18,029)
Transfer of property and equipment revaluation reserve resulted from disposal of assets	(5,436)	–	(5,436)
Revaluation of property and equipment	(271,333)	–	(271,333)
Income tax related to components of other comprehensive income	(3,002)	–	(3,002)
Net loss on available-for-sale investment securities, including:	**–**	**(144,584)**	**(144,584)**
Net loss on investment securities available-for-sale reclassified to the consolidated statement of profit and loss (consolidated income statement)	–	53,148	53,148
Net unrealised losses from investment securities available-for-sale	–	(197,732)	(197,732)
Income tax related to components of other comprehensive income	–	–	–
At 31 December 2017	**724,063**	**(441,112)**	**282,951**
Effect of application of IFRS 9 (Note 3)	–	(71,168)	(71,168)
Opening balance restated in accordance with IFRS 9	**724,063**	**(512,280)**	**211,783**
Depreciation of revaluation reserve, net of tax	(13,258)	–	(13,258)
Net loss on investment securities at fair value through other comprehensive income, including:	**–**	**(1,014,931)**	**(1,014,931)**
Movements in allowance for impairment of investment debt securities at fair value through other comprehensive income	–	1,837	1,837
Net realised losses on available-for-sale investment securities at fair value through other comprehensive income reclassified to the consolidated statement of profit and loss (consolidated statement of income)	–	52,803	52,803
Net unrealised losses on investment securities at fair value through other comprehensive income	–	(1,069,571)	(1,069,571)
Income tax related to components of other comprehensive income	–	–	–
At 31 December 2018	**710,805**	**(1,527,211)**	**(816,406)**

22. Equity (continued)

Nature and purpose of reserves

Property revaluation reserve

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains/ (losses) on investment securities at fair value through other comprehensive income

This reserve reflects changes in fair value of investment securities at fair value through other comprehensive income.

Reserves and other funds of the Bank

The Bank's reserve fund is created under the Charter up to reaching 25 percent of regulatory capital at the beginning of each year. The amount of allocations to the reserve fund is not less than 5 percent of the annual income of the Bank. The reserve fund is created for unforeseen losses for all assets and off-balance sheet commitments.

The Bank's distributable reserves are determined by the amount of the reserves according to the Bank's accounts. As at 31 December 2018, the amount of non-distributable reserves was UAH (653,480) thousand (31 December 2017: UAH 445,877 thousand). The Bank's non-distributable reserves are represented by revaluation reserves and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

23. Commitments and contingencies

Operating environment

The Ukrainian economy is open and deemed to be of market status with certain characteristics of an economy in transition and is characterised by dependence on world primary commodity prices and low levels of liquidity in the capital markets, as well as restrictive currency control. At that, high risks, uncommon for mature market, are inherent to the banking business in Ukraine.

Positive indicators of Ukraine's social and economic development for 2018 indicate the maintenance of relative macroeconomic stability, which is the basis for further economic recovery.

The maintenance of overall positive price dynamics for the main commodity groups of Ukrainian exports contributed to an increase in exports of goods and services from Ukraine by 8.6% (according to the State Statistics Service of Ukraine).

At the same time, the increase in investment and consumer demand resulted in a surge in imports of goods and services by 14.3% (according to the State Statistics Service of Ukraine) and an increase in the negative current account balance of payments.

At that, the deficit of foreign trade was compensated by proceeds on the financial account, and the consolidated balance of payments of Ukraine in 2018 remained surplus that contributed to maintaining exchange rate stability. As at 31 December of 2018, the official UAH/USD exchange rate was UAH 27.69 to 1 US Dollar (31 December 2017: UAH 28.07 to 1 US Dollar).

The need to refinance significant payments for servicing and repayment of state and state-guaranteed debt prompted Ukraine to intensify Ukraine's cooperation with the IMF and other international financial institutions (IFIs) and to enter the international capital market with the placement of external government bonds (EGB). At that, the receipt of the IMF tranche under the new stand-by program (SBA-2018), financial assistance from the IFIs and positive balance of the NBU's interventions in the interbank foreign exchange market ensured the total increase in the NBU's international reserves to USD 20.8 billion as at the end of 2018.

23. Commitments and contingencies (continued)

Operating environment (continued)

The continued domestic demand growth and international trade facilitated an upward development of almost all economic activities and overall recovery of the Ukrainian economy (GDP growth reported during 12 consecutive quarters). According to the State Statistics Service of Ukraine, in 2018, the total GDP growth amounted to 3.3%, while industrial production increased by 1.6%, retail sales increased by 6.1%, construction works index increased by 4.4%, agricultural production index increased by 7.8%.

Raising of administratively regulated tariffs and prices by industrial products manufacturers with the growth of nominal household incomes contributed to maintaining high inflationary pressures in the consumer market. Under such conditions, to ensure the strategic goals of inflation targeting, the NBU continued tough monetary policy and raised its discount rate four times consistently raised in 2018. In this context, according to the State Statistics Service of Ukraine, in 2018, consumer inflation in Ukraine slowed down to 9.8% (December 2018 compared to December 2017).

Further recovery of the Ukrainian economy depends to a large extent on maintaining a stable social and political situation in the context of presidential and parliamentary elections, geopolitical factors, external commodity markets and the capital market conditions, the development of situation in the east and continuation of the necessary social and economic reforms.

Limited financial solvency of the population, liquidity and efficiency of Ukrainian enterprises are having a negative impact on borrowers' ability to service and repay debts to the Bank and are restricting the funding possibilities in the domestic market.

The need to make significant payments under commitments in 2019-2020, growth of uncertainty in the development of social and political situation in Ukraine, deterioration of foreign trade and overall macroeconomic situation can have a negative impact on the Banks' financial position. Upon receipt of such information, the Bank promptly revises its estimates of future cash flows and implements necessary measures to sustain the Bank's business.

Legal aspects

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

Tax and other regulatory compliance

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. The legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time, there is a risk that the transactions and interpretations not challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time. Assessment of amount and probability of negative consequences of possible unreported claims are unreasonable.

Since 1 September 2013 transfer pricing rules came into force. These rules provide that in the case of transactions with related parties (non-residents) and, in some cases with unrelated parties (controlled transactions) that are not at market value, entities should charge additional tax liabilities.

The Bank enters into controlled transactions solely at market prices. The Bank has implemented the necessary internal controls for compliance with the transfer pricing rules.

23. Commitments and contingencies (continued)

Credit-related commitments

Credit-related commitments included:

	31 December 2018	*31 December 2017*
Credit-related commitments	5,588,762	3,434,416
Guarantees	4,166,892	3,045,807
Letters of credit	1,080,298	350,089
Avals on promissory notes	349,446	333,227
	11,185,398	**7,163,539**
Less: provisions	(72,625)	(6,168)
Credit-related commitments (before cash held as security)	**11,112,773**	**7,157,371**
Less− cash held as security against letters of credit, avals and guarantees, and undrawn loan commitments (Notes 19)	(1,932,636)	(832,464)
Credit-related commitments	**9,180,137**	**6,324,907**

As at 31 December 2018, the Bank issued letters of credit of UAH 1,070,441 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 1,010,237 thousand (31 December 2017: UAH 331,438 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 331,438 thousand).

As at 31 December 2018, the Bank issued guarantees of UAH 2,788,159 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 518,031 thousand (31 December 2017: UAH 2,013,028 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 177,627 thousand).

As at 31 December 2018, the Bank's undrawn loan commitments for transactions with plastic cards amounted to UAH 376,804 thousand (31 December 2017: UAH 251,449 thousand).

The following tables show an analysis of changes in gross carrying amount and corresponding provisions for credit-related commitments:

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Gross carrying amount at 1 January 2018 under IFRS 9	**3,415,214**	**–**	**18,805**	**–**	**397**	**3,434,416**
New created or purchased credit-related commitments	9,304,646	–	–	–	–	9,304,646
Credit-related commitments derecognised or repaid (except for writing-off)	(5,653,860)	(3,130)	(24,903)	(509)	(40,531)	(5,722,933)
Transfer to Stage 1	83,983	(542)	(83,057)	–	(384)	–
Transfer to Stage 2	(133,707)	21,406	112,679	(377)	(1)	–
Transfer to Stage 3	(59,632)	(9,889)	(6,487)	67,850	8,158	–
Changes in carrying amount	(1,537,917)	(7,845)	(10,299)	33,105	38,590	(1,484,366)
Translation differences	57,073	–	(74)	–	–	56,999
Gross carrying amount at 31 December 2018	**5,475,800**	**–**	**6,664**	**100,069**	**6,229**	**5,588,762**

23. Commitments and contingencies (continued)

Credit-related commitments (continued)

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Provision of credit-related commitments at 1 January 2018 under IFRS 9	**44,067**	**–**	**408**	**–**	**233**	**44,708**
New assets originated or purchased	175,820	–	–	–	–	175,820
Assets derecognised or repaid (except for writing-off)	(117,322)	–	(517)	–	(27,645)	(145,484)
Transfer to Stage 1	299	–	(63)	–	(236)	–
Transfer to Stage 2	(2,743)	2,543	256	(56)	–	–
Transfer to Stage 3	(2,831)	–	(1,323)	2,289	1,865	–
Changes in allowance	(34,069)	(2,543)	1,330	1,748	28,739	(4,795)
Translation differences	(1,564)	–	–	–	–	(1,564)
Provision of credit-related commitments at 31 December 2018	**61,657**	**–**	**91**	**3,981**	**2,956**	**68,685**

The following tables show an analysis of changes in gross carrying amount and corresponding provisions for letters of credit (except for coverage accounts):

	Stage 1 Collective	*Total*
Gross carrying amount at 1 January 2018 under IFRS 9	**20,349**	**20,349**
New self-produced or purchased letters of credit	74,500	74,500
Letters of credit derecognised or repaid (except for writing-off)	(19,244)	(19,244)
Changes in carrying amount	(12,251)	(12,251)
Translation differences	(3,150)	(3,150)
Gross carrying amount at 31 December 2018	**60,204**	**60,204**

	Stage 1 Collective	*Total*
Provision for letters of credit at 1 January 2018 under IFRS 9	**–**	**–**
New self-produced or purchased letters of credit	2,993	2,993
Changes in allowance	(309)	(309)
Translation differences	(324)	(324)
Provision for letters of credit at 31 December 2018	**2,360**	**2,360**

The following tables show an analysis of changes in gross carrying amount and corresponding provisions for avals:

	Stage 1 Collective	*Total*
Gross carrying amount at 1 January 2018 under IFRS 9	**333,227**	**333,227**
New created or purchased avals	1,566,809	1,566,809
Avals derecognised or repaid (except for writing-off)	(1,550,590)	(1,550,590)
Gross carrying amount at 31 December 2018	**349,446**	**349,446**

23. Commitments and contingencies (continued)

Credit-related commitments (continued)

	Stage 1 Collective	*Total*
Provision for avals at 1 January 2018 under IFRS 9	**27**	**27**
New created or purchased avals	117	117
Avals derecognised or repaid (except for writing-off)	(114)	(114)
Provision for avals at 31 December 2018	**30**	**30**

The following tables show an analysis of changes in gross carrying amount and corresponding provisions for guarantees:

	Stage 1 Collective	*Stage 2 Collective*	*Stage 3 Collective*	*Total*
Gross carrying amount at 1 January 2018 under IFRS 9	**2,809,454**	**236,353**	**–**	**3,045,807**
New created or purchased avals	2,977,356	–	–	2,977,356
Guarantees derecognised or repaid (except for writing-off)	(1,626,932)	(59,321)	–	(1,686,253)
Transfer to Stage 1	11,500	(11,500)	–	–
Transfer to Stage 2	(77,672)	77,672	–	–
Transfer to Stage 3	–	(171,167)	171,167	–
Changes in carrying amount	(122,340)	(2,475)	–	(124,815)
Translation differences	(34,799)	(3,095)	(7,309)	(45,203)
Gross carrying amount at 31 December 2018	**3,936,567**	**66,467**	**163,858**	**4,166,892**

	Stage 1 Collective	*Stage 2 Collective*	*Total*
Provision for guarantees at 1 January 2018 under IFRS 9	**575**	**–**	**575**
New created or purchased avals	1,349	–	1,349
Guarantees derecognised or repaid (except for writing-off)	(232)	–	(232)
Transfer to Stage 2	(3)	3	–
Changes in allowance	(33)	1	(32)
Translation differences	(110)	–	(110)
Provision for guarantees at 31 December 2018	**1,546**	**4**	**1,550**

Movements in provisions for guarantees and commitments during 2017 are provided in the table below:

	Guarantees and commitments
At 1 January 2017	**5,137**
Charge/(reversal)	914
Translation differences	117
At 31 December 2017	**6,168**

23. Commitments and contingencies (continued)

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank (capital adequacy, liquidity, credit risks). The benchmarks for such covenants are specified by the agreements, other documents agreed upon by the parties to the agreements with reference to the international and local regulatory requirements.

These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

24. Commission income and expense

	2018	*2017*
Commission income comprises:		
Cash and settlement service	673,745	639,601
Transactions with banks	154,957	135,566
Guarantees and letters of credit	116,700	120,401
Credit servicing commission	12,029	10,333
Other	40,390	33,642
	997,821	**939,543**
Commission expense comprises:		
Cash and settlement service	(354,646)	(310,286)
Guarantees and letters of credit	(7,000)	(12,920)
Currency conversion	(5,437)	(4,092)
Other	(3,265)	(5,882)
	(370,348)	**(333,180)**

25. Personnel and other operating expenses

	2018	*2017*
Salaries and bonuses	1,128,988	804,904
Mandatory contributions to the state funds	205,035	144,625
Personnel expenses	**1,334,023**	**949,529**
Payables to the Individual Deposit Guarantee Fund	246,968	218,713
Repair and maintenance of property and equipment	127,586	105,757
Security	50,075	42,624
Operating taxes	49,150	44,759
Maintenance of premises	39,899	34,581
Electronic and data processing costs	30,573	26,917
Loss on decrease in fair value of investment property	24,930	39,274
Expenses for cash collection	23,196	23,132
Rent of premises	22,023	24,085
Administrative expenses	21,155	19,079
Legal and advisory services	19,227	15,316
Communication services	14,299	15,470
Losses on impairment of non-financial assets	7,694	–
Business travel and related expenses	6,312	5,313
Loss on decrease in fair value of non-current assets held for sale	5,902	–
Charity	4,538	3,266
Representative offices expenses	4,126	3,669
Marketing and advertising	2,522	6,984
Losses on initial recognition of financial assets	2,088	116
Loss on decrease in fair value of property and equipment	–	74,758
Other	43,746	41,230
Other operating expenses	**746,009**	**745,043**

Expenses for payment to the non-state pension fund in 2018 amounted to UAH 18,536 thousand (2017: UAH 11,975 thousand).

26. Risk management

Introduction

The Bank is exposed to risks i.e. credit risk, liquidity risk and market risk (which is subdivided into interest rate risk and currency risk), operational risk as well as strategic and reputation risk which are continuously identified, assessed and controlled within the Risk management process. The risk management process makes a crucial contribution in ensuring the Bank's efficiency and profitability and includes the following:

- Interest and currency risk management is performed at the Head Office level;
- Analysis and monitoring procedures for credit projects, assessment of the creditworthiness of each borrower and establishment of credit rating;
- Establishment of risk limits for transaction amount, limits on exposures to single borrowers, limits on exposures to related parties, credit portfolio concentration limits (by industry, counterparty banks, separate transactions / balance sheet items, etc.);
- Risk monitoring and control and compliance with all established limits.

The risk management process includes four stages: identification of risk, its sources and risk areas; risk assessment; risk mitigation limitation to an acceptable levels; on-going monitoring of positions at risk.

Risk management structure

The Supervisory Board is ultimately responsible for establishment and approval of objectives in risk and capital management. At that, the Bank has separate independent bodies responsible for managing and monitoring risks. The following collegiate bodies and structural subdivisions are responsible for the risk management process at the Bank: Management Board, Assets and Liabilities Committee ("ALCO"), Credit Committee, Retail Business Committee, Risk-management Division, Treasury Division, Securities Division, Internal Audit Division, Assets and Liabilities Division.

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Management Board

The Management Board has the overall responsibility for the development of the risk management strategy and implementation of principles, frameworks, policies and limits within the Bank. Fundamental risk management issues are addressed and monitored by relevant risk decisions based on quarterly reports of the Risk-management Subdivisions, ALCO, Credit Committee and Retail Business Committee. The Management Board approves the Bank's risk management policies.

Assets and Liabilities Committee ("ALCO")

The ALCO has the overall responsibility for implementing principles, frameworks, policies and limits regarding liquidity and market risks within the Bank and ensuring that liquidity and market risks are within the specified limits approved by the Management Board. The ALCO reports to the Management Board.

Credit Committee and Retail Business Committee

The Credit Committee and Retail Business Committee have the overall responsibility for implementing principles, frameworks, policies and limits regarding credit risk within the Bank and ensuring that credit risk is within the specified limits approved by the Management Board. These committees report to the Management Board.

26. Risk management (continued)

Introduction (continued)

Risk-management Divisions

Risk-management Divisions are responsible for control, monitoring, analysis and reporting of risk values related to the Bank's activities. They also elaborate and supervise the implementation and observance of risk management methodologies, norms and procedures, assess all banking products and structured transactions. The Risk-management Divisions report to the Management Board.

Treasury, Securities and the ALCO Divisions

These divisions are responsible for the management of the Bank's liquidity position via money market transactions (Treasury Division), capital market transactions (Securities Division) and for the overall management of the Bank's liquidity (ALCO Division). They report to the Management Board.

Internal Audit Division

The risk management processes are audited on an annual basis by the Internal Audit Division, which verifies both the adequacy of procedures and the Bank's compliance with those procedures. Audit findings, conclusions and recommendations are submitted to the Management Board and the Supervisory Board.

Risk measurement and reporting systems

The Bank's risks are measured using methods, which reflect both the expected loss under normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios reflecting the impact of emergency events with a low probability of occurrence. The Bank carries out back-testing of the models to checks their adequacy.

Risks are monitored and controlled primarily based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information regarding the balance-sheet structure, capital adequacy, compliance with limits and indicators established by the ALCO, and covenants under contractual obligations of the Bank is submitted to the ALCO on a monthly basis. The Management Board receives a comprehensive risk report once a quarter, which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels of the Bank's management, various risk reports are prepared in order to provide comprehensive, relevant and up-to-date information to all of the Bank's units.

Risk concentration

Concentration arises when a number of counterparts are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics, which determine their ability to meet contractual obligations that are equally affected by the changes in economic, political or other environment. Concentration indicates the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

To avoid excessive concentrations of risks, the Bank's internal policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified risks concentration is duly controlled and managed.

26. Risk management (continued)

Credit risk

The Bank takes on the exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers. Such risks are monitored on a continuous basis and are subject to a regular review.

Credit risk management is primarily aimed at ensuring fulfilment of liabilities by the Bank's customers (counterparties) in the form, amount and within time periods adequate for maintaining liquidity, yield and capital adequacy ratios within the limits acceptable for the Bank.

The Credit risk management and control include the following:

- Setting credit risk critical thresholds and credit risk appetite limits, concerning which, the authority limits are set;
- Providing loans or undertaking loan related commitments solely in accordance with the approved Credit Policy and the Bank's internal regulations;
- Constant monitoring of actual values of the key credit risk exposures at the level of individual loans/commitments, credit portfolios and total credit portfolio; taking effective measures on credit risk management.

Individual credit risk

Individual credit risk is a risk which can be attributed to a particular transaction or counterparty.

Individual credit risk is managed through: loan and customer (or counterparty) classification via the system of internal credit ratings determined on the basis of the financial (quantitative) and non-financial (qualitative) data about customer (counterparty) taking into account warning signals and the Parent Company support and also by evaluation and monitoring of collateral value and liquidity; setting credit risk limits and monitoring compliance with the limits; creation of adequate allowance for asset's impairment.

The Bank's credit policy determines the type of collateral required for a particular transaction, industry or customer. The major types of collateral include: guarantees of primary banks, deposits with the Bank, real estate property and pledges of equipment or vehicles. The Bank requires obligatory insurance of collateral to be provided by the customer.

In order to limit individual credit risk, the Bank sets the following limits: maximum volume of credit transactions (loans, securities, receivables) per single counterparty (or group of related counterparties), including off-balance sheet liabilities; maximum volume of credit transactions (loans, securities, receivables) for one related party, including off-balance sheet liabilities.

Portfolio credit risk

Portfolio credit risk is the risk typical for a group of credit transactions (loans, securities, receivables) and group of counterparties with similar credit characteristics.

Portfolio credit risk management is exercised through: classification on the basis of an internal system of ratings, monitoring of the credit portfolio structure (by category of customers, industries and credit ratings of customers and loans); establishment of concentration limits and appropriate monitoring and control thereof; diversification of credit portfolio (both by industry and customer category).

Diversification of credit portfolio (both by industry and customer category) is provided through establishment of the following limits: by industry; by maximum total volume of "large" loans (which constitute 10% or more of the regulatory capital of the Bank as to each counterparty or group of related counterparties); by maximum total amount of loans issued to customers; The Bank monitors credit portfolio concentration per category of customers; total indebtedness of 5 largest customers; total indebtedness of 10 largest customers; total indebtedness of 50 largest customers.

26. Risk management (continued)

Credit risk (continued)

Credit-related commitment risks

The Bank issues guarantees to its customers, under which the Bank may be required to make payments on behalf of the relevant customers. These guarantees expose the Bank to risks similar to credit risks which are mitigated by similar control procedures and principles.

The Bank undertakes to effect payment against presentation of complying documents under letters of credit. Uncovered letters of credit expose the Bank to risks similar to credit risks which are mitigated by similar control procedures and principles.

The maximum exposure to credit risk for the components of the consolidated statement of financial position (consolidated balance sheet) before the effect of mitigation through the use of collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying amount represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in value.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Impairment of financial assets under IFRS 9 (Policy applicable from 1 January 2018)

Assessment of expected credit losses

From 1 January 2018, IFRS 9 requires the Bank to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as credit-related commitments and financial guarantees (hereinafter jointly "financial instruments"). Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis.

Assessment of whether the credit risk has increased significantly by considering the change in the risk of default occurring over the remaining life of the financial instrument, identification of default events and calculation of allowance is made by the Bank at the end of each reporting period (monthly).

The Bank groups its financial instruments, for which ECL is measured, as described below:

Stage 1	When financial instruments are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from other Stages.
Stage 2	When a financial instrument has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 financial instruments also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

26. Risk management (continued)

Impairment of financial assets under IFRS 9 (Policy applicable from 1 January 2018) (continued)

Stage 3	Financial instruments considered credit-impaired. For such financial instruments, the Bank records an allowance for the LTECL.
POCI	Purchased or originated credit impaired (POCI) financial assets are assets that are credit impaired on initial recognition. POCI financial assets are recorded at fair value at initial recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Calculation of expected credit losses

To identify whether the credit risk has increased significantly from the moment of the initial recognition of a financial instrument, the Bank uses the defined lists of the events that have the signs of the increased credit risk. Irrespective of whether or not the events that have the signs of the increased credit risk occur, it is deemed that the performance of financial liabilities delayed for more than 30 days is the evidence that the credit risk has increased significantly from the moment of the initial recognition of a financial instrument.

The Bank considers that the event of default has occurred in relation to a financial instrument and, respectively, allocates such asset to Stage 3 (credit-impaired asset) where the borrower has delayed the performance of its financial liabilities for more than 90 days and where the interest due dates have been restructured (for more than 90 days) or where the borrower has been declared bankrupt.

If the borrower's financial position is improved and its solvency is restored, the asset may be excluded from default when the following major criteria are met:

- Repayment of liabilities overdue more than 90 days that resulted in the recognition of a default and the absence of overdue payments more than 7 days during the last 6 consecutive months as at the reporting date;
- Settlement of payments postponed as part of restructuring (with respect to accrued interest payment) or payment of income in the amount more than the amount of income that was restructured;
- Repayment of debt in the amount not less than 50% of debt at the date of restructuring.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

Probability of Default (PD)	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon.
Exposure at Default (EAD)	The Exposure at Default is an estimate of the exposure at default. In the ECL calculation for the entire lifetime of a financial instrument, its expected changes after the reporting date are considered, including the provision/repayment of the debt principal, accrual and payment of interest.
Loss Given Default (LGD)	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs. LGD is based on the difference between the contractual cash flows due and the one that the Bank would expect to receive, including from the realisation of any collateral.

Depending on the qualities of a financial instrument, the Bank calculates ECL either on an individual basis (scenario analysis) or a collective (portfolio) basis.

The Bank calculates ECLs on an individual basis for all stage 2 or stage 3 assets of the borrowers whose debt to the Bank is significant (equivalent to over UAH 300,000 thousand), of bank borrowers, and the assets, which at the moment of derecognition of an initial instrument and recognition of a new one were classified as POCI. As part of the scenario analysis, the Bank calculates ECL based on the forecast of the cash flows discounted using the effective interest rate with due consideration of the period of cash flow proceeds. During calculation, the likelihood that the scenario will be implemented in an upside case, base and downside cases is considered.

26. Risk management (continued)

Impairment of financial assets under IFRS 9 (Policy applicable from 1 January 2018) (continued)

The Bank calculates ECL on a collective (portfolio) basis for all other assets grouped by the respective features, including by the credit risk profile, and uses for calculation the models relevant for the respective group and relies on a broad range of forward looking information as economic inputs.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

For the off-balance sheet financial instruments, the allowance is calculated similar to that for the balance-sheet financial instruments, with due consideration of a conversion rate.

Debt instruments at fair value through other comprehensive income

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remain at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Purchased or originated credit impaired financial assets

For purchased or originated credit impaired assets, the Bank recognises as estimated ECL allowance only changes in ECL accumulated from the initial recognition for the entire term.

Internal rating and probability of default assessment process

The Bank applies an approach to assess of probability of default (PD) for corporate borrowers, which involves the calculation of probability of default (PD) and rating class (PD-Rate) ranging from 1 to 17 (17 grades). Rating class 1-14 corresponds to not default, rating class 15-17 corresponds to default (probability of default is 100%).

The following information is used to calculate the borrowers/Group rating:

- Financial statements data;
- Answers to non-financial issues;
- Warning signals in respect of the borrower (high risk factors);
- Information on the level of support from the Group (parent company support level, if any).

The estimated probability of default (PD) and rating class (PD-Rate) are determined on the basis of the quantitative (financial model) and qualitative (non-financial model) factors, the weight of the model factors is 80% and 20%, respectively. The estimated rating is modified (decreased) using the warning signals and taking into account the parent company support (increased or decreased), if any.

The rating system is revised (validation and adjustment, if required) on an annual basis.

The Bank uses the following levels of internal credit rating (rating class) to assess the assets of corporate borrowers:

26. Risk management (continued)

Impairment of financial assets under IFRS 9 (Policy applicable from 1 January 2018) (continued)

Internal rating class (PD-Rate)	***Probability of default (PD)***	***Internal rating description***
From 1 to 7	Up to 2.83%	High rating
From 8 to 9	From 2.84% to 6.55%	Standard rating
From 10 to 14	From 6.56% to 99.9%	Low rating
From 15 to 17	100%	Credit-impaired assets (default)

In the following table, for the exposures of foreign credit institutions, high rating is equal to or higher than BBB- rating by Fitch, standard rating is below BBB-, but higher than CCC+, substandard rating is equal to or lower than CCC+ by Fitch. The probability of default (PD) for the respective rating levels is calculated as the average of the actual defaults over the past five years according to Standard&Poor's, an international rating agency, statistics. In case of a zero value of actual defaults for the respective ratings, the nearest non-zero value of the default level is used. The statistics are reviewed on an annual basis.

The Bank uses the following external credit ratings to assess foreign credit institutions

Standard&Poor's rating	***Probability of default (PD), average level for the last five years***	***Rating description***
From AAA to BBB-	Up to 0.012%	High rating
From BB+ to B-	From 0.0121% to 1.9%	Standard rating
From CCC+ to C	From 1.91% to 99.9%	Low rating
R; SD; D	100%	Credit-impaired assets (default)

Exposure at Default (EAD)

For Stage 1, the exposure at default (EAD) is equal to the gross carrying amount of a financial instrument at the calculation date.

For Stages 2 and 3, EAD is calculated for the entire lifetime of the asset, with the principal, future interest and accumulated depreciation determined on the basis of the repayment schedule.
For credit products having no repayment schedules (such as revolving credit lines, credit cards), the EAD is constant in time and is equal to the current gross carrying amount of the loan.

The EAD for credit related commitments and other financial liabilities is calculated based on a credit conversion factor (CCF).

Loss Given Default (LGD)

Loss given default (LGD) is one of credit risk components on the basis of which the expected credit losses are estimated and shows a share of current loan debt which the bank would lose irrevocably in the event of default of a borrower with regard to the existing collateral for the loan and other characteristics of loan and borrower. The main acceptable repayment sources are as follows: repayment through enforcement of collateral (by types of collateral) and cash repayment (by business lines of the borrowers' activities), less the coefficient of expenses for work with the Bank's non-performing portfolio. The coefficients are calculated based on the bank's own statistics for the period of at least 7 years. The statistics and coefficients are reviewed and updated on an annual basis.

26. Risk management (continued)

Impairment of financial assets under IFRS 9 (Policy applicable from 1 January 2018) (continued)

Impact of macroeconomic indicators

Under IFRS 9, the Bank takes into account in its estimates of expected credit losses the forecasts of future economic conditions with regard to the link between macroeconomic factors and an integral index of the credit portfolio quality. The actual rate of defaults for the year (by segments) calculated as the ratio of the number of loans that became defaulted during the year to the number of loans that were not defaulted at the beginning of the year, is taken as an integral indicator of the loan portfolio quality. The following indicators and their modifications (change for the year, quarter, time lag) can be taken as macroeconomic factors: Consumer Price Index, GDP growth, export/import growth, etc. The following data serve as the sources of information on the actual and projected macroeconomic indicators: inflation report and other statistical reports of the NBU, the State Statistics Service of Ukraine, IMF and World Bank data, etc. The statistics and macro coefficients are reviewed and updated at least once every six months. Upon the results of review, the macro model coefficients (probability of default adjustment indicators) are determined.

The table below shows the current coefficients of the macro model with regard to segments (business units).

Segment	***2019***	***2020***	***2021 and subsequent years***
Corporate banking	0.79	0.86	0.81
SME	0.88	0.97	0.83
Retail banking	0.87	0.86	0.75

26. Risk management (continued)

Impairment of financial assets under IFRS 9 (Policy applicable from 1 January 2018) (continued)

Credit quality by category of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

At 31 December 2018	*Note*	*Stage*	*High rating*	*Standard rating*	*Low rating*	*Credit-impaired*	*Total*
Financial assets							
Cash and cash equivalents (except for cash in hand)	7	1	17,290,562	78,274	22,947	–	17,391,783
Amounts due from credit institutions	10	1	368,985	136,242	80,294	–	585,521
		3	–	–	–	830,241	830,241
Loans to customers	11						
Commercial loans		1	34,159,501	12,779,454	4,825,625	–	51,764,580
		2	30,529	31,858	2,877,277	–	2,939,664
		3	–	–	–	77,919,032	77,919,032
		POCI	–	–	–	1,707,874	1,707,874
Overdrafts		1	727,853	623,928	32,620	–	1,384,401
		2	10,356	1,551	371	–	12,278
		3	–	–	–	61,293	61,293
Finance lease receivables		1	–	1,331,638	24,614	–	1,356,252
		3	–	–	–	4,645	4,645
Promissory notes		1	74,717	–	–	–	74,717
Investment securities	12						
- at fair value through other comprehensive income		1	35,794,632	–	–	–	35,794,632
		3	–	–	–	4,218,021	4,218,021
- at amortised cost		1	49,855	–	–	–	49,855
Other financial assets (except for transit accounts on transactions with payment cards)	17		–	57,239	3,673	386,982	447,894
Total financial assets			**88,506,990**	**15,040,184**	**7,867,421**	**85,128,088**	**196,542,683**
Financial liabilities	23						
Guarantees		1	3,294,978	629,679	11,910	–	3,936,567
		2	5,354	5,242	55,871	–	66,467
		3	–	–	–	163,858	163,858
Credit-related commitments		1	3,143,809	1,873,087	458,904	–	5,475,800
		2	5,728	260	676	–	6,664
		3	–	–	–	106,298	106,298
Letters of credit (except for coverage accounts)		1	–	60,204	–	–	60,204
Avals on promissory notes		1	169,571	179,875	–	–	349,446
Total financial liabilities			**6,619,440**	**2,748,347**	**527,361**	**270,156**	**10,165,304**
Total			**95,126,430**	**17,788,531**	**8,394,782**	**85,398,244**	**206,707,987**

26. Risk management (continued)

Impairment of financial assets under IFRS 9 (Policy applicable from 1 January 2018) (continued)

For loans that are neither past due nor individually impaired, high rating means the minimum level of credit risk. Other borrowers with good financial position and high debt service quality are included in the standard credit rating. Rating which is lower than standard have lower credit quality compared to previous ratings, but loans included into this category are not necessarily individually impaired.

For loans that are past due or individually impaired, standard and substandard rating indicates that there is a possibility of delays in loan repayment as a result of adverse changes in commercial, financial and economic conditions. Low rating means that there is a high probability of default of loan, the borrower's activity is poor, loss making or ceased.

		Neither past due nor individually impaired			*Past due or individually impaired*		
At 31 December 2017	***Notes***	***High rating***	***Standard rating***	***Substandard rating***	***Standard and substandard rating***	***Low rating***	***Total***
Cash and cash equivalents, except for cash in hand	7	18,136,626	843	300,102	–	–	18,437,571
Amounts due from foreign credit institutions	10	348,857	–	–	–	–	348,857
Amounts due from Ukrainian credit institutions	10	20	–	269,280	–	956,033	1,225,333
Investment securities:	12						
- at fair value through profit or loss		28,072,289	–	–	–	–	28,072,289
- available-for-sale		46,698,684	1,556,027	–	–	–	48,254,711
- held-to-maturity		96,022	–	–	–	–	96,022
Loans to customers:	11						
Commercial loans		30,626,937	11,234,768	4,333,012	28,142,357	40,707,591	115,044,665
Overdrafts		228,290	405,531	39,410	36,374	–	709,605
Finance lease receivables		–	–	–	–	67,299	67,299
Promissory notes		51,115	1,499	–	–	–	52,614
Total		**124,258,840**	**13,198,668**	**4,941,804**	**28,178,731**	**41,730,923**	**212,308,966**

The Bank's policy is to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

The ageing analysis of past due but not impaired loans is provided below:

At 31 December 2017	***Less than 30 days***	***From 31 to 60 days***	***From 61 to 90 days***	***Total***
Loans to customers				
Loans to corporate customers	701,667	15,348	364	717,379
Loans to individuals	25,260	9,776	15,330	50,366
Total	**726,927**	**25,124**	**15,694**	**767,745**

26. Risk management (continued)

Analysis of collateral

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, real estate, inventories, etc. The Bank's accounting policy for collateral assigned to it through its lending arrangements was the same during the year. Collateral, unless repossessed, is not recorded on the Bank's consolidated statement of financial position (consolidated balance sheet). However, the fair value of collateral affects the calculation of ECLs. The fair value of collateral received is valued at inception with subsequent revaluation: real estate, land, vehicles, equipment are revalued at least once every twelve months, other property is revalued not less than once every six months.

The Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indexes.

Collateral repossessed

The Bank's accounting policy for repossessed collateral remained the same during the reporting year. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations, obtaining lease payments, or should be sold. Assets determined to be useful for the internal operations are transferred to the property and equipment category, assets determined to be held for obtaining lease payments are transferred to investment property category and are recognised at fair value. Assets for which selling is determined to be a better option are measured at fair value (for financial assets) and fair value less cost to sell (for non-financial assets).

Write-offs

The Bank's accounting policy for write-offs remained the same during the reporting year. The Bank does not use the partial write-off of assets. Financial assets are written off in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

The table below provides an analysis of the market value of collateral for credit-impaired assets (Stage 3), which are taken into account the Bank for the purpose of asset impairment assessment at an amount not exceeding the carrying amount of the loan.

		Collateral market value									
31 December 2018	***Maximum exposure at risk***	***Cash/ deposits***	***Real estate***	***Land***	***Vehicles***	***Equipment***	***Goods / other movable property***	***Excessive collateral***	***Total collateral***	***Net exposure at risk***	***Relevant ECLs***
Commercial loans	79,626,906	2,147	14,766,351	660,341	789,873	5,156,885	310,437	(2,784,510)	18,901,524	60,725,382	63,368,810
Overdrafts	61,293	-	27,149	468	130	86,503	6,012	(59,291)	60,971	322	3,066
	79,688,199	**2,147**	**14,793,500**	**660,809**	**790,003**	**5,243,388**	**316,449**	**(2,843,801)**	**18,962,495**	**60,725,704**	**63,371,876**

26. Risk management (continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. The Bank considers the loan restructured if the modifications made as a result of existing or expected financial difficulties of the borrower are those that the Bank would not agree in the event of the borrower's financial solvency. Restructuring may include extending repayment terms and agreeing on new loan terms. Once the terms of loan have been renegotiated, the loan is no longer considered overdue. Management continually analyses the renegotiated loans to ensure that all criteria and options for future payments are met.

Geographical concentration

Geographical concentration of the Bank's financial assets and liabilities is provided below:

	31 December 2018			
	Ukraine	*OECD countries*	*CIS countries and other non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	4,132,482	14,288,606	124,770	18,545,858
Amounts due from credit institutions	182,771	334,641	52,478	569,890
Loans to customers	72,496,358			72,496,358
Investment securities:				
- at fair value through profit or loss	26,653,561	–	–	26,653,561
- at fair value through other comprehensive income	35,789,095	–	–	35,789,095
- at amortised cost	49,855	–	–	49,855
Other financial assets	226,811	251	239	227,301
	139,530,933	**14,623,498**	**177,487**	**154,331,918**
Liabilities				
Amounts due to credit institutions	1,698,941	22,706,497	475	24,405,913
Amounts due to customers	81,136,411	304,900	721,813	82,163,124
Eurobonds issued	–	42,541,905	–	42,541,905
Subordinated debt	–	3,584,690	–	3,584,690
Other financial liabilities	72,590	4,061	–	76,651
	82,907,942	**69,142,053**	**722,288**	**152,772,283**
Net position	**56,622,991**	**(54,518,555)**	**(544,801)**	**1,559,635**
Credit-related commitments(Note 23)	**9,128,248**	**50,929**	**960**	**9,180,137**

	31 December 2017			
	Ukraine	*OECD countries*	*CIS countries and other non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	9,394,326	10,222,931	248,960	19,866,217
Amounts due from credit institutions	350,882	278,670	70,187	699,739
Loans to customers	67,607,544	–	–	67,607,544
Investment securities:				
- at fair value through profit or loss	28,072,289	–	–	28,072,289
- available-for-sale	48,254,711	–	–	48,254,711
- held-to-maturity	96,022	–	–	96,022
Other financial assets	398,307	2,357	94	400,758
	154,174,081	**10,503,958**	**319,241**	**164,997,280**
Liabilities				
Amounts due to credit institutions	1,911,599	21,371,452	736	23,283,787
Amounts due to customers	89,086,171	413,245	1,002,084	90,501,500
Eurobonds issued	–	38,821,831	–	38,821,831
Subordinated debt	–	3,615,792	–	3,615,792
Other financial liabilities	45,082	4,242	19	49,343
	91,042,852	**64,226,562**	**1,002,839**	**156,272,253**
Net position	**63,131,229**	**(53,722,604)**	**(683,598)**	**8,725,027**
Credit-related commitments(Note 23)	**6,321,513**	**3,394**	**–**	**6,324,907**

Liquidity risk

The liquidity risk is the risk of an inability to finance growth of the Bank's assets and to fulfil its own obligations when they fall due.

The main purpose of liquidity risk management is to ensure the ability of the Bank to fulfil its obligations when they fall due by maintaining acceptable (manageable) liquidity gaps.

Liquidity risk management is performed:

- Either on the long-term basis that is focused on ensuring appropriate liquidity levels in the short and long-term time horizon;
- Or on the short-term basis that is focused on ensuring appropriate level of instant and current liquidity taking into consideration estimated and unpredictable cash flow changes.

Liquidity risk management includes determination of acceptable levels of maturity gaps (by currency) and also:

- Setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key liquidity risk indicators;
- Permanent monitoring of actual key liquidity risk indicators;
- Undertaking adequate corrective actions if actual key liquidity risk indicators approach their critical and/or threshold levels.

26. Risk management (continued)

Liquidity risk (continued)

In addition, the Bank assesses liquidity based on certain liquidity ratios established by the NBU.

	31 December 2018, %	*31 December 2017, %*
N4 "Instant Liquidity Ratio" (cash in hand, balances on nostro accounts with banks and unpledged deposit certificates of the National Bank of Ukraine, unpledged Ukrainian state bonds / balances on customers' current accounts) (minimum required by the NBU – 30%)	77.58	67.85
N5 "Current Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on bank with residual maturity of up to 31 days and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU – 40%)	127.09	139.08
N6 "Short-Term Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on bank with residual maturity of up to 1 year and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU – 60%)	122.71	146.07
LCR "Liquidity coverage ratio" on all currencies (AC) and in foreign currency (FC) (high-quality liquid assets/ net estimated cash outflow within 30 calendar days: difference of aggregate expected cash outflows and aggregate expected cash inflows where aggregate expected inflows are taken at the amount not more than 75 percent of the total expected outflows using the expected outflow and expected inflow rates established by the National Bank of Ukraine)		
Minimum required by the NBU as at 31 December 2018:		
LCRAC − 80% on all currencies	584.18	–
LCRFC − 50% in foreign currency	234.71	–

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities As at 31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Amounts due to credit institutions	3,490,331	3,462,914	13,554,745	11,016,920	31,524,910
Amounts due to customers	64,546,324	16,865,964	1,759,024	60,631	83,231,943
Eurobonds issued	1,143,461	14,740,427	32,386,055	3,418,583	51,688,526
Subordinated debt	164,786	165,469	3,916,244	–	4,246,499
Other liabilities	76,651	–	–	–	76,651
Credit-related commitments	1,221,375	3,284,934	4,793,284	1,885,805	11,185,398
Total undiscounted financial liabilities	**70,642,928**	**38,519,708**	**56,409,352**	**16,381,939**	**181,953,927**

26. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Financial liabilities At 31 December 2017	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Amounts due to the NBU	2,424	–	–	–	2,424
Amounts due to credit institutions	2,870,442	3,822,341	11,123,796	11,297,365	29,113,944
Amounts due to customers	75,390,099	15,095,359	641,979	107,148	91,234,585
Eurobonds issued	820,966	2,852,408	40,618,000	6,042,044	50,333,418
Subordinated debt	148,269	149,055	3,911,103	304,723	4,513,150
Other liabilities	49,343	–	–	–	49,343
Credit-related commitments	1,787,344	3,204,623	1,776,756	394,816	7,163,539
Total undiscounted financial liabilities	**81,068,887**	**25,123,786**	**58,071,634**	**18,146,096**	**182,410,403**

The above table shows the timing of expiry dates of commitments and contingent financial liabilities of the Bank according to the respective agreements. The Bank expects that not all of the contingent liabilities or commitments will be drawn before their expiry. To limit liquidity risk arising from asymmetric prepayment and early repayment of the term assets and liabilities, the Bank incorporates in standard client agreements the conditions that motivate customers not to use the options of prepayment and early repayment.

Market risk

The Bank considers market risk as the aggregate of interest rate risk and currency risk, i.e. inability to secure excess of income (including interest income) over expenses (including interest expenses) by currency in volumes required to fulfil the Bank's obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank.

Interest rate risk

Interest rate risk is considered by the Bank as the inability to secure excess of interest income over interest expenses in volumes required to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the mismatch of interest receipts and interest payments by volumes or dates to be the main source of interest rate risk.

The Bank considers interest rate risk management as an integral part of the Bank's operations including the effect of negative impact by internal and external factors.

Interest rate risk management is aimed at securing the excess of interest income over interest expenses in volumes sufficient to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. Interest rate risk management is performed via:

- Setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) key interest rate risk indicators;
- Permanent monitoring of actual key interest rate risk indicators;
- Taking efficient measures if the actual key interest rate risk indicators approach their critical and/or threshold levels.

The sensitivity of the consolidated statement of profit and loss (consolidated income statement) reflects the effect of the acceptable changes in interest rates on the Bank's net interest income for one year determined based on the floating rate on non-trading financial assets and financial liabilities held at reporting date.

The table below demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's consolidated statement of profit and loss (consolidated income statement).

26. Risk management (continued)

Interest rate risk (continued)

	31 December 2018				
Currency	***Interest rate basis***	***Increase in basis points***	***Effect on profit before tax***	***Decrease in basis points***	***Effect on profit before tax***
UAH	NBU	+100	–	-100	–
USD	LIBOR	+75	(112,513)	-75	112,513
EUR	LIBOR	+75	–	-75	–
EUR	Euribor	+75	13,474	-75	(13,474)
Other	LIBOR	+75	127	-75	(127)
Other	Euribor	+25	–	-25	–
Total			**(98,912)**		**98,912**

	31 December 2017				
Currency	***Interest rate basis***	***Increase in basis points***	***Effect on profit before tax***	***Decrease in basis points***	***Effect on profit before tax***
UAH	NBU	+100	–	-100	–
USD	LIBOR	+75	(113,265)	-75	113,265
EUR	LIBOR	+75	–	-75	–
EUR	Euribor	+25	(84)	-25	84
Other	LIBOR	+75	137	-75	(137)
Other	Euribor	+25	–	-25	–
Total			**(113,212)**		**113,212**

The equity sensitivity is calculated by the revaluation of available-for-sale financial assets with fixed rate as at 31 December to assess the possible effects of the acceptable changes in interest rates. For securities classified at the 1 and 2 levels of the fair value hierarchy of the asset, the method of modified duration is used, for securities classified at the 3 level of the hierarchy – a method of yield curve, with the following assumptions: +/-400 b.p. for corporate bonds, +/-200 b.p. for Ukrainian state bonds denominated in local currency, +/-100 b.p. for Ukrainian state bonds in USD, +/-20% interest rate change for corporate bonds of the 3 level of hierarchy. As at 31 December 2018, the total effect of changes on the Bank's equity is: UAH 1,269,953 thousand / UAH 1,269,953 thousand (31 December 2017: UAH (1,427,464) thousand / UAH 1,427,464 thousand).

26. Risk management (continued)

Interest rate risk (continued)

Sensitivity of net profit/(loss) on investment securities designated at fair value through profit or loss is calculated by the revaluation of financial instruments with fixed interest rate, and are revalued through profit/(loss) as at 31 December 2018 in terms of effects of acceptable changes in interest rates using the method of modified duration. The effect of changes in interest rate of +/-100 b.p. for Ukrainian state bonds on the Bank's income is UAH (965,290) thousand / UAH 965,290 thousand (31 December 2017: UAH (1,090,306) thousand / UAH 1,090,306 thousand).

Currency risk

The Bank considers currency risk as the inability to secure excess of foreign currency cash inflow over foreign currency cash outflow (by currency) in amounts required to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the inconsistency of fluctuations in foreign currency exchange rates to be the main source of currency risk.

Currency risk management is aimed at securing an excess of foreign currency cash inflow over foreign currency cash outflow at the level acceptable for the Bank and necessary for maintaining liquidity and capital adequacy risks within the range acceptable to the Bank, and is performed via:

- Setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) key credit risk indicators;
- Permanent monitoring of actual key currency risk indicators;
- Taking efficient measures if the actual key currency risk indicators approach their critical and/or threshold levels.

The tables below indicate the currencies to which the Bank has significant exposure at 31 December 2018 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against Hryvnia, with all other variables held constant on the consolidated statement of profit and loss (consolidated income statement) (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated statement of profit and loss (consolidated income statement). A negative amount in the table reflects a potential net reduction in consolidated statement of profit and loss (consolidated income statement) or equity, while a positive amount reflects a net potential increase.

	31 December 2018		*31 December 2017*	
Currency	***Change in currency rate,%***	***Effect on profit before tax***	***Change in currency rate, %***	***Effect on profit before tax***
UAH/USD	+7.00%	(165,460)	+16.00%	(586,391)
UAH/EUR	+10.00%	(18,841)	+21.00%	(67,813)
Total		**(184,301)**		**(654,204)**
UAH/USD	-7.00%	328,399	-16.00%	1,351,862
UAH/EUR	-10.00%	18,841	-21.00%	67,813
Total		**347,240**		**1,419,675**

27. Fair value of assets and liabilities

Levels of the fair value hierarchy

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as shown below:

	31 December 2018				
	Fair value measurement applied				
	Valuation date	*Quoted market prices (Level 1)*	*Valuation based on assumptions confirmed by observable data (Level 2)*	*Valuation based on assumptions not confirmed by observable data (Level 3)*	*Total*
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31 December 2018	–	131,685	–	**131,685**
Investment securities at fair value through profit or loss:					
Ukrainian state bonds	31 December 2018	–	26,653,561	–	**26,653,561**
Investment securities at fair value through other comprehensive income:					
Ukrainian state bonds	31 December 2018	–	34,371,218	–	**34,371,218**
Corporate bonds	31 December 2018	–	1,401,274	–	**1,401,274**
Corporate shares	31 December 2018	–	–	16,603	**16,603**
Investment property	1 December 2018	–	–	1,153,243	**1,153,243**
Buildings	1 December 2017	–	–	1,415,253	**1,415,253**
Liabilities measured at fair value					
Amounts due to customers in precious metals	31 December 2018	–	66,045	–	**66,045**
Assets for which fair value is disclosed					
Cash and cash equivalents	31 December 2018	4,111,694	14,434,164	–	**18,545,858**
Loans and deposits, other amounts due from credit institutions	31 December 2018	–	438,205	–	**438,205**
Loans to customers	31 December 2018	–	–	69,630,486	**69,630,486**
Investment securities at amortised cost	31 December 2018	–	49,104	–	**49,104**
Other assets	31 December 2018	–	227,301	–	**227,301**
Liabilities for which fair value is disclosed					
Amounts due to credit institutions	31 December 2018	–	24,405,913	–	**24,405,913**
Amounts due to customers	31 December 2018	–	82,081,788	–	**82,081,788**
Eurobonds issued	31 December 2018	41,262,680	–	–	**41,262,680**
Subordinated debt	31 December 2018	3,448,469	–	–	**3,448,469**
Other liabilities	31 December 2018	–	76,651	–	**76,651**

27. Fair value of assets and liabilities (continued)

Levels of the fair value hierarchy (continued)

	31 December 2017				
	Fair value measurement applied				
	Valuation date	*Quoted market prices (Level 1)*	*Valuation based on assumptions confirmed by observable data (Level 2)*	*Valuation based on assumptions not confirmed by observable data (Level 3)*	*Total*
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31 December 2017	–	72,891	–	**72,891**
Investment securities at fair value through profit or loss:					
Ukrainian state bonds	31 December 2017	–	28,072,289	–	**28,072,289**
Available-for-sale investment securities:					
Ukrainian state bonds	31 December 2017	–	46,698,684	–	**46,698,684**
Corporate bonds	31 December 2017		1,540,930	–	**1,540,930**
Corporate shares	31 December 2017	–	–	15,097	**15,097**
Investment property	1 December 2017	–	–	1,260,398	**1,260,398**
Buildings	1 December 2017	–	–	1,435,699	**1,435,699**
Liabilities measured at fair value					
Amounts due to customers in precious metals	31 December 2017	–	118,311	–	**118,311**
Assets for which fair value is disclosed					
Cash and cash equivalents	31 December 2017	6,811,780	13,054,437	–	**19,866,217**
Loans and deposits, other amounts due from credit institutions	31 December 2017	–	626,848	–	**626,848**
Loans to customers	31 December 2017	–	–	68,155,555	**68,155,555**
Securities held to maturity	31 December 2017	–	93,598	–	**93,598**
Other assets	31 December 2017	–	400,758	–	**400,758**
Liabilities for which fair value is disclosed					
Amounts due to credit institutions	31 December 2017	–	23,283,787	–	**23,283,787**
Amounts due to customers	31 December 2017	–	90,386,165	–	**90,386,165**
Eurobonds issued	31 December 2017	42,375,611	–	–	**42,375,611**
Subordinated debt	31 December 2017	3,677,193	–	–	**3,677,193**
Other liabilities	31 December 2017	–	49,343	–	**49,343**

27. Fair value of assets and liabilities (continued)

Investment securities at fair value through profit or loss and investment securities at fair value through other comprehensive income

Fair value of investment securities through other comprehensive income (excluding shares) is measured at market prices of similar financial instruments quoted on active market.

Fair value of investment securities at fair value through profit or loss was determined using a valuation model, which inputs are observable data (exchange rate, volatility, interest rates).

Investment securities at fair value through other comprehensive income valued using a valuation technique or pricing models primarily consist of shares. These securities are valued using models which include only non-observable inputs. Non-observable inputs to the models include assumptions regarding the future financial performance of the investee and its risk profile.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the consolidated statement of financial position (consolidated balance sheet). The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2018			*31 December 2017*		
	Carrying amount	*Fair value*	*Unrecognised gain/ (loss)*	*Carrying amount*	*Fair value*	*Unrecognised gain/ (loss)*
Financial assets						
Cash and cash equivalents	18,545,858	18,545,858	–	19,866,217	19,866,217	–
Amounts due from credit institutions	438,205	438,205	–	626,848	626,848	–
Loans to customers	72,496,358	69,630,486	(2,865,872)	67,607,544	68,155,687	548,143
Investment securities at amortised cost	49,855	49,104	(751)	–	–	–
Securities held to maturity	–	–	–	96,022	93,598	(2,424)
Other assets	227,301	227,301	–	400,758	400,758	–
Financial liabilities						
Amounts due to credit institutions	24,405,913	24,405,913	–	23,283,787	23,283,787	–
Amounts due to customers	82,097,079	82,081,788	15,291	90,383,189	90,386,165	(2,976)
Eurobonds issued	42,541,905	41,262,680	1,279,225	38,821,831	42,375,611	(3,553,780)
Subordinated debt	3,584,690	3,448,469	136,221	3,615,792	3,677,193	(61,401)
Other liabilities	76,651	76,651	–	49,343	49,343	–
Total unrecognized change in unrealised fair value			**(1,435,886)**			**(3,072,438)**

The following describes the methodologies and assumptions used to determine fair values for the financial instruments that are not recorded at fair value in the annual consolidated financial statements.

27. Fair value of assets and liabilities (continued)

Fair value of financial assets and liabilities not carried at fair value (continued)

Assets fair value of which approximates carrying value

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

Fixed rate financial instruments

The fair values of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates at the date when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For listed debt issued the fair values are calculated based on quoted market prices. For listed securities issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Movements in level 3 assets measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 assets which are recorded at fair value:

	At 1 January 2018	*Loss recognised n the consolidated statement of profit and loss (consolidated income statement)*	*Gain recognised in the consolidated statement of comprehensive income*	*Purchases*	*Settlements*	*At 31 December 2018*
Investment securities at fair value through other comprehensive income	15,097	–	2,066	–	(560)	16,603
Investment property	1,260,398	(6,127)(a)	–	3,081(b)	(104,109)(c)	1,153,243
Buildings	1,435,699	(25,136)(d)	–	4,690(e)	–	1,415,253
Total assets	**2,711,194**	**(31,263)**	**2,066**	**7,771**	**(104,669)**	**2,585,099**

27. Fair value of assets and liabilities (continued)

Movements in level 3 assets measured at fair value (continued)

	At 1 January 2017	*Loss recognised n the consolidated statement of profit and loss (consolidated income statement)*	*(Loss) recognised in the consolidated statement of comprehensive income*	*Purchases*	*Settlements*	*At 31 December 2017*
Available-for-sale investment securities	11,690	–	3,519	–	(112)	15,097
Investment property	1,344,074	(38,121)[a]	–	8,199[b]	(53,754)[c]	1,260,398
Buildings	1,815,850	(105,660)[d]	(271,333)	3,400[e]	(6,558)[f]	1,435,699
Total assets	**3,171,614**	**(143,781)**	**(267,814)**	**11,599**	**(60,424)**	**2,711,194**

[a] UAH 6,127 thousand of losses comprise: loss from revaluation of investment property in the amount of UAH 30,359 thousand and UAH 27 thousand of write-off of the value of investment property included in the "Other operating expenses", and gain on sale of investment property in the amount of UAH 24,259 thousand included in "Other income" (2017: loss from revaluation of investment property in the amount of UAH 39,274 thousand included in the "Other operating expenses", and gain on sale of investment property in the amount of UAH 1,153 thousand included in "Other income").

[b] UAH 3,081 thousand investment property purchases comprise: UAH 3,081 thousand of investment property purchases (2017: purchases of investment property in the amount of UAH 8,199 thousand comprise: UAH 1,620 thousand of purchases and UAH 6,579 thousand of property and equipment transfer to investment property).

[c] UAH 104,109 thousand of settlements comprise: UAH 104,109 thousand from sales (2017: UAH 53,754 thousand of settlements comprise: UAH 13,709 thousand from sales and UAH 40,045 thousand of property and equipment transfer to investment property).

[d] UAH 25,136 thousand of losses comprise: UAH 25,136 thousand within "Depreciation and amortisation" (2017: UAH 105,660 thousand of losses comprise: UAH 30,902 thousand within "Depreciation and amortisation" and UAH 74,758 thousand of property and equipment revaluation within "Other operating expenses").

[e] UAH 4,690 thousand of purchases comprise: UAH 4,690 thousand of transfers from capital investments to property and equipment (2017: UAH 3,400 thousand of purchases comprise: UAH 132 thousand o purchases and UAH 3,268 thousand of transfers from capital investments to property and equipment).

[f] Settlements comprise: UAH 14 thousand of write off of the value of fully depreciated property and equipment and UAH 14 thousand of write off of depreciation (2017: UAH 6,558 thousand of settlements comprise: UAH 6,558 thousand of transfers to investment property)

Gains or losses on level 3 financial instruments at fair value included in the profit or loss for the reporting period comprise:

	2018		
	Realised gains	*Unrealised losses*	*Total*
Investment property	24,259	(30,386)	(6,127)
Buildings	–	(25,136)	(25,136)
Total	**24,259**	**(55,522)**	**(31,263)**

	2017		
	Realised gains	*Unrealised losses*	*Total*
Investment property	1,153	(39,274)	(38,121)
Buildings	–	(105,660)	(105,660)
Total	**1,153**	**(144,934)**	**(143,781)**

27. Fair value of assets and liabilities (continued)

Movements in level 3 assets measured at fair value (continued)

The tables below shows the quantitative information as at 31 December 2018 and 31 December 2017 about significant unobservable inputs used for the fair valuation of assets classified as those of level 3 of the fair value hierarchy:

At 31 December 2018	***Carrying amount***	***Valuation technique***	***Unobservable parameter***	***Range of parameter values***
Investment securities at fair through other comprehensive income	16,603	Discounted cash flows	Risk factor	Corporate: 0-1.0
Investment property:				
- real estate	443,714	Comparative, combination with income method	Sqm	UAH 1 thousand – UAH 39 thousand
- land	709,529	Comparative	Are	UAH 1 thousand – UAH 2,388 thousand
Buildings:				
- real estate	1,411,913	Comparative, income method	Sqm	UAH 1 thousand – UAH 30 thousand
- land	3,340	Comparative	Are	UAH 110 thousand – UAH 286 thousand

At 31 December 2017	***Carrying amount***	***Valuation technique***	***Unobservable parameter***	***Range of parameter values***
Available-for-sale investment securities	15,097	Discounted cash flows	Expected profitability Risk factor	– Corporate: 0-1.0
Investment property				
- real estate	520,298	Comparative, combination with income method	Sqm	UAH 1 thousand – UAH 39 thousand
- land	740,100	Comparative	Are	UAH 1 thousand – UAH 2,414 thousand
Buildings				
- real estate	1,432,359	Comparative, income method	Sqm	UAH 1 thousand – UAH 31 thousand
- land	3,340	Comparative	Are	UAH 110 thousand – UAH 286 thousand

28. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 26 for the Bank's contractual undiscounted repayment obligations.

	31 December 2018			*31 December 2017*		
	Within 1 year	*More than one year*	*Total*	*Within 1 year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	18,545,858	–	18,545,858	19,866,217	–	19,866,217
Amounts due from credit institutions	519,294	50,596	569,890	674,958	24,781	699,739
Loans to customers	38,096,596	34,399,762	72,496,358	41,899,861	25,707,683	67,607,544
Investment securities:						
- at fair value through profit or loss	–	26,653,561	26,653,561	416,294	27,655,995	28,072,289
- available-for-sale	–	–	–	32,505,608	15,749,103	48,254,711
- held-to-maturity	–	–	–	4,048	91,974	96,022
- at fair value through other comprehensive income	21,306,193	14,482,902	35,789,095	–	–	–
- at amortised cost	49,855	–	49,855	–	–	–
Tax assets	–	161,080	161,080	–	122,321	122,321
Investment property	–	1,153,243	1,153,243	–	1,260,398	1,260,398
Property and equipment	–	1,646,109	1,646,109	–	1,641,014	1,641,014
Intangible assets	–	54,266	54,266	–	49,505	49,505
Deferred income tax asset	–	2,033,021	2,033,021	–	2,138,292	2,138,292
Non-current assets held for sale	39,614	–	39,614	42,005	–	42,005
Other assets	2,451,523	–	2,451,523	809,921	–	809,921
Total	**81,008,933**	**80,634,540**	**161,643,473**	**96,218,912**	**74,441,066**	**170,659,978**
Liabilities						
Amounts due to credit institutions	3,059,773	21,346,140	24,405,913	3,011,021	20,272,766	23,283,787
Amounts due to customers	81,453,871	709,253	82,163,124	89,951,019	550,481	90,501,500
Eurobonds issued	1,252,106	41,289,799	42,541,905	1,132,329	37,689,502	38,821,831
Subordinated debt	132,730	3,451,960	3,584,690	120,550	3,495,242	3,615,792
Provision for credit-related commitments	72,625	–	72,625	6,168	–	6,168
Other liabilities	423,623	–	423,623	324,948	–	324,948
Total	**86,394,728**	**66,797,152**	**153,191,880**	**94,546,035**	**62,007,991**	**156,554,026**
Net amount	**(5,385,795)**	**13,837,388**	**8,451,593**	**1,672,877**	**12,433,075**	**14,105,952**

The maturity analysis does not reflect the historical stability of current accounts. Such accounts are closed during longer period than one specified in the tables above. These balances are included to amounts payable within one year.

Amounts due to customers include term deposits of individuals. In accordance with the Ukrainian law, the Bank is obliged to return term deposit on maturity date specified in the deposit agreement. The return of term deposit on customer's request prior to the date of maturity or occurrence of other events specified in the agreement could be done only cases provided for by the deposit agreement. The Bank expects that customers will not request term deposits early, thus these balances are included in disclosures above in accordance with their contractual maturities.

29. Presentation of financial instruments by measurement category

Assets by measurement categories as at 31 December 2018:

	Assets at fair value through other comprehensive income	*Assets at fair value through profit or loss*	*Assets at amortised cost*	*Total*
Cash and cash equivalents	–	–	18,545,858	18,545,858
Amounts due from credit institutions	–	131,685	438,205	569,890
Loans to customers	–	–	72,496,358	72,496,358
Investment securities:				
- at fair value through profit or loss	–	26,653,561	–	26,653,561
- at fair value through other comprehensive income	35,789,095	–	–	35,789,095
- at amortised cost	–	–	49,855	49,855
Other financial assets	–	–	227,301	227,301
Total	**35,789,095**	**26,785,246**	**91,757,577**	**154,331,918**

Assets by measurement categories as at 31 December 2017:

	Loans and receivables	*Assets available-for-sale*	*Assets at fair value through profit or loss*	*Assets held to maturity*	*Total*
Cash and cash equivalents	19,866,217	–	–	–	19,866,217
Amounts due from credit institutions	626,848	–	72,891	–	699,739
Loans to customers	67,607,544	–	–	–	67,607,544
Investment securities:					
- at fair value through profit or loss	–	–	28,072,289	–	28,072,289
- available-for-sale	–	48,254,711	–	–	48,254,711
- held-to-maturity	–	–	–	96,022	96,022
Other financial assets	400,758	–	–	–	400,758
Total	**88,501,367**	**48,254,711**	**28,145,180**	**96,022**	**164,997,280**

As at 31 December and 2017, all financial liabilities of the Bank were accounted for at amortised cost, except the attracted gold-denominated deposits accounted for at FVPL.

30. Related party disclosures

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

Related parties may enter into transactions which unrelated parties might not. The terms and conditions of such transactions may differ from those between unrelated parties.

Transactions and balances with related parties comprise transactions with entities owned, both directly and indirectly, by Ukrainian government, and key management personnel.

The outstanding balances as at 31 December 2018 and 2017 and related income and expense for the years ended 31 December 2018 and 2017, are as follows:

30. Related party transactions (continued)

	Key management personnel	
	31 December 2018	*31 December 2017*
Loans to customers, gross	429	18
Less: allowance for impairment	(14)	(2)
Loans to customers, net	**415**	**16**
Current accounts	11,181	5,560
Time deposits	13,160	9,134
Amounts due to customers	**24,341**	**14,694**
Other liabilities	5	12

	Key management personnel	
	2018	*2017*
Interest income on loans	25	27
Interest expense on customers' deposits	(708)	(852)
Commission income	16	16
Translation differences	(187)	(241)

In 2018, the aggregate remuneration and other benefits paid to key management personnel amount to UAH 49,107 thousand (UAH 424 thousand of payments to non-state pension fund) (2017: UAH 29,913 thousand (UAH 301 thousand of payments to non-state pension fund)).

In the normal course of business, the Bank enters into contractual agreements with the Government of Ukraine and entities controlled, either directly or indirectly, or significantly influenced by the state.

The Bank provides the government-related entities with a full range of banking service including, but not limited to, lending, deposit-taking, issue of guarantees, transactions with securities, cash and settlement transactions.

Balances with government-related entities which are individually significant in terms of the carrying value as at 31 December 2018 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Loans to customers*	*Amounts due to customers*	*Amounts due to credit institutions*	*Guarantees issued*
Client 1	State entities	–	–	3,074,872	–	–
Client 2	State entities	–	–	1,695,382	–	–
Client 3	Agriculture and food industry	–	–	17,149,604	–	–
Client 4	Agriculture and food industry	–	1,452,146	–	–	–
Client 5	Extractive industry	–	14,301,076	790,050	–	–
Client 6	Extractive industry	–	2,162,457	997,126	–	–
Client 7	Power engineering	–	6,886,921	1,524,272	–	–
Client 8	Finance	2,952,279	–	–	–	–
Client 9	Finance	–	–	–	452,367	–
Client 10	Mechanical engineering	–	2,453,169	–	–	469,462
Client 11	Mechanical engineering	–	–	–	–	196,526
Client 12	Trade	–	–	1,452,994	–	777,844
Client 13	Trade	–	–	–	–	714,369
Client 14	Trade	–	–	–	–	84,490
Client 15	Transport and communications	–	1,302,138	564,863	–	–
Other	–	–	864,381	6,635,272	–	–

Balances with government-related entities which are individually significant in terms of the carrying value as at 31 December 2017 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Loans to customers*	*Amounts due to customers*	*Amounts due to credit institutions*	*Guarantees issued*
Client 1	State entities	–	–	3,546,848	–	–
Client 2	State entities	–	–	1,191,285	–	–
Client 3	Agriculture and food industry	–	–	26,893,949	–	–
Client 5	Extractive industry	–	16,863,172	–	–	–
Client 6	Extractive industry	–	769,062	–	–	–
Client 8	Finance	7,936,394	–	–	–	–
Client 9	Finance	–	–	–	442,939	–
Client 7	Power engineering	–	5,520,516	–		–
Client 10	Mechanical engineering	–	2,531,403	–	–	210,247
Client 12	Trade	–	–	1,328,284	–	650,402
Client 13	Trade	–	–	–	–	724,156
Other	–	–	–	8,765,303	–	–

During the year ended 31 December 2018, the Bank recorded UAH 2,986,770 thousand of interest income under significant transactions with government-controlled entities (2017: UAH 2,275,983 thousand), including interest income of UAH 37,246 thousand under transactions with the NBU deposit certificates with maturity up to 90 days (2017: UAH 180,682 thousand) and interest expense of 1,418,820 thousand (2017: UAH 1,778,541 thousand).

As at 31 December 2018 and 2017, the Bank's investments in debt securities issued by the government or the government-controlled entities were as follows:

	31 December 2018	*31 December 2017*
Investment securities at fair value through profit or loss	26,653,561	28,072,289
Available-for-sale investment securities	–	48,253,645
Investment securities held to maturity	–	96,022
Investment securities at fair value through other comprehensive income	35,784,441	–
Investment securities at amortised cost	49,855	–

Carrying amount of Ukrainian state bonds included into investment securities at fair value through profit or loss and investment securities at fair value through other comprehensive income is disclosed in Note 12.

For the year ended 31 December 2018, the Bank recognised UAH 3,869,019 thousand of interest income on transactions with Ukrainian state bonds (2017: UAH 4,827,725 thousand) and UAH 263,582 thousand of interest income on transactions with other investment securities (2017: UAH 313,358 thousand).

31. Capital adequacy

The Bank pro-actively manages its exposures to ensure that it maintains an adequate capital level to cover external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988.

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

The Bank manages its capital structure and adjusts its total assets to provide for observed and expected changes in the business environment and the risk profile of its business activities.

31. Capital adequacy (continued)

NBU capital adequacy ratio

The Bank's regulatory capital adequacy ratio was as follows:

	31 December 2018	*31 December 2017*
Main capital	7,266,802	6,217,716
Additional capital, calculated	3,880,435	4,141,885
Additional capital, included in calculation of total capital (limited to main capital)	3,880,435	4,141,885
Total regulatory capital	**11,147,237**	**10,359,601**
Risk weighted assets	**87,452,131**	**74,469,796**
Capital adequacy ratio	12.75%	13.91%

Regulatory capital comprises Tier 1 capital (Main capital) consisting of paid-in registered share capital plus reserves less expected losses, and Tier 2 capital (Additional capital), consisting of provisions against highest quality credit operations, asset revaluation reserve, current profit, subordinated debt and retained earnings. For regulatory capital calculation purposes the qualifying Tier 2 capital amount is limited to 100% of Tier 1 capital.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratios computed in accordance with the Basel Capital Accord 1988 were as follows:

	31 December 2018	*31 December 2017*
Tier 1 capital	8,632,895	13,145,892
Tier 2 capital, calculated	2,587,524	4,426,458
Tier 2 capital, included in calculation of total capital	2,587,524	4,426,458
Total capital	11,220,419	**17,572,350**
Risk weighted assets	**87,646,914**	**80,802,113**
Tier 1 capital adequacy ratio	9.8%	16.3%
Total capital adequacy ratio	12.8%	21.7%