ACTIV-AUDIT
audit and consulting

INDEPENDENT AUDITOR'S REPORT

of Audit firm "ACTIV-AUDIT"
based on the results of the audit the annual financial statements

PUBLIC JOINT STOCK COMPANY
"BANK FOR INVESTMENTS AND SAVINGS"

at the end of the day 31.12.2018

This "Auditor's report" is addressed to:

- The Management Board of PUBLIC JOINT STOCK COMPANY "BANK FOR INVESTMENTS AND SAVINGS";
- All other possible users of the annual financial statements of PUBLIC JOINT STOCK COMPANY "BANK FOR INVESTMENTS AND SAVINGS".

Report on the audit of financial statements

Qualified Opinion

We have audited the annual financial statements of Public Joint-Stock Company "BANK FOR INVESTMENTS AND SAVINGS". (hereinafter - PJSC "BANK FOR INVESTMENTS AND SAVINGS ", The Bank), which consists of the Financial Statement (Balance) as of December 31, 2018, the Statement of profit and loss and other comprehensive income, Statement of changes in equity and Statement of cash flows for the year that ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, , the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2018, its financial results and cash flows for the year that ended, in accordance with International Financial Reporting Standards (IFRS), and meets the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" dated July 16, 1999 №. 996-XIV, concerning the preparation of financial statements.

Basis for Qualified Opinion

According to the results of the audit, we believe that in the annual financial statements of the Bank in accordance with the requirements of International Financial Reporting Standards and taking into account the internal banking policies regarding the recognition of expected credit risks for financial assets, provisions for loans and advances to customers in the amount of 48,274 thousand UAH should be increased, respectively, the costs should be increased, and the assets and capital are reduced to the specified amount. Given the significant lending risks inherent in the Bank, there is a likelihood of an increase in losses incurred by the Bank against impairment of loans and customer due to changes in the economic and political situation in Ukraine that we can not predict.

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibility in accordance with these standards described in section "Auditor's Responsibility for the Audit of Financial Statements" in our report. We are independent in relation to the Bank in accordance with Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements applicable in Ukraine to our audit of financial statements, as well as fulfill other ethical obligations in accordance with these requirements and the IESBA Code. We believe that the audit evidence we receive is sufficient and acceptable to use as the basis for our qualified opinion.

Key audit matters

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

With the exception of the issue in the Basis for Qualified Opinion section, we identified the following key issues.

Valuation of Investment Property

As at the reporting date, the Bank's assets are accounted for non-residential premises classified as investment property.

We identified this area as a key audit issue since the Bank's management should apply the material judgments necessary to determine the fair value of the property in question and given the significant proportion of total assets in the total assets of the Bank - 6.7%. The cost of reflection in the balance of the Bank of the said property is based on the findings of independent appraisers.

We have conducted procedures to determine the range of estimates in which the fair value of the investment property of the Bank is most likely to be, in particular:

- assessed the objectivity, independence of external appraisers who determined the market value of the Bank's property at the reporting date, and analyzed the main approaches and methodology for determining the market value of the objects;
- attracted experts in valuation of real estate in order to obtain an independent opinion on the market value of the Bank's assets at the reporting date.

Based on the results of the procedures, we did not disclose material inconsistencies with the management's assessment of the Bank when reflecting the value of investment property. At the same time, in the conditions of the existing real estate market in Ukraine there is a risk of losses of the Bank in the future from the depreciation of this asset.

Information on the investment property of the Bank is disclosed in Note 10 to the financial statements.

Related party transactions

We identified the issues of identification and recognition of related parties as well as transactions with them as a key issue of audit due to the significant amount of outstanding balances with the Bank's related operations with related parties, as well as considering the subjective nature of the judgments, which are used in identifying and recognizing related parties, and significant estimates of managerial assumptions in determining the control and influence that determine the status of related parties.

As of the reporting date, the Bank has exceeded the norm of the maximum amount of credit risk for operations with persons connected with the Bank (H9) as of the reporting date, the estimated value of which as of the end of the day on December 31, 2018 was 162,19% at the normative value - no more than 25%. The Bank has developed and submitted to the National Bank of Ukraine a plan of measures for bringing in until 01.07.2021 activities in accordance with the requirements of the legislation and regulatory legal acts of the National Bank of Ukraine regarding operations with persons related to the Bank.

Information on significant accounting policies is presented in Note 4 and Note 37 to expand the information on transactions with related parties.

During the audit, we evaluated the approach and methodology used by the Bank to identify related parties in accordance with IAS 24 Related party transactions, the Law of Ukraine on Banks and Banking, and the regulatory requirements of the National Bank of Ukraine. In addition, we have analyzed the approach of the Bank to disclosing information on the balances and transactions with related parties in the financial statements and compliance with the plan agreed upon with the National Bank of Ukraine to bring the Bank's activities in line with the requirements of the legislation and regulatory acts of the National Bank of Ukraine on operations with bank related persons.

Other information

The financial statements for the year ended 31.12.2017 has been verified by another auditor who expressed unmodified opinion on that reporting 20.04.2018.

Information other than the Financial Statements and Auditor's Report Thereon

Management is not responsible for other information. Other information consists of the information contained in the Management Report (Report on Management) of the PJSC "BANK FOR INVESTMENTS AND SAVINGS" for 2018 year (overheads - Management Report), but not the financial statements and our auditor's report on it.

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

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

In accordance with the requirements of Art. 40^1 of the Law of Ukraine "On Securities and Stock Market" we report the following.

We checked the information contained in the section "Corporate Governance Report" of the Management Report regarding:

• compliance by the Bank with the provisions of the Code of Corporate Governance,

• held during the reporting period of the general meeting of shareholders of the Bank and adopted at the meeting of decisions,

• the personal composition of the Supervisory Board and the Management Board of the Bank, the committees of the Bank's Management Board, and the meetings and decisions taken by them,

with the information provided in the Code of Corporate Governance of the Public Joint-Stock Company "BANK FOR INVESTMENTS AND SAVINGS" (approved by the General Meeting of Shareholders of the Bank on 22.04.2018, Protocol No.16), other Bank's regulations / policies adopted by the Bank in terms of corporate governance, other information and / or our knowledge, obtained during the audit, but did not establish any significant inconsistencies. At the same time, we note that the corporate governance system of the Bank needs to be improved taking into account the provisions of the Guidelines on the organization of corporate governance in the banks of Ukraine (approved by the decision of the Board of the National Bank of Ukraine № 814-rs dated 03.12.2018).

The responsibility of Management and those charged with Governance for the financial statements

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

In the preparing of financial statements, management is responsible for assessing the Bank's ability to continue its operations on an ongoing basis, disclosing, where applicable, business continuity issues, and using assumptions of continuity as a basis for accounting, unless management or plans to liquidate the Bank or cease its activities, or has no other real alternatives to it.

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

Auditor's responsibility for audit of financial statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole do not contain material misstatement due to fraud or error and the issuance of an auditor's report containing our opinion. Reasonable confidence is a high level of certainty, but it does not guarantee that an audit conducted in accordance with the ISA will always detect a material misstatement when it exists. Misstatement may be the result of fraud or error; they are considered to be material if, individually or in aggregate, they are reasonably expected to affect the economic decisions of users that are taken on the basis of these financial statements.

As part of an audit in accordance with the requirements of ISA, we use professional judgments and professional skepticism throughout the audit engagement. In addition, we:

• Identify and assess the risks of material misstatement of financial statements as a result of fraud or error, develop and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and acceptable to use as the basis for our opinion. The risk of non-disclosure of material misstatement due to fraud is higher than for distortion due to a mistake, as fraud may involve collusion, forgery, intentional omission, incorrect statements or neglect of internal control measures;

• Obtain an understanding of the internal control activities related to the audit, to develop audit procedures that are appropriate to the circumstances, rather than to express an opinion on the effectiveness of the internal control system;

• Evaluate the appropriateness of accounting policies and the validity of accounting estimates and relevant disclosures made by management;

• Conclude on to the appropriateness of using the assumption of continuity of activities as a basis for accounting by management and, on the basis of audit evidence obtained, we conclude that there is a significant uncertainty about events or conditions that would significantly cast doubt on the Bank's ability to continue its continuous activities. If we conclude that the existence of such significant uncertainty, we should draw attention in our auditor's report to relevant disclosures in the financial statements or, if such disclosures are inappropriate, to modify their views. Our conclusions are based on audit evidence received prior to the date of our auditor's report. However, future events or conditions may force the Bank to cease its activities on an ongoing basis;

• Assess the overall presentation, structure and content of financial statements, including disclosures, as well as whether the financial statements of operations and events underlying its compilation are presented in such a way as to achieve a credible presentation.

We inform the Supervisory Board about the planned volume and time of the audit and audit significant results, including any significant deficiencies of internal controls identified during our audit.

We also submit to the Supervisory Board the assertion that we have met the relevant ethical requirements for independence, and we notify them of all relations and other issues that might reasonably be considered as affecting our independence and, where applicable, regarding the relevant precautionary measures.

From the list of all issues that were provided to the Supervisory Board, we identified those that were most important during the audit of the current financial statements, that is, those that are key issues in the audit. We describe these issues in our auditor's report except when a legislative or regulatory act prohibits public disclosure of the issue or if, in very exceptional circumstances, we determine that such a question should not be covered in our report, as the negative effects of such coverage may be expected to outweigh it utility for the public interest.

Report on the other legal and regulatory requirements

In accordance with the requirements of the Law of Ukraine "On Banks and Banking", the Law of Ukraine "On Securities and the Stock Exchange", the Law of Ukraine "On the Audit of Financial Reporting and Auditing Activities", the Regulations on the Procedure for Submitting an Audit Report to the National Bank of Ukraine on the Results of the Annual the audit of financial statements (approved by the Resolution of the Board of the National Bank of Ukraine dated August 2, 2014, №90), we report on other issues related to the Bank's annual financial statements and our audit. The full text of our "Report on the requirements of other laws and regulations» is available at https://www.bisbank.com.ua/files/finansova_zvitnist_2018.pdf.

In carrying out the audit of financial statements for 2018 year, those policies and procedures in the accounting, internal control and risk management systems concerning statements in the financial statements were considered.

Applications:

- Annual financial statements of the Bank

The partner of an audit engagement, resulting in the Report of the independent auditor, is Domarieva Nataliia.

Signed on behalf of the audit firm Limited Liability Company "Audit Firm "ACTIV-AUDIT" (registration number in the Register of Auditors and Auditors, issues "Audit Subjects", "Subjects of audit activity that are entitled to conduct mandatory audit of financial statements", "Subjects of audit activity that have the right to conduct mandatory audit of financial statements of enterprises of public interest"- 2315)

Director
the registration number in the Register of Auditors and Subjects audit activity (issue "Auditors") - 100062

Mnishchenko V.

An audit engagement partner
Director of Audit
the registration number in the Register of Auditors and Subjects audit activity (issue "Auditors") - 100065

Domarieva N.

23-B, General Naumova Str., Kiev

17 April 2019

CONTENT

INDEPENDENT AUDITOR`S REPORT

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Statement of financial position
As at 31 December 2018

	Notes	2018	2017
ASSETS			
Cash and cash equivalents	6	600 949	839 598
Loans and liabilities of banks	7	14 633	-
Loans and liabilities of clients	8	2 996 407	3 377 682
Investments in securities	9	154 307	48 030
Derivative financial assets	34	242	265
Investment property	10	282 020	-
Accounts receivable on current income tax	26	-	1
Deferred tax asset	26	398	215
Property, plant and equipment and intangible assets	11	44 887	30 962
Other financial assets	12	103 212	40 220
Other assets	13	8 853	5 692
Total assets		**4 205 908**	**4 342 665**
LIABILITIES			
Clients` money	14	3 546 690	3 753 330
Derivative financial liabilities	34	1 225	1 690
Debt securities issued by the Bank	15	56	15 188
Accounts payable on current income tax	26	686	55
Provisions for liabilities	16	982	2 833
Other financial liabilities	17	96 741	11 840
Other liabilities	18	15 720	14 843
Total liabilities		**3 662 100**	**3 799 779**
EQUITY			
Share capital	19	500 000	500 000
Reserves and other funds		34 055	33 589
Revaluation reserves	20	(371)	(36)
Retained earnings /(uncovered losses)		10 124	9 333
Total equity		**543 808**	**542 886**
Total liabilities and equity		**4 205 908**	**4 342 665**

Approved for release and signed

2 April 2019 Chairman of the Board V.O. Zinnikov

Chief Accountant Y.M. Kyryliuk

Chernukha S.V.
☎ (044) 207-70-35

Notes on pages 5-51 form an integral part of these financial statements

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Statement of profit or loss and other comprehensive income
For the year ended 31 December 2018

	Notes	2018	2017
Interest income	22	377 277	418 129
Interest expenses	22	(243 813)	(249 096)
Net interest income /(Net interest expenses)		***133 464***	***169 033***
Commission income	23	320 114	89 957
Commission expenses	23	(10 720)	(7 595)
Net income/(loss) from transactions with financial instruments that are recorded at fair value through income or loss		25 362	21 458
Net income from operations with derivative financial instruments		*25 362*	*21 458*
Net income/(loss) from transactions with debt financial instruments that are recorded at fair value through other comprehensive income		(2)	-
Net income/(loss) from operations with foreign currency		12 477	14 906
Net income/(loss) from revaluation of foreign currency		2 955	654
Net loss from impairment of financial assets	7, 8, 12	(56 740)	(109 714)
Net loss from impairment of other assets	13	1 489	(1 780)
Net loss/(income) from increase/(decrease) in provisions for liabilities		804	(2 758)
Net income/(loss) from derecognition of financial assets (liabilities) that are recorded at amortized cost		5 880	-
Accumulated income/(loss) from reclassification of financial assets that are recorded at fair value through other comprehensive income to fair value through profit or loss		(113)	-
Income/(loss) from hedging with collapsing risk positions			
Other operating income	24	11 451	2 455
Employee benefits expenses		(118 912)	(70 317)
Expenses on wear and tear and depreciation		(9 199)	(6 379)
Other administrative and operating expenses	25	(306 292)	(88 477)
Profit/(loss) before income tax		***12 018***	***11 443***
Income tax expense		(1 837)	(2 110)
Profit/(loss) for the year		***10 181***	***9 333***
OTHER COMPREHENSIVE INCOME:			
ARTICLES THAT WILL BE RECLASSIFIED IN PROFIT OR LOSS			
Changes in the results of revaluation of debt financial instruments:		(335)	(36)
net change in fair value		(448)	(36)
net change in fair value, that is carried over to profit or loss		113	-
Other comprehensive income after tax		(335)	(36)
Total comprehensive income for the year		**9 846**	**9 297**
Total comprehensive income, that belongs to Bank owners		9 846	9 297
Profit/(loss) per share from continuing operations		20,36	18,67
Profit/(loss) per share that belongs to Bank owners		20,36	18,67

Approved for release and signed

2 April 2019 Chairman of the Board V.O. Zinnikov

Chernukha S.V. Chief Accountant Y.M. Kyryliuk
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(in thousands of Ukrainian hryvnias unless otherwise indicated)

Statement of changes in equity
For the year ended 31 December 2018

	Notes	Share capital	Reserves and other funds	Revaluation reserves	Retained earnings	Total
Balance at 31 December 2016		**500 000**	**33 200**	**-**	**7 782**	**540 982**
Total comprehensive income		-	-	(36)	9 333	9 297
Profit for the year		-	-	-	9 333	9 333
Other comprehensive income	20	-	-	(36)	-	(36)
Allocation of profit to reserves and other funds		-	389	-	(389)	-
Dividends	28	-	-	-	(7 393)	(7 393)
Balance at 31 December 2017		**500 000**	**33 589**	**(36)**	**9 333**	**542 886**
Changes from the application of IFRS 9					(57)	(57)
Adjusted Balance at 1 January 2018		500 000	33 589	(36)	9 276	542 829
Total comprehensive income		-	-	(335)	10 181	9 846
Profit for the year		-	-		10 181	10 181
Other comprehensive income	20	-	-	(335)	-	(335)
Allocation of profit to reserves and other funds		-	466		(466)	-
Dividends	28	-	-	-	(8 867)	(8 867)
Balance at 31 December 2018		**500 000**	**34 055**	**(371)**	**10 124**	**543 808**

Approved for release and signed

2 April 2019 Chairman of the Board V.O. Zinnikov

Chief Accountant Y.M. Kyryliuk

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(in thousands of Ukrainian hryvnias unless otherwise indicated)

Statement of cash flaws
(by indirect method)
for the year ended 31 December 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	12 018	11 443
Adjustments:		
Wear and tear and depreciation	9 199	6 379
Net increase/(decrease) of provisions for assets impairment	56 028	111 536
Amortization of discount/(premium)	752	2 231
The result of transactions with financial derivatives	(212)	(3 327)
The result of transactions with foreign currency	(2 955)	(654)
(Income accrued)	(17 060)	22 152
Accrued expenses	(21 585)	26 188
Other cash flows, that are not monetary	4 168	-
Net cash income/(loss) from operating activities before changes in operating assets and liabilities	***40 353***	***175 948***
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Net (increase)/decrease of mandatory reserves in National Bank of Ukraine	-	59 088
Net (increase)/decrease of investments in securities	(99 596)	(50 000)
Net (increase)/decrease of loans and liabilities of banks	(39 812)	(705)
Net (increase)/decrease of loans and liabilities of clients	86 699	585 801
Net (increase)/decrease of other financial assets	(81 923)	(22 689)
Net (increase)/decrease of other assets	(1 671)	(6 513)
Net (increase)/decrease of Bank's money	-	(9)
Net increase/(decrease) of client's money	(184 559)	193 317
Net increase/(decrease) of the debt securities, issued by Bank	(14 759)	(101 706)
Net increase/(decrease) of other borrowed money	-	(369 193)
Net increase/(decrease) of provisions for liabilities	-	2 758
Net increase/(decrease) of other financial liabilities	84 326	5 758
Net increase/(decrease) of other liabilities	877	5 985
Net cash generated from/(used in) operating activities, before income tax	***(210 065)***	***477 840***
Income tax paid	(1 388)	(1 840)
Net cash generated from/(used in) operating activities	***(211 453)***	***476 000***
CASH FLAWS FROM INVESTMENT ACTIVITIES		
Acquisition of property, plant and equipment	(17 671)	(13 621)
Earnings from sale of property, plant and equipment	1	1 413
Acquisition of intangible assets	(518)	(454)
Net cash received from/(used in) investing activities	***(18 188)***	***(12 662)***
CASH FLAWS FROM FINANCIAL ACTIVITIES		
Dividends paid	(8 867)	(7 393)
Net cash generated/(used in) from financial activities	***(8 867)***	***(7 393)***
Impact of changes in the official exchange rate of cash and cash equivalents	4 253	1 703
Net increase/(decrease) of cash and cash equivalents	***(234 255)***	***457 648***
Cash and cash equivalents at the beginning of period	846 908	389 260
Cash and cash equivalents at the end of period	612 653	846 908

Approved for release and signed

2 April 2019 Chairman of the Board V.O. Zinnikov

Chernukha S.V. Chief Accountant Y.M. Kyryliuk
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Notes on pages 5-51 form an integral part of these financial statements

Note 1. Background information

PUBLIC JOINT STOCK COMPANY «BANK FOR INVESTMENTS AND SAVINGS» (hereinafter – the Bank) was registered by National Bank of Ukraine on 9 August 2005.

Legal address of the Bank is 83D Melnykova Street, Kyiv 04119, Ukraine.

The Bank web-site address is www.bisbank.com.ua.

The reporting period of these financial statements is the year ended 31 December 2018.

These financial statements are prepared as of 31 December 2018 and presented in thousands of hryvnias.

The Bank is a member of the bank system of Ukraine (as of the end of 2018, there were 77 operating banks in Ukraine), regulated by National Bank of Ukraine.

The Bank is an independent financial institution which is not a part of any consolidated groups or a subsidiary of any other company. The supreme governance body is the General Meeting of Shareholders of PJSC «BANK FOR INVESTMENTS AND SAVINGS».

The Bank is an active member of the Deposit Guarantee Fund.

At the end of the year ended 31 December 2018, the Bank employed 633 people (at the end of 2017 the bank employed 435 people).

As of the reporting date, the regional network of the Bank consists of the Head Office and 40 departments located in the majority of regions in Ukraine (at the end of 2017 the number of branches of the Bank was 32 departments).

The strategic goal of the Bank is to create a new quality standard of client-oriented service; to strengthen the Bank's reputation as a stable and reliable Ukrainian bank, to maintain the trend of the dynamic increase in the main financial indicators and to secure high liquidity and solvency.

The Bank provides its services according to the license of the National Bank of Ukraine № 221 as of 24 October 2011, and the general license to perform foreign exchange transactions № 221-3 as of 21 June 2013. According to these licenses, the Bank is allowed to carry out the following transactions:

1. Attract deposits (funds and precious metals) from a broad customer base of individuals and legal entities;
2. Open and maintain current (correspondent) accounts of clients, including accounts in precious metals;
3. Allocation of deposit funds and precious metals on behalf of the Bank, at its own discretion and risk.
4. Foreign exchange transactions.

Since 2009, the Bank works with the State Mortgage Institution (a public entity) at the mortgage market.

The Bank is not classified as a specialized bank.

Main activities of the Bank include: credit and deposit transactions, cash and settlement customer service, foreign exchange transactions, transactions with securities, payment card transactions, and documentary transactions. The policy of flexible and tailored approach to every client allows the Bank to expand its client base continuously and attract its clients' funds to deposits (due to the range of client services offered), and also to credit extensively the real economy sector of Ukraine.

The Bank is also active on the interbank market. It uses instruments of the interbank market to attract or place resources promptly and also to perform foreign exchange transactions both for the benefit of its clients and for the benefit of using its own currency position.

For the purpose of international transactions, the Bank established correspondent relations with PJSC «Ukrgasbank», PJSC «FUIB», JSCB «Pivdennyi», JSCB «INDUSTRIALBANK» etc.

The Bank is the member of SWIFT payment system since 2006. In 2008, the Bank joined Visa International payment system and received from the National Bank of Ukraine a registration certificate that confirms its right to issue Visa International payment cards, and started issuing payment cards of this system, namely, Visa Electron, Visa Classic, Visa Gold, and Visa Platinum.

Following the 2018 results, the Bank was assigned to the group of banks with private equity according to the NBU classification.

At 31 December 2018, holders of a significant share in the capital of the Bank are the following residents of Ukraine:

Stepan Petrovych Ivakhiv – 23.3% of share capital (including direct ownership of 23.3%);

Serhiy Mykolayovych Lahur: 17.5% of share capital (including direct ownership of 17.5%);

Andriy Volodymyrovich Popov: 15.00% of share capital (including direct ownership of 9.7998% indirect ownership of 5.2002%);

Petro Petrovych Dyminskiy and Zhanna Petrivna Dyminska: joint ownership of 10.0% of share capital (including 5.67% directly owned by P.P. Dyminskiy and 4.33% directly owned by Zh. P. Dyminska).

Managers of the Bank do not own its shares.

The Bank was not part of any merger, takeover, partition or separation in the reporting year.

On 27 September, 2018 «Credit Rating», independent rating agency confirmed the long-term credit rating of PJSC «BANK FOR IN-VEST-MENTS AND SAVINGS» at the level of uaAA («investment level») with a stable forecast. The agency also confirmed the bank deposit stability rating of «4+» («high reliability»).

Also, on September 28, 2018, the Bank confirmed the long-term credit rating of PJSC «BANK FOR INVESTMENTS AND SAVINGS» at uaAA level with a "stable" forecast from the NRA "Rurik".

The financial statements for the year ended 31 December 2018, were approved by the Chairman of the Board on 2 April 2019, protocol №02/04-01.

Note 2. Economic environment of the Bank`s activity

All 2018 was marked by the deepening of economic contradictions between leading geopolitical players and as a consequence of the in-creased intensity of protectionist measures and trade wars. In particular, it should be noted the confrontation between the United States and China, as well as opposition from the EU to the US sanctions policy against Iran, and continued promotion of the expansion of the Russian gas pipeline network from Germany, despite the expansion of sanctions for aggression against Ukraine. The above circumstances adversely affect the price conjuncture for Ukrainian exporters. The dominant factor is the decline in prices for sunflower oil and steel.

World steel prices at world markets have been shrinking due to lower demand from the EU and China's construction sector (especially at the end of the year due to worsening weather conditions) and surplus supply. Only Turkey increased exports by 19.8%.

World crops prices, after declining in mid-2018, began to increase against the backdrop of worsening forecasts of wheat and corn crop yields in the EU and the US. For the first time in 10 years, the European Union has imported more grain than it has been for export.

By October 2018, oil prices grew, but in the future, the trend changed to the opposite under the influence of excessive supply due to increased production in Russian Federation, USA and Saudi Arabia. For Russia, the growth of crops is critical in terms of cash receipts bypassing sanctions.

The response of the financial markets to the turbulence of the world economy has been the flow of funds into less risky assets, and as a consequence - reducing investment in developing market economies. Also, a significant factor was the worsening expectations of the growth rate of industrial production in China, the USA and the Eurozone in general and Germany in particular.

Against the background of the above events, the growth of industrial production in Ukraine has slowed down to 1.6% y/y. Agriculture was the only branch that showed a steady growth.

In November 2018, consumer inflation accelerated to 10.0% y/y, and basic inflation – up to 8.9%. In the monthly view, prices rose by 1.4% (base CPI grew by 1.1%.) The annual growth rate of service prices has increased (to 14.8% y/y).

The main factor in increasing administrative-regulated prices (up to 17.3% y/y), was accelerating the growth of production costs, in particular, share of wages and rising fuel prices (although the decline in oil prices slowed down to 19% y/y).

The salary of citizens of Ukraine, obtained abroad, also gradually becomes a significant component of income. It is not included in calculation of GDP by income. After the introduction of the visa-free regime of Ukraine with the EU, according to updated data in the structure of nominal incomes of Ukrainians, the share of labor migrants' money increased from 6.9% in 2015 to 9.4% in 2017. Estimates of transfers to Ukraine in 2015 - 2017 increased by 1.8-1.2 billion dollars. (to 9.3 billion dollars, or 8.3% of GDP in 2017). In general, according to the State Border Guard Service, for the period 2008 - 2017, 3.7 million citizens left and returned to Ukraine, and a significant part of them - forever. At the same time, labor migration stimulates the increase of wages of the corresponding employees.

Total profit before taxation of Ukrainian companies (excluding financial and insurance) last year amounted to UAH 138.6 billion (+ 53% y/y). Most notably grew profits of extractive, food and mechanical engineering companies. At the same time, the main risk of this industry remains its low competitiveness, and dependence on exports to the Russian Federation, however, is constantly decreasing (from 44% to 22% in 2014-17).

Taking into account the negative external factors (first of all, the complexity of access to international financial resources and inflationary expectations), in 2018 NBU raised the discount rate four times from 14.5% to 18% per annum, the last - at the end of the 3rd quarter. The rate remained unchanged by the end of 2018. Despite this, in the first half of the year, interest rates on deposits were almost unchanged, and only started to grow in the 2nd quarter due to slowdown in deposit growth rates.

In the 4th quarter, the growth of the value of deposits of the population accompanied the raising of rates for new hryvnia loans: by 1.4% - to 31.5% per annum. Rates for hryvnia loans to corporations grew by 1.1% to 20.8%. At the same time, taking into account the forecasts of low inflation, in the 2nd half of 2019, the discount rate is expected to decrease.

At the end of 2018, there were 77 functioning banks in Ukraine, four less than a quarter earlier. Two banks completed procedures of merging with others, one was transformed into a financial company, VTB-Bank was declared insolvent. The share of the state financial market institutions remained almost unchanged: 54.7% and 63.4%, respectively, in terms of net assets and deposits.

In 2018, the share of PrivatBank and private banks in net assets grew by 1.3% and 0.9%. to 20.7% and 14.8% respectively. Concentration does not change over two years. The first twenty banks have 91% of net assets. As a result of intensive lending to the population, banks' assets grew by 6.7%, while net lending to individuals was 34.1%. At the same time, the volume of inter-bank loans was reduced and was partially replaced by the purchase of NBU deposit certificates.

Mortgage lending (6% y/y) grew significantly, this indicator became positive for the first time since the crisis began. Last year the number of permits issued for the construction of multi-apartment buildings decreased by 25% y/y. This may indicate a deceleration in the growth of housing construction in the coming years. In 2nd quarter 2018, the amount of commissioned housing decreased by 15% y/y and amounted to 975 thousand square meters. Moreover, even in the event of the growth of nominal Ukrainian incomes, solvency demand remains limited.

To stimulate demand, developers offer small apartments (for the year the average area has decreased from 64.7 to 60.8 square meters), discounts of 5 - 20% in case of one hundred percent payment, installment programs for 2 - 5 years, exchange of new apartments on the old ones. However, this does not help to increase sales significantly. More than 43% of the residential housing accepted in the multi-apartment buildings fell to Kyiv and Kyiv oblast. In the 2nd and 3rd places Odessa and Lviv region.

Before the crisis of 2014 and during its acute phase, the largest state monopolies received significant losses, and therefore had problems with lending. Over the past two years, they have significantly improved their financial position. In all state monopolies, the estimated class of a debtor indicates a low probability of default (about 5%), and hence a low credit risk of the bank for such debts. Today they can attract loans at lower rates and at better non-price terms than the vast majority of companies in the real sector - both abroad, and in private Ukrainian banks.

Net hryvnia loans to corporations grew by 2.0% for a quarter and by 8.1% y/y, and for non-defaulting borrowers - + 25.8% y/y. The highest pace was in Privatbank (+ 70% y/y). Net foreign currency business loans grew by 6.0% for a quarter and by 2.6% y/y. Key borrowers in foreign currency are companies of alternative energy, trade and agricultural export companies. As a result, in 2018, the quality of loan portfolio improved, while in the 4th quarter the share of non-performing loans decreased by 1.7 ppt. to 52.8% 3. The main factor is the lively development of retail lending, which leads to a statistical reduction of the NPL share.

At the same time, a significant part is the share of non-performing loans, the main source of which are large business groups that are unable or unwilling to serve the debts accumulated prior to the crisis. The financial situation of many of these groups has significantly improved over the last year, and their cash flows are sufficient to fully maintain interest and gradually repay debt, but in practice this does not happen. In the total amount of loans issued to the 20 largest groups, the share of the unemployed is 86%, and excluding the business group Privat 76%, which is more than 25 in a. above the indicator for the remaining debtors.

Several successful restructuring of individual large debtors over the past year did not fundamentally change the situation. Major groups delay debt restructuring and expect banks to offer preferential conditions, for example, writing down a significant share of debt or zero interest over several years at repayment at the end of the business group's arrears. If the banks are not coordinated for the purpose of settling arrears of large groups, these debts will never be returned.

The share of non-performing loans reached its maximum value in July 2017 and decreased during the 2nd half-year. However, in January 2018, it increased by 2%. The reason is the statistical effect of changing the Accounting plan.

The funds of the population and business in banks continue to grow. During the 2018 year, hryvnia funds of the population and business entities grew by 14.8% and 6.8% respectively. In the last quarter of the year, hryvnia deposits grew by 3.9% primarily due to improved exchange rate and inflation expectations. Private banks and foreign banks attracted the biggest amount of funds: + 7.8% and + 6.7% in the 4rth quarter. Foreign funds declined by 1.7% (+ 1.4% y/y) after the growth in the previous quarter. This tendency increases liquidity risk, since virtually all corporate deposits are either on demand or ultra-large deposits, and deposits are for the period up to 3 months prevailing among deposits of corporations. Household and household incomes are expected to continue to grow at a rate of 15% y/y and 10% y/y, respectively.

The results of the assessment of the stability of the banking sector have confirmed the sufficient capitalization of banks in the context of the basic macroeconomic scenario. At the same time, financial institutions must build up capital to have a safety margin in case of crisis. In 2018, the stress test of largest banks revealed that about half of the financial institutions under review may require additional capital in a deep crisis. Financial institutions without sufficient margin of safety in case of a crisis must fundamentally restructure their balance sheets and revise a business model.

Financial institutions in 2018 successfully switched to a new liquidity standard - LCR. As for mid-February, all banks execute LCR in foreign currency (minimum value is 50%); the LCR norm in all currencies (the minimum value is 80%) is driven only by institutions that have 0.2% of the sector's assets. The key priorities of banks for 2019 are a complete restoration of corporate lending and the continuation of clearing of balances from non-performing loans. During the current year, the NBU will introduce the concept of a new regulatory capital structure, as well as the NSFR long-term liquidity standard. After discussing with banks, new regulations will be implemented, with the sector receiving the necessary transitional period for adaptation.

The financial condition of PJSC «BANK FOR INVESTMENTS AND SAVINGS» was stable, the level of liquid funds in the Bank's assets remained high and the level of overdue debts was low.

Note 3. Principles of the financial statement presentation

The financial statements for the year ended 31 December 2017 were prepared by the Bank ac-cording to the requirements of the International Financial Reporting Standards (IFRS), which have been adopted and issued by the International Accounting Standards Board (IASB), and explanations published by the IFRS Interpretations Committee (IFRS IC).

The Bank conducts accounting in accordance with IFRS principles.

These financial statements based on accounting records without the use of transformation entries.

The functional currency of the Bank accounting records and financial statements preparation is Ukrainian hryvnia. Unless stated otherwise, the statements are represented in hryvnias and rounded to thousands. Balances carried at the reporting date in a currency other than the functional currency, are translated into the functional currency at the official exchange rates of foreign currencies.

Note 4. Accounting policies principles

4.1. Consolidated financial statements

The Bank is not a member of any group of legal entities where it would be a parent or a subsidiary. The Bank does not present consolidated financial statements for the reporting period.

4.2. The basis of measurement of preparation of financial statements

The bases of measurement of financial instruments are fair value, cost, amortized cost, and the effective interest rate method.

Fair value is the price that would be received for the sale of an asset or paid for the transfer of an obligation in a normal (organized, easy-to-use) transaction between market participants at the valuation date. Fair value is determined in accordance with IFRS 13 "Fair value measurement".

Initial cost - historical (actual) cost of property, plant and equipment or intangible assets in the amount of cash or the fair value of other assets paid (transferred) used to purchase (create) fixed assets or intangible assets.

Amortized cost of a financial asset or financial liability is the amount at which a financial asset or financial liability is measured at initial recognition, less received or paid out [main amount of debt, interest income (expense), or other payments related to the initiation of a financial asset or financial liability] increased or decreased by the amount of accumulated depreciation calculated using the effective interest rate, - difference between initially recognized amount and amount settled the financial instrument as well as for financial assets adjusted for the estimated provision for loan losses.

Effective interest rate method is a method for calculating the amortized cost of a financial asset or financial liability (or a group of financial assets or financial liabilities) and the distribution of income in the form of interest or expense for the payment of interest over a relevant period of time. Effective interest rate is a rate that exactly discounts the expected flow of future cash payments or receipts over the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The Bank calculates the effective interest rate on the basis of future expected cash flows, taking into account all terms and conditions of the agreement on the financial asset, without taking into account expected credit losses.

An effective interest rate adjusted for credit risk is a rate that accurately discounts the expected future cash inflows or outflows over the expected life of the financial asset to the amortized cost of a financial asset that is acquired or created by a depreciated financial asset. The Bank calculates the effective interest rate adjusted for credit risk based on future expected cash flows, taking into account all terms and conditions of the financial asset and expected loan losses.

The Bank's accounting policies for the recognition and measurement of specific assets and liabilities, income and expenses are disclosed in the related notes to this report.

4.3. Financial instruments

Derivatives and other financial instruments at fair value, changes of which relate to the financial result are initially recognized at fair value. All other financial instruments are initially recognized at fair value plus transaction costs. The gain or loss on initial recognition is recognized only if there is a difference between the fair value and the contractual price.

All transactions of purchase or sale of financial assets, which envisage the delivery during a period determined by law or by market traditions (regular purchase and sale agreements), are recognized on a date of settlements, that is the date the Bank supplies the financial asset. All other transactions on the acquisition of financial instruments are recognized when the Bank become a part of contract on the acquisition of financial instruments.

Business model of the Bank`s assets management is a set of intentions, policies, methods and procedures that determine:

- a way of managing financial assets to achieve a certain goal;
- directions (sources) of obtaining economic benefits from such assets;
- a way of generating cash from use of such assets.

For the debt financial assets, depending on their management objectives, the Bank allocates 3 business models:

- Business model 1 - assets held exclusively for the purpose of obtaining cash flows stipulated by agreement;

Main characteristics of the model 1:

✓ holdings of assets for the purpose of obtaining cash flows that are stipulated by the terms of the respective agreements;

✓ sales are secondary in relation to the purpose of this model; as a rule, rare sales (in the context of the frequency of their implementation and volume).

- Business Model 2 - assets held for the purpose of obtaining cash flows stipulated by the contract or sale;

Main characteristics of the model 2:

✓ the goal is achieved as a result of obtaining contractual cash flows and a result of sale of an asset; as a rule, more sales (in terms of frequency of their implementation and volume) compared to model 1.

- Business Model 3 - all other assets (including trading, asset management based on fair value, increasing cash flows to the maximum through the sale of assets).

For equity instruments, depending on their management objectives, the Bank distinguishes two business models: Business Model 2 or Business Model 3.

In order to determine the economic substance of cash flows the terms of contracts are analyzing by the debt financial instruments. Such analysis is carried out by conducting SPPI-testing.

Depending on the defined asset management model and the SPPI test result (whether or not the SPPI test is passed), financial assets are classified according to valuation models as being valued:

➢ at amortized cost (Business model 1and SPPI-test past);

➢ at fair value with a reflection of a revaluation result in profit or loss (FVPL (fair value through profit or loss) (Business model 3 and SPPI test passed or SPPI test not completed);

➢ at fair value with revaluation in other comprehensive income (in capital) (FVOCI (Business model 2 and SPPI-test passed).

Financial liabilities are classified as subsequently measured at amortized cost using an effective interest rate, with the following exception:

➢ financial liabilities at fair value with reflecting the revaluation of profit or loss. Such liabilities are debt instruments intended for trading, including derivative financial instruments that are liabilities, subsequently measured at fair value.

The extent and approaches to recognizing credit losses and interest income on financial assets depend on the stage of impairment.

In calculating the estimated provision in accordance with the requirements of IFRS 9:

- Model of expected losses is applied (forward looking approach),
- Several scenarios are taken into account when calculating the profitability of default of the debtor / counterparty PD (probability of default),
- Macroeconomic forecast are taken into account in the PD calculations (GDP forecast, industrial production price index (PPI) forecast, inflation forecast (CPI)),
- The concept of stages of depreciation is introduced,
- The value of money in time is taken into account (discounting of expected credit losses),
- The unutilized balance of off-balance sheet commitments in the expected cash flows of the loan is taken into account,
- Reserves are calculated on all items that are exposed to credit risk.

The impairment model of IFRS 9 involves 3 stages of depreciation:

- Stage 1 – the terms of contract are fulfilled (there is no significant increase in credit risk, the delay does not exceed 30 days);
- Stage 2 – the terms of contract are not fully executed (there is a significant increase in credit risk, the delay does not exceed 90 days);
- Stage 3 – the terms of contract are not fulfilled (there are objective evidence of impairment (default).

In calculating the amount of the estimated provision for financial assets in Stage 1, losses expected during the next 12 months are considered, for Stages 2 and 3 - losses expected during the entire life of the financial asset.

All financial assets / liabilities that do not have a default (impairment) and high credit risk (SICR) (i.e., all assets not classified by the Bank in Stages 2 and 3) are classified by the Bank in Step 1.

In case of a financial instrument classified at the current reporting date in Stage 3, in the next reporting period, the Bank does not disclose a default (impairment) and a high credit risk (SICR), then the financial instrument is transferred from Stage 3 to Stage 1.

In case of a financial instrument classified at the current reporting date in Stage 3, the Bank does not disclose for signs of a default (impairment) in the next reporting period but exhibits signs of high credit risk (SICR), then the financial instrument is transferred from Stage 3 to Stage 2.

Loans / Depreciated Financial Assets / Liabilities (POCIs) - created or modified may be classified by the Bank only in Stage 3 (until the end of the life of such asset).

Factors indicating debtor's (debtor's) signs of deterioration (Stage 3)

The Bank determines the following default factors (signs of impairment) of the debtor for the purpose of forming reserves:

For corporate loan portfolios (legal entities and interbank loans (IBC)):

✓ ***Soft-factors of default:***
- Significant financial difficulties of the issuer or borrower (the company does not generate sufficient operating flows (the proceeds do not cover the existing credit obligations according to the latest financial statements[1] or the actual debt to the Bank))[2];
- Significant violation of the terms of the contract (except for overdue debt);
- Provision of preferential / non-market of lending, which is related to financial difficulties of the borrower;
- Availability of the information on the possibility of bankruptcy or similar financial reorganization of the borrower;
- Buying / selling of an asset with a significant discount (more than 30%).

✓ ***Hard-factors of default (resulting PD = 100%, i.e. without taking into account flaws from repayment of the loan):***
- Overdue of a debt for 91 days and more (for MBC 7+);
- The availability of Soft-factors of default on the background of overdue debt of 31+ (for MBC 3+);
- Other factors which according to the Bank's judgment in the particular case are significant.

✓ ***POCI (Loan depreciation):***
- Modification of a financial asset that results in termination of a financial instrument in the presence of the above depreciation signs.

For a loan portfolio of individuals (resulting PD = 100%, i.e. without taking into account the flows from repayment of the loan):
- Overdue of a debt for 91 days and more;
- Death of the debtor-individual.

For financial guarantees and letters of credit - does not apply (all financial liabilities under guarantees and letters of credit are recognized in Stage 1).

For balances on correspondent accounts:
- The availability of the information on the bankruptcy or similar financial reorganization of the borrower;

For accounts receivable
- Overdue of a debt for 91 days and more.

Factors indicating signs of high credit risk of the debtor (SICR) (Stage 2)

[1] Quarterly financial data is presented for annual measurement according to the method of moving annual amount or to the method 4/N

[2] For IBCs - incomes do not cover aggregate interbank loans or debt to the Bank.

For loan portfolios (legal entities, individuals, interbank)

- Overdue 31-90 days with the absence of signs of impairment (soft, hard or POCI) (overdue 3 – 7 for IBL).

For accounts receivable:

- Overdue 31-90 days.

For balances on correspondent accounts, financial guarantees and letters of credit;

- Not applicable.

The Bank, when initially recognizing a financial instrument, records in profit or loss the amount of the difference between fair value of the financial asset or financial liability and the value of contract in correspondence with the discount / premium account if the effective interest rate on this instrument is higher or lower than the market one. The difference between fair value of the agreement with the shareholders of the Bank is recorded by equity capital and included in the portion of us to retained earnings (loss) during the period of its maintenance or the total amount during the retirement of the financial instrument.

The Bank reclassifies its debt financial assets only in case of changing the business model used to manage financial assets, except for financial assets, the accounting of which the Bank determines at its discretion at fair value with recognition of revaluation through profit or loss during initial recognition.

The Bank recognizes expected credit losses over the life of the financial asset (simplified approach):

1) by trade accounts receivable or assets under contracts arising from transactions in the scope of applying IFRS 15 "Revenue from contracts with customers" and which:

do not include a significant component of financing in accordance with IFRS 15 or contain a significant component of financing in accordance with IFRS 15. The Bank, in its accounting policies, selects an estimate of the estimated provision for expected losses in an amount that equals expected credit losses over the life of the financial asset. Such accounting policies is applied by the Bank to all such accounts receivable or all assets under contracts, or may be applied separately to trade accounts receivable and to contractual assets;

2) on lease operations that fall within the scope of application of IFRS on lease. The Bank elects an estimate of the estimated provision for expected losses in the amount equal to the credit loss for the entire duration of the financial asset. Such accounting policies is applied to all leasing transactions or can be applied separately to financial or operating leases.

The Bank, for the purpose of calculating the amount of credit risk on an asset, determines component value of the default probability according to separate methods for assessing the financial status of the debtors based on the range for the respective class of the debtor / counterparty, taking into account the documented own historical experience of the Bank.

The Bank documents its own experience of calculating the historical indicator PD with the relevant Credit Committee's report and updates the information on an annual basis.

The Bank, in order to create a provision for financial instruments, carries out an assessment of the risks of financial instruments, from the date of their recognition until the date of termination of such recognition.

The assessment of the financial state and the procedure for determining the index of the class debtor / counterparty, the default probability indicator (PD) is regulated by internal methods.

Loans-impaired financial assets (POCIs) - created or modified-may be classified by the Bank only in Stage 3 (until the end of the validity period of such an asset). The effective interest rate for such assets is calculated on the basis of expected cash flows, taking into account expected credit losses throughout the life of the asset - that is, the estimated amount of contractual cash flows decreases by the amount of credit losses expected during the entire life of the instrument.

Interest income on loans with impaired financial assets is calculated by multiplying the effective interest rate (adjusted for credit risk taking into account credit risk, if the asset was loan-denominated at initial recognition) on the amortized cost of the asset. Expected credit losses for ROSI assets are estimated at an amount equal to the credit loss expected during the entire life of the financial asset.

Modified financial asset is фт asset for which the cash flows, stipulated by the contract are revised. The modification may not result to a derecognition of such financial asset or de recognition of a financial asset with subsequent recognition of a new financial asset.

The recognition of an existing asset should be discontinued and new recognized if, as a result of negotiations or other modifications, contractual cash flows change significantly.

The factors to be analyzed for this purpose are proposed to consider, among others, the following:

- ➢ reducing contractual cash flaws to amounts that the borrower is expected to be able to pay if that borrower has financial difficulties;
- ➢ Establishment of essentially new conditions, such as the linking of asset profitability to share of profit or capital, which significantly affects the risk profile of a financial asset;
- ➢ a substantial extension of the loan due to financial difficulties of the borrower;
- ➢ significant change of an interest rate;
- ➢ change of currency in which a loan is denominated;
- ➢ changes in collateral, other types of risk protection and credit enhancement mechanisms that significantly affect the credit risk inherent in a financial asset.

The Bank transfers a gross carrying amount of the financial asset and recognizes income or expense from a modification if the terms of the agreement on the financial asset are reviewed by agreement of the parties or any other modification occurs that does not result in the derecognition of the initial financial asset.

The Bank calculates new gross carrying amount as the present value of revised or modified cash flows stipulated by the contract, discounted at the original effective interest rate (or the original effective interest rate, adjusted for credit risk, for purchased or created depreciated financial assets). The Bank includes transaction costs to the carrying amount of the modified financial asset and depreciates them during the life of such an asset.

The Bank recognizes the difference between the gross carrying amount of the original terms and the gross carrying amount, as negotiated or modified terms, as income or expense from the modification.

The Bank derecognizes the initial financial asset and recognizes a new financial asset if the revised or modified cash flows stipulated by the contract, result in the derecognition of the initial financial asset. The Bank recognizes at the date of the modification a new financial asset at fair value, taking into account transaction costs associated with the creation of a new financial asset (with the exception of new asset held at fair value through profit or loss); and determines the amount of expected credit losses within 12 months.

The Bank recognizes cumulative changes in expected credit losses over the life of the financial asset if, as a result of the modification, new financial asset that is impaired during initial recognition occurs.

At each reporting date, the Bank recognizes the results of changes in expected credit losses over the life of financial asset that is impaired during initial recognition (including positive changes) in profit or loss as expenses / income for the formation / disbanding of estimated reserves. Income from the dismantling of estimated reserves is recognized even in the case of a non-excess of the value of the previously formed provision for such financial asset.

The Bank recognizes at the date of derecognition of an initial financial asset the income or expense from derecognition, which is the difference between carrying amount of the initial financial asset and the fair value of the financial asset.

Derivative financial instruments and other financial instruments at fair value through profit or loss are initially recognized at fair value. All other financial instruments are initially recognized at fair value plus expenses incurred in carrying out the transaction. Profit or loss on initial recognition is recognized only if there is a difference between the fair value and contract price.

All transactions in the acquisition or sale of financial assets that provide for delivery during the period determined by the laws or market traditions ("ordinary" sale and purchase agreements) are recognized at the date of settlement, that is, on the date on which the Bank actually supplies the financial asset. All other transactions in the acquisition of financial instruments are recognized when the Bank becomes a party of a contract for purchasing a financial instrument.

Impairment losses are recognized in profit or loss as incurred as a result of one or more events (loss events) that occurred after the initial recognition of the financial asset and affect the amount or timings of pre-estimated cash flows that are attributable to the financial asset or group financial assets, if such losses can be reliably estimated. If the Bank determines that there are no objective evidence of impairment of an individually assessed financial asset, it relates that asset to a group of financial assets with similar characteristics of credit risk and implements their collective assessment for impairment. The main factors that the Bank considers when determining the impairment of a financial asset is its past due status and the ability to realize the relevant collateral (if available).

For collective valuation purposes, financial assets are grouped together based on similar characteristics of credit risk. These characteristics are taken into account in determining the expected future cash flows for a group of such assets and are indicators of the ability of the borrower (debtor) to pay the amount of the debt in accordance with the terms of agreement on assets being valued.

Future cash flows in a group of financial assets that are collectively assessed for impairment are calculated on the basis of contractual cash flows from assets and prior experience of the Bank as to the extent to which these amounts will become past due as a result of past loss events and to what extent these overdue amounts it is possible to repay. Previous experience is adjusted based on existing data that reflects the impact of current conditions that did not affect the period on which the previous experience of losses is based and eliminates the impact of those conditions in the previous period that do not exist at the moment.

Impairment losses are recognized by creating a provision in the amount necessary to reduce the carrying amount of the asset to the present value of the expected cash flows (excluding future, not yet incurred credit losses) discounted at the original effective interest rate for the asset.

The calculation of the current value of estimated future cash flows of collateralized with financial asset reflects cash flows that may arise as a result of foreclosure less costs for obtaining and selling collateral irrespective of the probability of foreclosure.

In the presence of at least one individually significant financial asset from the borrower, all other financial assets of such a borrower are also recognized as individually significant. The financial assets of one debtor, which are not individually separate, are recognized as being individually irrelevant.

If, in a subsequent period, the amount of the impairment loss for an asset decreases and this reduction can be objectively related to an event occurring after the recognition of an impairment loss, the previously recognized impairment loss is reduced by adjusting the provision account. The amount of the reduction is recognized in profit or loss for the year.

Assets that are not repayable are written off at the expense of a corresponding provision for impairment losses based on decisions of the Board of the Bank. The repayment of previously written off amounts is recorded on the account to account for deductions in reserves or accounts to account for the repayment of previously written off debts in profit or loss for the year.

A financial asset (part of a financial asset) or a part of a group of similar financial assets ceases to be recognized when:

- assets are repaid or the right to receive cash flows from assets has expired

  or

- the Bank transferred the right to receive cash flows from financial assets, or entered into a transfer agreement, and at the same time transferred substantially all the risks and rewards associated with the ownership of the assets

  or

- the Bank did not transfer or retain substantially all the risks and benefits of ownership, but ceased control. The control is preserved if the counterparty has no practical possibility to sell the asset an unrelated party without any restriction on resale.

The financial obligation ceases to be recognized when it is executed, canceled or expires. In the event that an existing financial liability is replaced by another from the same creditor under substantially different conditions or significant adjustments are made to the terms of an existing obligation, such replacement or adjustment is deemed to be a termination of recognition of the original obligation and recognition of a new an obligation, and the difference between the respective carrying amount is recognized in the Profit and Loss Statement.

4.4. Cash and cash equivalents

Cash and cash equivalents are assets that can be converted into cash on first demand and which are subject to an insignificant risk of changes in value. Cash and their equivalents include the cash in hand, in ATMs and computer-based self-service facilities, funds on the correspondent account with the National Bank of Ukraine, NBU deposit certificates, deposits and overnight loans with other banks provided that no credit risk exists.

Balances of the mandatory reserve with National Bank of Ukraine are carried amortized cost and comprise mandatory reserve deposits, which cannot be used to finance routine operations of the Bank.

Information of cash and cash equivalents is disclosed in Note 6 Cash and cash equivalents.

4.5. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss with recognition of revaluation through income/losses include debt securities, shares and other non-fixed income securities used by the Bank to generate income as a result of short-term fluctuations in selling prices in the near future.

The Bank did not exercise transactions with financial assets carried at fair value through profit or loss during the reporting year.

4.6. Loans and liabilities of the banks

In the normal course of business, the Bank allocates funds or deposits in other banks for different periods.

Funds provided to banks with fixed maturity are measured at amortized cost using the effective interest rate method. Funds that have no fixed maturity are recorded at amortized cost in accordance with expected maturities of such assets. Amounts, placed in banks are recorded by deducting any provision for impairment losses.

4.7. Loans and liabilities of clients

The Bank assesses loans after initial recognition at amortized cost using the effective interest rate minus the amount of the provision for compensation for possible losses on credit operations.

The Bank records in the accounting for initial recognition income or loss on the amount of difference between fair value of a financial asset or financial liability and value of contract in correspondence with the discount account (premium) if the effective interest rate on this instrument is higher or lower than market. The difference between fair value of a financial asset or a financial liability and the value of an agreement with the shareholders of the Bank is reflected in equity and included in parts to retained earnings (loss) during the period of its maintenance or the total amount at the time of the disposal of the financial instrument.

The Bank recognizes interest income on financial assets at the gross carrying amount of such an asset on Stages 1 and 2 using the effective interest rate that is used to discount estimated cash flows when determining the impairment of a financial asset. For loans on Stage 3 impairment, the Bank recognizes, for each month, the impairment of interest income, which is calculated using the effective interest rate method for the depreciated cost of a financial asset

During the reporting year 2018, the Bank provided clients with guarantees to ensure the offer and guarantees of ensuring compliance with the terms of contracts. The provided financial guarantees were initially measured at fair value, which is equal to the amount of received commissions (remuneration for the provided guarantee). The commission received for the guarantee provided is amortized over the term of the relevant guarantee by the straight-line method.

In order to maintain the solvency of borrowers who are in difficulty due to unforeseen circumstances, appropriate reduction of credit risk and ensuring the stability of their activities, the Bank restructures credit operations.

Restructuring is a change of essential conditions under the preliminary agreement by concluding an additional agreement with the debtor in connection with the financial difficulties of the debtor (as defined by the Bank) and the need to create favorable conditions for fulfilling its obligations under the asset (interest rate change, cancellation (in full or partly) accrued and unpaid financial sanctions (fines, penalties, penalties) for late payment of debtor debts, change of the debt repayment schedule, change in the size of the commission, etc.).

The Bank is constantly analyzing restructured loans in order to control the quality of loan restructuring and the possibility of future payments. Such loans continue to be valued for impairment.

Primarily impaired financial assets can be acquired assets, as well as internally created - for example, new ones that are provided to a client in default, and restructured (substantially modified). Initially impaired financial assets are initially recognized on a fair value basis. If the instrument is purchased outside market conditions, additional profits/losses are recognized separately. Primarily for impaired financial assets, initially expected loan losses are included in the effective interest rate, and an increase (decrease) in expected credit losses after initial recognition is recognized through the provision for impairment. The Bank does not recognize the estimated provision for purchased or created depreciated financial assets at the date of initial recognition. Initially, expected credit losses for such financial asset are included in the effective interest rate adjusted for the credit risk. Upon termination of recognition of purchased loans, the amount of excess compensation received over the carrying amount is recognized by the Bank as the income from derecognition of a financial asset in Profit and Loss Statement.

Information on loans and advances to customers is disclosed in Statement of Financial Position and Note 8, «Loans and liability of clients».

4.8. Investments in securities

Financial investments, depending on their management model, can be evaluated:

- at amortized cost,
- at fair value through profit or loss, due to other comprehensive income,
- at fair value through profit or loss.

Investments that are recorded at amortized cost, are investments in debt securities and shares held in the business model, the objective of which is achieved by obtaining contractual cash flows, which are exclusively payments by principal debt and interest for the unpaid principal amount. Investments carried at amortized cost are initially recognized at fair value, taking into account the relevant transaction costs. In cases, where fair value of the compensation granted does not equal the fair value of debt securities, for example, when debt securities have a higher/lower market value, the difference between fair value of consideration provided and the fair value of debt securities is recognized as income/loss on initial recognition of a financial asset and included in the profit and loss account and other comprehensive income according to the nature of these losses in ordinary operations or in equity - on transactions with shareholders.

After initial recognition, these investments are recorded at amortized cost using the effective interest rate method. Investments that are recorded at amortized cost, are recorded without reserves on allowance for impairment losses.

Investments at fair value through profit or loss on other comprehensive income are investments in debt securities and shares held in a business model, the purpose of which is achieved both by obtaining cash flows that are exclusively payments by main amount of debt and debt for interest on the outstanding part of the main amount and through sale . Such debt securities are initially recorded at fair value plus transaction costs. Subsequently, securities are measured at fair value with the revaluation of other comprehensive income, with the exception of impairment losses, gains or losses from foreign currency transactions and interest income accrued using the effective interest method, recognized directly in the income statement and losses and other total income. During sale, income/loss previously recognized in equity will be reflected in the statement of income and other comprehensive income. The result of sale of investments carried at fair value with the recognition of revaluation through other comprehensive income is recognized in the income statement and other comprehensive income at the time of disposal and is the difference between the sale price and the carrying amount at the time of the transaction.

Investments are carried at fair value with recognition of revaluation through profit or loss are investments in debt securities and equity instruments that do not meet the criteria for their subsequent measurement at amortized cost or at fair value through recognition of revaluation due to other comprehensive income. The cost of acquiring such investments is recorded in the statement of income and other comprehensive income at the time of their implementation.

For determining the fair value of investments held at fair value through profit or loss, the Bank uses market quotes. If there is no active market for investments, the Bank determines the fair value using the valuation techniques. These techniques include the use of recent market transactions between intermediaries, interested and independent parties, reference to the current fair value of another, virtually identical, instrumental, discounted cash flow analysis, and other acceptable methods. In case of estimation technique commonly used by market participants to determine the price of a tool, and if there is evidence that this methodology ensures the assurance of price determination obtained in the course of market transactions, the Bank applies this methodology.

The Portfolio of the Bank's securities is measured by reflecting changes in the fair value of investments in equity instruments in other comprehensive income. This choice is made for each investment separately. Impairment losses on investments in equity instruments are not recognized. The Bank reassesses financial assets carried at fair value with the recognition of revaluation in other comprehensive income, after interest and amortization of a discount/premium, formation of an estimated provision for loan losses at least once a month.

4.9. Agreements on the sale (purchase) of securities with the obligation of reverse repurchase (sale)

Sales and repurchase agreements (repurchase agreements) are recorded as secured financing operations. Securities sold under repurchase agreements are reflected in the statement of financial position and, at the same time, in the form of a repurchase agreement, if the counterparty has a right to sell or repossess these securities. The relevant liabilities are included in debt to credit institutions or customers.

Purchase of securities under reverse repurchase agreements is reflected in the debt of credit institutions or loans to customers, depending on the terms of the contract. The difference between the sale price and reverse sale price is recognized as interest and accrued over the term of the repo agreements using the effective interest method.

Securities transmitted under loans to counterparties continue to be reflected in the statement of financial position. Securities borrowed are not recognized in the statement of financial position unless they are sold to third parties when the acquisition and sale are recognized in the statement of income as a result of trading securities. The obligation to repay them is recorded at fair value through trade transactions.

During the reporting year of 2018, the Bank conducted reverse repurchase operations with banks and business entities.

4.10. Investments in associates and subsidiaries

Investments in associates and subsidiaries are absent due to the absence of associated and affiliated companies in the Bank.

4.11. Investment property

Investment property - real estate (land or building or part of the building, or a combination thereof) maintained by the Bank (owner or lessee under a finance lease agreement) in order to obtain lease payments (lease payments) or increase the cost of capital or to achieve both goals.

The Bank has established the following criteria for the recognition of investment property:

1) The property has been acquired by the Bank for the purpose of its further transfer in financial or operational leasing;

2) Under the lease agreement, at least 90% of the part of the object is transferred to the lease and the lease object is transferred to the lease for a period of more than one year.

At initial recognition, investment property is valued and reflected in the accounting for original assets, which includes the purchase price of this property and all costs directly related to its acquisition. After initial recognition of an investment property, its further assessment is carried out by the Bank at fair value with the recognition of changes in fair value in profit or loss; depreciation and impairment are not recognized. In order to determine the fair value of investment property, it is mandatory for the Bank to involve a valuation subject that has a corresponding license in accordance with the requirements of the Law of Ukraine «On valuation of property, property rights and professional appraisal activity in Ukraine». The Bank reviews the fair value annually before preparing the financial statements.

The valuation of property made by the subject of valuation activities is recorded in the Property Valuation Report (property valuation act), which contains the conclusions on the value of the property and confirms the performed procedures for valuation of property carried out by the entity of valuation activity.

An estimator determines the fair value of property, plant and equipment on the basis of their market value. If the difference between the book value of the investment property and the fair value of the estimated valuation entity is not material (10%), the impairment loss is not recognized by the Bank.

During the reporting year 2018, the Bank recognized investment property for the total amount of UAH 282,020 thousand, which became the property of the Bank by way of foreclosure for a mortgage on the basis of an agreement on satisfaction of the mortgagee's claims.

4.12. Goodwill

Goodwill is an excess of the purchase price over the acquirer's interest in the fair value of acquired identifiable assets, liabilities and contingent liabilities at the acquisition date.

In 2018, the Bank did not recognize any goodwill.

4.13. Property, plant and equipment

Property, plant and equipment are tangible items that the Bank holds for use in the course of business, supply of services, for rental to others, or for administrative purposes and that are expected to be used during more than one year, and the unit (set) cost of which (including VAT) is more than UAH 6 thousand.

Non-current tangible assets with cost not exceeding UAH 6,000 useful life exceeding one year are recognized as low-value non-current assets.

Purchased property, plant and equipment are valued at their initial cost. The purchase price includes the purchase price, state duty, customs clearance, shipping and unloading costs, installation costs and other costs directly related to this transaction.

The initial value of non-current assets is increased by the amount of costs associated with the improvement of the object (modernization, modification, completion, further equipping, reconstruction, etc.), resulting in increased future economic benefits, initially expected from the use of this facility.

After initial recognition of non-current assets, their subsequent accounting with the Bank is carried out using the method of primary cost (cost) less accumulated depreciation and accumulated impairment losses.

Expenditures on current repair and maintenance of assets are expenses as they are implemented and do not affect the carrying amount of non-current assets.

Recognition of the impairment of non-current assets in the Bank is accepted by the Standing Commission in case of there is evidence of a possible loss of the economic benefit of non-current assets. On the basis of the analysis of the possibility of losing the economic benefits of non-current assets, a decision is made to recognize the reduction or reversal of the usefulness of non-current assets. In order to determine the need for a revaluation of a respective group of fixed assets objects, the Bank verifies (investigates) the conformity of the residual value of non-current assets (their separate groups or subgroups) with market (fair) value-at least once a year, during the obligatory " yearly inventory, before the annual financial report is drawn up.

If necessary, the review (research) of the cost of fixed assets and their revaluation is carried out during the year.

In the reporting year 2018, the Bank did not recognize the impairment of property, plant and equipment, taking into account the absence of possible loss of the economic benefits of fixed assets recorded on the balance sheet of the Bank.

4.14. Intangible assets

Intangible assets include non-monetary assets that are non-material and can be identified. An intangible asset is recognized as an asset if there is a probability of obtaining future economic benefits associated with its use and its value can be measured reliably. Intangible assets include acquired licenses and software and are recorded at historical cost, which consists of actual costs of acquisition (manufacturing) and bringing to a condition at which they are suitable for use in accordance with the intended purpose.

Subsequently, intangible assets are measured at their actual value less accumulated depreciation and accumulated impairment losses.

For each intangible asset, an individual useful life period is determined, which is determined by the Bank on its own, based on the following criteria: Bank's experience with similar assets, current trends in the development of software products, operational characteristics.

Revision of the depreciation rates and terms of useful use of intangible assets put into exploitation is carried out in case of change of the expected benefits from their use. During the reporting year 2018 the Bank did not change the depreciation rates and useful lives of intangible assets.

Recognition of impairment of intangible assets in the Bank is accepted by active commission in the event that there is evidence of a possible loss of economic benefit. A review (research) of the value of intangible assets is carried out at least once a year, before the preparation of annual financial statements. Impairment of intangible assets during the reporting year 2018 was not recognized by the Bank, taking into account the absence of possible loss of economic benefits from intangible assets recorded on the Bank's balance sheet.

4.15. Operating leases where the Bank is a lessor and/or a lessee

Operational lease (lease) is a business operation of the Bank, which provides for the transfer of the right to use non-negotiable assets with the obligatory return of such assets to their owner after the expiration of the leasing (lease) agreement and does not involve the transfer of all risks and benefits, with the right to own an asset. If the Bank acts as a lessor, operating lease income is recognized on a straight-line basis over the term of the relevant lease agreement. In the case when the Bank acts as a lessee, lease payments under operating leases are recognized as expenses on a straight-line basis over the term of the lease.

During the reporting year 2018, the Bank was the lessee of the office premises accepted for operational leasing. Leasing (lease) payments under operating contracts for operating lease (lease) are recognized as other operating expenses.

The costs of the Bank as a lessee for improvement of the object of operating lease (lease) (modernization, modification, completion, additional equipment, reconstruction, etc.), leading to an increase in future economic benefits that were initially expected from its use, are shown by the lessee as capital investment on improvement of leased fixed assets.

In the reporting year 2018, the Bank provided part of its premises with operational leasing. As at 31 December 2018, the Bank's operating lease assets amount to UAH 3 437 thousand.

The method of valuation of property, plant and equipment transferred to operational leasing is consistent with the method of valuation of own property, plant and equipment.

4.16. Financial leasing (lease) in which the bank acts as a lessor and/or lessee

Financial lease is a lease, under which all substantial risks and rewards associated with the asset are transferred, and the right to ownership of the object of lease can both be transferred to the lessee, and remain with the lessor, depending on the essence of the transaction.

During 2017 the Bank purchased a packing line and a packet press for the amount of UAH 27,082 thousand for further transfer to financial leasing. In accordance with the financial lease agreement, the lessee monthly pays lease payments. Lease plans include compensation for the value of the leased asset and the remuneration of the lessor's bank. Income from financial leases is reported using the effective interest rate method.

As at the balance sheet date, the outstanding balance of the contract is 247 thousand UAH. The Bank recognized the reduction of the usefulness of this financial asset to the amount of UAH 8,000.

4.17. Non-current assets held for sale and disposal groups

The Bank classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets are classified by the Bank as those held to sale, if the following criteria are met on the date of the decision to recognize them as assets held for sale: the condition of the assets allows to sell them immediately, and their sale within one year following the classification is highly probable.

As at 31 December 2018, the Bank did not have non-current assets held for sale or disposal groups.

4.18. Amortization

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

Amortization is not charged if the carrying amount of non-current assets equals their liquidation value.

Amortization of non-current assets is charged from the first day of the month following the month of acquisition and is terminated on the first day of the month following the month of the asset disposal.

Non-current asset depreciation or amortization rates are based on the useful lives of non-current as-sets. Deprecation or amortization is charged on a straight-line basis.

Property, plant and equipment is depreciated and intangible assets are amortized over their useful lives determined by the permanent commission at their initial recognition based on useful lives of groups and subgroups of non-current assets classified by the Bank for accounting purposes, and useful lives of intangible assets set forth by title documents (contracts, licenses etc.) taking into account minimum depreciation and amortization terms specified by the Tax Code of Ukraine, namely:

- Land plots – not depreciated;
- Buildings, structures and transmissions equipment - 20 years;
- Machinery equipment - 4 - 10 years;
- vehicles (moto cars) – 5 years;
- instruments, fixtures, and furniture - 4 - 5 years;
- other property, plant and equipment - 12 years.

Low-value non-current tangible assets are 100% depreciated in the first month of their use.

The Bank did not revise depreciation and amortization rates and useful lives of non-current assets in 2018.

4.19. Discontinued operations

According to International Financial Reporting Standards, a discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

(a) represents a separate major line of business or geographical area of operations,

(b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or

(c) is a subsidiary acquired exclusively with a view to resale.

In 2018, the Bank did not discontinue banking operations under the license of the National Bank of Ukraine.

4.20. Derivative financial instruments

A derivative financial instrument is a financial instrument, which meets the following criteria:

- 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 underlying variable;
- which does not require initial net investments less than those that would be required for other types of contracts that, in turn, have a similar reaction to changes in market factors;
- it is repayed at a future date.

The Bank enters into derivate contracts, including foreign currency purchase, sale and exchange con-tracts, with other banks, as well as currency swaps designed to manage currency and liquidity risks and for trading purposes. These derivatives are initially recognized and recorded at fair value. Transaction costs are expensed at initial recognition. All derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives used by the Bank are not hedge instruments and are not subject to hedge accounting.

4.21. Attracted funds

Attracted funds include non-derivative financial liabilities to customers and banks and initially recognized at fair value from the moment the Bank receives cash. Further accounting after initial recognition takes place at amortized cost.

Debt securities of the Bank include savings (deposit) certificates. The Bank shall raise funds for deposits from individuals from the type of registered savings certificates. Saving (deposit) certificates are placed (sold) at nominal (fair) value. Further accounting of such securities the Bank carries out at amortized cost.

Acceptance, servicing, return of deposits, accrual and payment of interest on them are made in accordance with the terms of the signed contracts in national and foreign currencies. The Bank is a member of the Deposit Guarantee Fund.

Revenues and expenses are recognized on the basis of accrual basis or on the basis of the outcome of the agreement, using the effective interest rate. The accrual of interest on borrowed funds is carried out using the "fact/fact" method.

4.22. Financial liabilities at fair value through profit or loss

A financial liability is any liability that:

– a contractual obligation to deliver cash or another financial asset to another entity, or to ex-change financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank;

– a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the Bank is obliged to deliver a variable number of its own equity instruments, or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments.

A financial liability is recognized only when the Bank becomes a party to a contract that gives rise to this instrument.

Financial liabilities, like financial assets, are initially recognized at fair value. Subsequently, they are carried at fair value through profit or loss.

Financial liabilities are derecognized at the date of their repayment.

4.23. Debt securities issued by the Bank

Savings (deposit) certificate is a security certifying the amount of the contribution made by the Bank, and the rights of the depositor (certificate holder) to receive from the expiry of the prescribed time deposit amount and interest established certificate. The Bank issues nominal saving (deposit) certificates for a period of six months.

Savings (deposit) certificates are issued in both national and foreign currencies exclusively in documentary (paper) form.

The Bank recognizes profit or loss in the case of raising funds for a deposit (with the issuance of a savings certificate) at a rate lower or higher than the market value. In transactions with shareholders, this difference is reflected in the capital account.

If the period of receipt of the deposit (deposit) for fixed-term savings (deposit) certificate expires, the certificate is considered a document on demand, on which the Bank relies obligation to pay the amount specified therein deposit (deposits) and interest when filing Savings (deposit) certificate.

4.24. Provisions for liabilities

Provisions for liabilities are recognized and reflected in the financial statements when the Bank, as a result of a past event, has legal or constructive obligations that are expected to outflow resources with a high probability of probable future economic benefits that can be estimated with sufficient degree of certainty. Provisions for financial liabilities provided are to ensure their performance in the future, recognized in the balance sheet of the Bank as an obligation and indicating possible losses due to the retirement of resources associated with the Bank's performance of such financial liabilities.

The Bank does not form a provision:

- for lending commitments to clients (other than banks) that are open and risk-free, that is, the terms of the agreement that determine the unconditional right of the Bank without prior notice to the debtor to unilaterally refuse to further fulfill their obligations , including in the event of a deterioration in the financial position of the debtor and / or non-timely performance of contractual obligations to the Bank,
- for the provision of bank bills of tax bills,
- for asset operations before receiving spot, forward, option and futures contracts under which the Bank has no obligation to make a prepayment in accordance with the terms of the agreement and provides for the right to refuse to fulfill an obligation including by counting counterclaims,
- currency, bank metals, other assets to be received.

4.25. Subordinated debt

Subordinated debt is ordinary, non-secured by the Bank debt capital instruments (constituent elements of capital) that, according to the agreement, cannot be taken from the Bank for five years, and in the event of bankruptcy or liquidation, they are returned to the investor after the repayment of the claims of all other creditors. Subordinated debt may be included in the Bank's capital after obtaining a permit from the National Bank. The amount of subordinated debt included in the capital annually decreases by 20% of its original size over the past five years of the contract.

During the reporting period 2018, the Bank did not attract funds on subordinated debt terms.

4.26. Income tax

The taxation of profits of the Bank during the reporting year was carried out in accordance with the requirements of the Tax Code of Ukraine.

The tax rate for income in 2018 is set at 18%.

The Bank, in determining the temporary differences associated with deferred taxes, uses a method based on the use of the proper balance sheet and tax base.

In accordance with IAS 12, Income Taxes, temporary differences are the difference between the carrying amount of an asset or a liability in a statement of financial position and its tax base. Deferred tax assets and deferred tax liabilities are calculated by the Bank on a quarterly basis (based on the frequency of preparation of interim financial statements).

Income tax expense in the financial statements consists of current tax and changes in deferred tax amounts.

Income tax expense is recognized in profit or loss, except for amounts attributable directly to equity.

4.27. Share capital and emission differences

Share capital is the obligation paid by shareholders to make a subscription for shares in the authorized capital, the amount of which is registered in accordance with the procedure established by the legislation of Ukraine. The increase (decrease) of the authorized capital of the Bank is carried out in accordance with the procedure established by the National Commission for Securities and Stock Market. In accordance with the Laws of Ukraine «On Banks and Banking» and «On Joint Stock Companies» and the Articles of the Bank, the decision on issue of shares is made by a decision of the General Meeting of Shareholders. As of December 31, 2018, the Bank did not issue or place privileged shares.

Emission Income (Emission Difference) and Other Income from Transactions with Shareholders. This income arises as the difference between the nominal value of the shares and the price of their placement, as well as the forgiveness of debt to shareholders, the provision of non-repayable financial assistance and income (loss) on initial recognition of financial instruments at a non-market rate or not at fair value. During the reporting year, the Bank did not conduct transactions with shareholders that would have an impact on the Bank's capital.

Contributions to the authorized capital are recorded at their fair value at the date of the transaction.

As of December 31, 2018, the registered and fully paid share capital consisted of 500,000 ordinary registered shares with a nominal value of UAH 1,000. each one All ordinary shares give the same voting rights on the principle of «one share - one vote».

4.28. Dividends

Dividends are part of net profit distributed among shareholders in accordance with their share in the authorized capital of the Bank. Payment of dividends is made from net profit of the reporting year and/or retained earnings on the basis of the decision of the General Meeting of Shareholders. The amount of dividends is determined by the decision of the General Meeting of Shareholders.

4.29. Recognition of income and expenses

The Bank recognizes interest income on financial assets carried at amortized cost, at an effective interest rate to gross book value, except for:

1) purchased or created depreciated financial assets. For such financial assets, the effective interest rate adjusted for credit risk is applied to the amortized cost of the financial asset from the date of initial recognition;

2) financial assets that were not acquired or created by impaired financial assets, but subsequently became depreciable financial assets. For such financial assets, the Bank applies an effective interest rate to the amortized cost of a financial asset in subsequent reporting periods.

The Bank recognizes interest income at the effective interest rate to the gross carrying amount of the financial asset starting from the next interest accrual date if, as a result of the impact of certain events, the previously impaired financial asset has recovered, and is no longer impaired.

According to the professional judgment of the management of the Bank, the effective interest rate is not calculated on demand financial instruments or short-term products, for which it is impossible to determine future cash flows in advance, and if the impact of the effective interest rate is very low and also on funds. which by their economic essence and style can be attributed to them:

- financial instruments on current and correspondent accounts;
- cash on demand for payment card transactions;
- overdraft loans on current, card and correspondent accounts, including unauthorized ones;
- deposits on demand;
- overnight loans and deposits;
- revolving credit lines, including loans using payment cards, on which issuance and repayment is carried out in advance of unforeseen schedule.

For financial instruments that make it impossible to determine future cash flows and to which the effective interest rate does not apply, the Bank uses a nominal interest rate to recognize interest income.

All other payments, commission and other income and expenses are generally accounted for using the accrual method, regardless of the degree of completeness of a particular transaction, which is defined as the proportion of the actual service provided in the total amount of services to be provided.

Revenues and expenses recognized by the Bank from transactions to be reflected in the financial statements are allocated to income and expenses received as a result of the operational, investment and financial activities of the Bank.

Revenues and expenses arising from operations are determined by an agreement between their participants or other documents drawn up in accordance with the requirements of the current legislation of Ukraine.

Income and expense items are valued and accounted for during economic transactions, regardless of when the funds were received or paid. Amortization of a discount (premium) for financial instruments is carried out simultaneously with accruals of interest.

Income (expenses) for one-time services (for example, fees for exchanged currencies, provision of (obtaining) consultations, etc.) are recognized without reference to accrued income (expense) accounts if the funds are received (paid) in the reporting period, in which these services were actually provided (received).

Commitments and other payments, which are an integral part of the income (expenses) of a loan, before the time of issue of a loan or a tranche on a credit line, are reflected by the Bank on the accounts of future income accounts (accounts 3600 «Revenues of future periods»). The commission received by the commission is included in the financial instrument at the time of issuing such a loan by transferring the latter to the discount account (premium).

The Bank, in accordance with IFRS 15 uses the following five-step model for income recognition (The 5-step model) on its analysis:

1) identification of the contract;
2) identification of individual obligations to perform within the framework of the concluded agreement;
3) determination of the price of the contract;
4) distribution of the price of the contract between the obligations to perform;
5) recognition of income when (or as it is) fulfilled an obligation to perform.

4.30. Revaluation of foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Ukrainian hryvnia at the official rate of the National Bank of Ukraine, effective on the day of the transaction.

For each subsequent post-recognition date, all monetary items in foreign currency are recorded in the accounting book at the official exchange rate of the hryvnia to foreign currencies at the balance sheet date.

Income and losses resulting from the revaluation of foreign currency are included in the item "Result from revaluation of foreign currency" Income Statement and other comprehensive income (Statement of financial position).

Non-monetary items in foreign currency and banking metals, which are accounted for at cost, are recorded in accounting records at the official exchange rate of hryvnia to foreign currencies at the date of recognition (date to transaction).

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Non-monetary items in foreign currency recorded at fair value are recorded in the accounting at the official exchange rate of hryvnia to foreign currencies at the date of determination of their fair value.

Assets and liabilities denominated in foreign currencies are recorded in the financial statements in UAH equivalent in official currency on December 31, 2018 or at the date of their recognition. Balances with technical account of currency position are not included in the financial statements.

In preparing these financial statements, the Bank used such official hryvnia rates to foreign currencies:

Currency code		Currency name and amount		31 December 2018	31 December 2017
826	GBP	100	English pounds	3 545,7725	3 773,3670
840	USD	100	US dollars	2 682,7083	2 806,7223
985	PLN	100	Polish zloty	737,0581	801,1726
643	RUB	10	Russian rubles	4,0773	4,8703
756	CHF	100	Swiss francs	2 679,1635	2 861,8783
978	EUR	100	Euros	3 041,3864	3 349,5424

4.31. Offsetting of articles of assets and liabilities

The offsetting of financial assets and liabilities with subsequent inclusion in the Statement of financial position (Balance sheet) only of their nominal amount may be made only if there is a legally determined right to offset the recognized amounts if it intends to calculate on the basis of the net amount or simultaneously realize the asset and pay off the obligations.

4.32. Assets held in trust management

The Bank carries out operations of trust management of borrowed funds from individuals and legal entities for the purpose of financing construction of housing. As at 31 December 2018, the Bank is the manager of two construction finance funds.

Financial assets held by the Bank in trust are recorded and kept separately from the Bank's own assets. Accounting for trust management operations is carried out according to each individual agreement on trust management.

Trust management is carried out on the basis of a trust management agreement concluded between the Bank and the trustee.

The main revenue for this type of transaction is the commission remuneration received by the Bank from trustees and developers, the amount and frequency of payment of which are determined by the relevant agreements.

4.33. Accounting for the impact of inflation

The need for transferring financial statements in accordance with IAS 29, «Financial Reporting in Hyperinflationary Economies», is a matter for judgment. Characteristics of the economic environment of Ukraine for the reporting year 2018 are not indicators of hyperinflation, therefore the Bank did not recalculate financial statements.

4.34. Payments to employees and deductions related to them

Employee benefits include:

a) short-term payment:
- o wages, social security contributions;
- o paid annual leave temporary disability;
- o participation in the bonus,

б) other long-term benefits, such as
- o payments for long-term disability.

The main deductions from payments made by the Bank to its employees are the personal income tax and military fee. Also, when making settlements with employees of the Bank and employees who perform work under contracts of civil law, the calculation of a single contribution to the payroll fund.

The Bank monthly calculates and forms the provision for payments for unused vacations of the Bank's employees.

The program of non-state pension provision in the Bank is not implemented.

4.35. Information on operating segments

According to the requirements of IFRS 8, «Operating segments» information should be disclosed both in relation to business segments and in relation to geographical segments. In this case, one of these formats is considered primary, and the other one is secondary.

The Bank determined the primary disclosure of business segments. According to geographical segments, reporting is not disclosed at all, because the Bank does not operate outside Ukraine.

The formation of operating segments is based on the selected areas of operational activity:

1) services for corporate clients: the business segment provides services for servicing current accounts, deposits (deposits), providing loan financing in various forms, foreign currency purchase and sale services, etc.;

2) services for individuals: the business segment provides banking services to individuals-individuals, including opening and maintaining current accounts, deposits (deposits), servicing, lending, etc.;

3) interbank business: a business segment that organizes Bank financing and risk management by raising funds in financial markets, investing in liquid assets.

The operating banking segment is recognized as a reporting entity if most of its revenue is generated from services to external clients, and at the same time, its performance met one of the following criteria:

- the income of this segment is not less than 10% of the total income;
- the financial result of this segment is not less than 10% of the total financial result;
- the book value of assets of this segment is not less than 10% of the aggregate value of assets of all operating segments.

Transactions between segments are executed under normal market conditions. Resources are redistributed between segments, which causes the appearance of transfer costs or segment revenue. No other significant redistribution between segments does not exist. Assets and liabilities of a segment make up most of the currency of the balance sheet and do not exclude tax consequences. Capital is not fixed by segment except for the result of the current year and other aggregate income.

There was no change in the accounting policies for recognizing and distributing segments in the reported year.

4.36. Related Party Transactions

The Bank determines the list of persons associated with the Bank in accordance with the requirements of International Accounting Standard 24 (IAS 24), «Disclosure of related parties».

Agreements with persons affiliated with the Bank cannot provide for conditions that are not current market conditions. Agreements entered into with persons related to the Bank on conditions that are not current market conditions shall be considered invalid from the moment of their conclusion.

4.37. Changes in accounting policies, accounting estimates, corrections of material errors and presentation in financial statements

Changes in accounting policies are made when it is necessary to transfer to the requirements of a new or revised standard or an explanation, as well as on its own initiative, if such disclosure is disclosed in the financial statements, the information will be more reliable and informative.

4.38. Changes in accounting policies

In July 2014, the IFRS Council issued the final version of IFRS 9 «Financial Instruments», which reflects the results of all phases of the project on financial instruments and replaces IFRS 39 «Financial Instruments: Recognition and Measurement» and all previous editions.

During the reporting period 2018, the Bank provided for the classification and measurement of financial assets and liabilities in accordance with IFRS 9. Adjustments to accounting for transactions and events for previous reporting periods that arose due to changes in accounting policies resulting from the application of IFRS 9 , reflected in retained earnings (loss) on balance sheets «Retained earnings of past years» and «Uncovered losses of previous years» (see Tables 4.1 - 4.3).

The completed standard contains guidance on classification and measurement, impairment and derecognition:

• IFRS 9 introduces a new approach to the classification and measurement of financial assets that reflects the business model of financial assets management and the characteristics of their cash flows.

• IFRS 9 includes three main categories of financial assets: measured at amortized cost (AC), fair value through revaluation surplus (FVOCI) and fair value through profit or loss (FVPL). This eliminates such existing categories of IAS 39: held-to-maturity, loans and receivables and available for sale.

A financial asset is to be measured at amortized cost if the following conditions are met simultaneously:

an asset is held within the business model, whose purpose is to hold assets to collect contractual cash flows;

contractual terms of a financial asset give rise to cash-flow receipts that are only repayment of the principal amount and payment of interest on the outstanding part of the principal amount.

A financial asset is classified for further evaluation as FVOCI if it is held within a business model with the objective of both contractual cash flows and the sale of financial assets, and the contractual terms of a financial asset include retention on certain cash flows that are solely by payment of principal and interest on the outstanding part of the principal amount.

In the initial recognition of a non-trading instrument, the Bank may make an irrevocable decision to reflect further changes in the fair value of the instrument in other comprehensive income. This choice is made by each investment separately, and mainly concerns strategic investments that are not investments in subsidiaries.

All other financial assets, that is, financial assets that do not meet the criteria for classification at amortized cost, or FVOCI, are classified for further measurement at fair value with recognition of changes in profits or losses. In addition, the Bank has the right, when initially recognizing, to discard the FVPL category for a financial asset if such a choice eliminates or significantly reduces the inconsistency in the estimates or reflections (sometimes referred to as «accounting mismatches») that would otherwise have arisen as a result of valuation of assets or liabilities or recognition of profits or losses for them by different methods (otherwise).

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities, but there are differences in the presentation of their own credit risk.

If the Bank determines that the business model of a particular financial asset (asset portfolio) is the holding of financial assets for the purpose of collecting contractual cash flows (either for collecting contractual cash flows or for the sale of financial assets), an assessment is made whether the contractual terms of the financial asset provide for cash-flow receipts that are only repayment of the principal amount and payment of interest on the outstanding part of the principal amount. To this end, interest is recognized as compensation for the time value of money and credit risk associated with a part of the principal outstanding over a period of time and other underlying risk and liability lending, as well as profit margins. This valuation is performed on each instrument (portfolio) separately and at the date of initial recognition of the financial asset.

Cash and cash equivalents, loans to credit institutions, loans to customers and other financial assets classified as loans and receivables, measured at amortized cost in accordance with IAS 39 in previous reporting periods, were also valued at the reporting year 2018 amortized cost in accordance with IFRS 9. The Bank conducted contractual cash flow tests (SPPI-test).

Investment securities classified at fair value through profit or loss in accordance with IAS 39 in previous reporting periods and presented as debt instruments were valued at the fair value of the revenues recognized in other comprehensive income (FVOCI) in the reported year. The Bank believes that these financial instruments are held within the framework of a business model whose purpose is both to obtain contractual cash flows and to sell financial assets.

The calculation of expected credit losses requires the use of accounting estimates. The management also has to make judgments when applying the Bank's accounting policies.

The Bank estimates, on a projected basis, the expected credit losses associated with active debt instruments carried at amortized cost and FVOCI, as well as debt arising from lending, lease receivables and financial guarantees. The Bank generates a provision for such losses for each reporting date.

The estimation of expected loan losses reflects an objective and probabilistic amount, which is determined by estimating a number of probable outcomes, time value of money and reasonable and acceptable information that is available without excessive cost or effort at the reporting date on past events, current conditions and future forecasts. economic conditions.

The valuation of provisions for expected loan losses for financial assets measured at amortized cost and at fair value through revaluation in other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and debt servicing status. The essential judgments required in applying the accounting requirements to estimate expected credit losses are:

determination of criteria for significant increase of credit risk;

selection of appropriate models and assumptions for estimating expected loan losses;

Determination of the quantity and relative weight of the forecast scenarios for each type of product/market and the corresponding expected credit losses;

definition of groups of similar financial assets for estimation of expected credit losses.

For the Bank, credit risk is determined by the risk of financial loss if any of our counterparties, clients or market partners fail to fulfill our contractual obligations to us. Credit risk arises mainly from interbank, commercial and consumer loans, as well as loans granted in connection with such lending activity, but may also arise from the provision of collateral in the form of financial guarantees.

The assessment of credit indebtedness for risk management purposes is complex and requires the use of models, since indebtedness varies with changes in market conditions, expected cash flows and over time. The assessment of credit risk in relation to the portfolio of assets implies further estimates, both in terms of probability of default, appropriate loss ratios and correlations of default between counterparties. The Bank calculates credit risk using default probability (PD), default risk (EAD) and default loss (LGD). This is a preferred approach used to estimate expected credit losses under IFRS 9.

IFRS 9 provides for a three-tiered impairment model based on changes in the credit quality of the instrument from the initial recognition. In accordance with this model, a financial instrument that is not loan-depreciated on initial recognition is classified in Stage 1 and its credit risk is subject to further continuous monitoring. If a significant increase in credit risk has occurred since the initial recognition, the financial instrument is transferred to Stage 2, but it has not yet been considered as a credit-impaired. If a financial instrument is credit-impaired, it moves to Stage 3.

For financial instruments at Stage 1, expected credit losses are estimated at the amount of expected losses over the life of the financial instrument that may occur as a result of the occurrence of default events over the course of the next 12 months. Expected credit losses for instruments at stages 2 or 3 are estimated on the basis of credit losses expected from the events of the default for the entire duration of the instrument. In accordance with IFRS 9, when calculating expected loan losses, it is necessary to take into account forward-looking information. Purchased or created loan-loss financial assets are financial assets that are impaired at the date of initial recognition. Expected credit losses for such instruments are always measured by expiration dates from the full term.

Financial assets that are impaired are determined in accordance with IFRS 9 similar to those for financial assets that are impaired in accordance with IAS 39.

The Bank notes a significant increase in the credit risk of a financial instrument if one or more of the following quantitative, qualitative and auxiliary criteria are met.

Quantitative criteria

The Bank uses quantitative criteria as the main indicator of a significant increase in credit risk for all portfolios. For quantification, the Bank compares the likelihood of a default within the entire life of the instrument as of the valuation date with the forecast probability of default during the entire life of the instrument as of the date of initial recognition. To estimate the probability of a default occurring during the entire life of the instrument as of the date of initial recognition, an assumption is made of the structure of the curve. In the case of financial instruments with high credit ratings, it is anticipated that the probability curve of a default will eventually deteriorate. On the other hand, for financial instruments with low credit ratings, it is assumed that the probability curve of default will improve over time.

The degree of improvement or deterioration will depend on the level of the initial rating. In order to make the two curves comparable, the scale of the probability curves of default decreases to the level of annual probabilities. In general, it is believed that there has been a significant increase in credit risk in the case of a relative increase in the probability of a default of up to 250%, although this may be lower due to several limiting factors such as proximity to the maturity and the actual product portfolio. No generally accepted market practice regarding the value of the indicator in which a financial instrument should be transferred to Stage 2, for the Bank is unknown. In view of this, it is expected that the level at which an increase in the probability of a default on the reporting date will be considered significant will be determined over time as a result of the iterative process of interaction between market participants and regulators.

Qualitative criteria

The Bank uses qualitative criteria as a secondary indicator of a significant increase in credit risk for all portfolios. The assessment of a significant increase in credit risk takes into account forecast data and is conducted quarterly at the level of individual transactions for all portfolios of the non-retail business of the Bank. The assessment of a significant increase in credit risk takes into account forecast data and is conducted on a monthly basis at the level of individual transactions for all portfolios of retail business of the Bank.

Auxiliary criterion (reinsurance)

An auxiliary criterion applies and, accordingly, a financial instrument recognizes a significant increase in credit risk if the borrower has overdue payment by contract for more than 30 days. In some cases, the assumption that financial assets overdue for more than 30 days must be reflected in Stage 2 is refuted.

Exception for low credit risk

The Bank did not use the exception for low-risk credit risk instruments for a lending business, but selectively uses the exemption for instruments with low credit risk for debt securities.

Definition of default and of loans with impaired assets

Definition of default used by the Bank is fully consistent with the definition of credit impairment, and the default is recognized by the financial instrument in case one or more of the following criteria is obtained.

Quantitative criteria

The borrower has overdue contractual payment for more than 90 days. The assumption that financial assets overdue for more than 90 days must be reflected in Step 3 is not canceled.

Qualitative criteria

The borrower does not meet the solvency criterion, indicating that he is experiencing significant financial difficulties. Examples of this situation are:

- significant financial difficulties of the borrower;
- death of the borrower;
- insolvency of the borrower;
- the borrower violates the financial terms of the contract;
- the disappearance of an active market for a financial asset due to financial difficulties;
- granting by the Bank of concessions due to the financial difficulties of the borrower;
- financial asset is acquired or created at a large discount, reflecting incurred credit losses.

The above criteria have been applied to all Bank's financial instruments and are consistent with the definition of default used for credit risk management purposes in the Bank. The definition of default was applied consistently to the simulation of the probability of the default (PD), default risk (EAD) and default loss (LGD) in the event of the default in the calculation of expected losses of the Bank.

The tool ceases to be considered defaulted (that is, it is restored) if it no longer meets any of the criteria for recognition of a default for at least 3 consecutive months or longer - for restructured problem loans. The period of 3 months was determined on the basis of an analysis that takes into account the probability that the financial instrument may return to the default status of recovery and takes into account different definitions of recovery after default.

Characteristics of the input data, assumptions and methods of assessment

Expected credit loss is estimated based on the likelihood of a default within the next 12 months or through the full life of the financial instrument, depending on whether there has been a significant increase in the credit risk after the initial recognition, or whether the asset is considered to be a credit exposure. Forecast economic information is taken into account when defining the probability of a default within 12 months and for the whole term of the financial instrument (PD), for the debt under the risk of default (EAD) and the amount of loss in the event of default (LGD). These forecasts vary by product type. Expected credit losses are a well-proven product of the probability of default (PD), the amount of damage in the event of default (EAD) and discount factors (D).

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Probability of default

The probability of default reflects the likelihood that the borrower will not meet its financial commitment during the next 12 months or throughout the remaining period of the liability. In general, the probability of a default during the entire life of the instrument is calculated using the probability of default as a starting point during the next 12 months without observing a certain degree of caution. Thereafter, different statistical methods are used to assess how the likelihood of a default occurring during the life of the loan or loan portfolio will change from the date of initial recognition. The probability of default is based on historical data and parametric functions.

Damage in the event of default

The indicator of the amount of loss in the event of default reflects the Bank's expectations about the magnitude of the loss due to default arrears. The amount of damage in the event of default depends on the type of counterparty and product. The amount of loss in the event of default is expressed as a percentage of losses per unit of debt at the time of default. The amount of loss in the event of default is calculated for the probability of a default within the next 12 months or for the entire duration of the financial instrument, where the 12-month loss rate in the event of default is the percentage of expected losses if the default occurs within the next 12 months, and the size of the loss for the probability of default over the entire life of the financial instrument is the percentage of expected losses if the default occurs during the expected remaining term of the loan.

In order to estimate the loss in the event of a default for unpaid credit debt, different models are used which can be grouped into the following categories:

– for state institutions, the amount of loss in the event of default is calculated using market sources of information,

– for corporate clients, financial institutions, insurance companies, the amount of damage in case of default is calculated by discounting the cash flows received from debtor debt collection;

– for mortgage of retail business clients and other retail business loans, for the purpose of estimating losses in the event of default, regulatory estimates of losses in the event of default are used, net of adjustments for possible economic downturns and other cases of margin of conservatism. Forecasted macroeconomic information is taken into account in the estimation of losses in the event of default by means of an appropriate additional model.

Under certain circumstances, when some inputs are not fully available, alternative recovery models, comparative data analysis and expert estimates are used.

Debt under the risk of default

The default risk is based on the amounts that the Bank expects to hold in the event of a default within the next 12 months or throughout the remaining period. The default risk under the default within the next 12 months or throughout the instrument period is determined on the basis of expected payments that vary depending on the type of product. For depreciable and lump-sum loans at the end of the period, the default risk under the default risk is based on the contractual payments of the borrower for 12 months or for the remainder of the remaining period. Also, early repayment / refinancing is taken into account in calculations.

For renewable products, the default risk is projected by using the current balance and the credit conversion ratio, which allows predicting the use of the credit limit at the time of default. Regulatory restrictions are excluded when using the credit conversion factor. In some cases, when some of the input parameters are not fully available, a comparative analysis of the data is used to calculate.

Discounting

The discount rate used to calculate expected loan losses, except for leasing and purchased (constructed) impaired loans, is an effective interest rate or an approximate interest rate.

Calculation

Expected credit loss is the product of the probability of default, the amount of loss in the event of default and debt under the risk of default, multiplied by the probability of a default before the scheduled date. This is represented by the survival function S. The calculation shows the future values of expected credit losses, which are then discounted on the reporting date and are summarized. The estimated value of expected credit losses is then weighted in the forecast scenario. Reclassification of financial assets due to the Bank's transition to IFRS 9 was not carried out.

The effect of applying IFRS 9 to the statement of financial position and retained earnings, including the replacement of the injured loan loss model under IAS 39, to the IFRS 9 Expected Loss Model, is described below.

Table 4.1 Impact of transition to IFRS 9 on the Statement of Financial Position

	Assessment under МСФЗ (IAS) 39	Expected credit losses	Assessment under МСФЗ (IFRS) 9	
	Amount		Amount	Category
Cash and cash equivalents	839 598	(534)	839 064	Amortized cost
Loans and liabilities of the banks	-	-	-	Amortized cost
Loans and liabilities of clients	3 377 682	(570)	3 377 112	Amortized cost
adjustment of interest income on impaired loans		*322*		
expected loan losses		*(892)*		
Investments in securities	48 030	-	48 030	Fair value
Derivative financial assets	265	-	265	
Accounts receivable on current income tax	1	-	1	
Deferred tax asset	215	-	215	
Other financial assets	40 220	-	40 220	
Non-financial assets	36 654	-	36 654	
Total assets	**4 342 665**	**(1 104)**	**4 341 561**	
Financial liabilities	3 782 048	-	3 782 048	
Non-financial liabilities	14 843	-	14 843	
Liability on current income tax	55	-	55	
Provisions for liabilities	2 833	(1 047)	1 786	
Total liabilities	**3 799 780**	**(1 047)**	**3 798 733**	
Retained earnings/(uncovered loss)	9 333	(57)	9 276	
Total equity	542 886	(57)	542 829	
Total liabilities and equity	**4 342 665**	**(1 104)**	**4 341 561**	

(in thousands of Ukrainian hryvnias unless otherwise indicated)

The analysis conducted by the Bank showed that as of January 1, 2018, all loans meet the criteria of the SPPI test. Consequently, all loans granted to customers were classified by the Bank to financial assets carried at amortized cost.

The effect of the transition to IFRS 9 on provisions and retained earnings is shown in the table below.:

Table 4.2. Impact of transition to IFRS 9 on retained earnings

Retained earnings	Reserves and retained earnings
Balance at the end of the period in accordance with IAS 39 (31 December 2017)	9 333
Recognition of expected credit losses under IFRS 9 on debt finance assets	(57)
Balance at the beginning of the period in accordance with IFRS 9 (1 January 2018)	9 276
Total changes in equity in connection with the application of IFRS 9	**9 276**

The following table provides a reconciliation at the beginning of the period of the aggregate impairment allowance for loans estimated in accordance with IAS 39 and the estimated provisions for loans and financial guarantee contracts assessed in accordance with IAS 37 with the amount of provisions for expected credit losses calculated in accordance with IFRS 9

Table 4.3. Effect of transition to IFRS 9 on expected loan losses

Provision for impairment according to types of financial assets	Provision for impairment in accordance with IAS 39 / IFRS 37 as of December 31, 2017	Revaluation	Expected credit losses in accordance with p IFRS 9 as at January 1, 2018
Cash and cash equivalents	(7 967)	(534)	(8 501)
Loans and liabilities of banks	(715)	-	(715)
Loans and liabilities of clients	(295 197)	(892)	(296 089)
Investments in securities	(784)	-	(784)
Other financial assets	(1 213)	-	(1 213)
Liabilities to provide loans and guarantees	2 833	(1 047)	1 786

Significant mistakes in the financial accounting of the Bank for 2018 were not detected. Corrective adjustments were carried out in operations for the formation of reserves for the recognized impairment of active operations. Errors in previous periods have not been resolved.

Significant mistakes in the financial accounting of the Bank for 2018 were not detected. Corrective adjustments were carried out in operations for the formation of reserves for the recognized impairment of active operations. Errors in previous periods have not been resolved.

IFRS 15 «Revenue from Customer Contracts»

IFRS 15 provides for a single, integrated revenue tracking model, which arises from contracts with customers. In accordance with IAS 15, the gain is recognized at the amount reflecting the consideration that the entity expects to receive in exchange for the transfer of goods or services to the client. The principles of IFRS 15 provide for a more structured approach to the measurement and recognition of revenues. The new standard replaces IAS 18 «Revenue» and IAS 11 «Construction Contracts».

IFRS 15 had no material impact on the financial statements since 2018.

4.39. Significant accounting judgments and estimates, their impact on the recognition of assets and liabilities

The preparation of financial statements in accordance with IFRS requires the Bank to formulate certain judgments, estimates and assumptions that affect the application of accounting policies, as well as the amounts of assets and liabilities, income and expenses that are reflected in the reporting. Estimates and related assumptions are based on historical experience and other factors that are considered reasonable under these circumstances, the results of which form the basis for judgments regarding the book value of assets and liabilities. Professional judgments that have the most significant effect on the amounts disclosed in the financial statements and estimates that may result in significant adjustments to the carrying amount of assets and liabilities over the subsequent periods include:

Continuity of activity – these financial statements are based on the assumption that the Bank is able to continue its operations on a continuous basis in the near future, has neither intentions nor the need for liquidation or significant reduction of volume of operations.

Impairment losses on loans. The valuation of allowances for impairment losses requires the use of significant professional judgments. The Bank regularly reviews its loans to assess their impairment. The Bank evaluates provisions for active operations in order to maintain the amount of provisions at a level that, in the opinion of the management, will be sufficient to cover losses incurred in relation to the Bank's lending portfolio. The calculation of loan provisions for which the Bank recognized the impairment is based on estimates carried out using statistical techniques based on historical experience. The results obtained are adjusted on the basis of the professional judgment of the management. In the Bank's view, the accounting estimates associated with determining the amount of provisions for impairment losses are the main source of uncertainty in the assessment due to the fact that they are particularly sensitive to changes from the period to the period, as assumptions about the future level default and estimation of potential losses related to the decrease in the value of loans and granted funds is based on the latest performance of the Bank, as well as any significant difference between expected losses of the Bank as reflected in baggage reserves and actual losses will require the Bank reserves, the amount of which can significantly affect its profit and loss and other comprehensive income (Income Statement) and the statement of financial position (balance sheet) in future periods. The amount of provisions for impairment losses in financial statements was determined on the basis of existing economic and political conditions. The Bank is not able to predict what changes in the economic and political situation will take place in Ukraine and the impact these changes can have on the adequacy of provisions for losses in future periods.

Note 8 provides information on the carrying amount of loans and the amount of recognized credit risk exposure. If the actual amounts of redemption were less than those estimated by the management, the Bank would have to record additional costs incurred in recognition of the impairment of loans.

Fair value of financial instruments. If the fair value of financial assets and liabilities reflected in the Statement of Financial Position cannot be determined on the basis of prices in an active market, it is determined using a variety of valuation techniques that include the application of mathematical models. Output data for these models is determined on the basis of the observable market, if possible, and when this is not possible, then when determining the fair value, certain necessary judgments are used.

Fair value of mortgaged property. The mortgaged property is used in the calculation of provisions for loan risks at fair value based on the reports prepared by valuation entities that are not related to the Bank. When determining the value of mortgaged property, an estimated value based on the professional judgment of valuation experts is used. The valuation of the fair value of mortgaged property requires the formation of judgments and the application of assumptions about the comparability of property objects and other factors. Based on the above, the provision for impairment of loans may be affected by the application of the estimated value of collateral. The accounting estimates associated with real estate valuation are the main source of estimation uncertainty, as recognition of a change in estimates may potentially have a significant impact.

Note 5. Transition to new and amended standards, interpretations

New standards as set out below and amendments to the standards that will be binding on the Bank from January 1, 2019

IFRS 16 «Leases» (issued January 13, 2016 and comes into force for annual periods beginning on or after 1 January 2019).

The new standard establishes the principles for recognizing, evaluating, presenting and disclosing information about the lease. All lease contracts are reduced to the receipt by the lessee of the right to use the asset from the moment the lease expires, as well as until the receipt of finance if lease payments are made during a period of time. Accordingly, IFRS 16 abolishes the classification of an lease as operating or financial, as foreseen by IAS 17, and instead introduces a single model for accounting for lease transactions for lessees. Tenants will have to recognize: (a) assets and liabilities in relation to all lease agreements with a term of validity of more than 12 months, except when the value of the leased property is insignificant; and (b) depreciation of lease items separately from interest on a lease in the statement of income. In respect of leasing to a lessor, IFRS 16, in essence, retains the accounting requirements provided for in IAS 17. Thus, the lessor continues to classify the lease contractors as operating or finance leases and, accordingly, reflect differently their reporting. The Bank has made a preliminary assessment of the impact of the relevant standard on the Bank's financial statements. When transitioning to IFRS 16, the Bank has selected a modified approach to retrospective application of the standard as a lessee. At the same time, the valuation of the asset is carried out in the amount equal to the amount of lease payments in the amount of UAH 40,877 thousand. with an adjustment on the amount of advances made in the amount of 921 thousand UAH.

Clarification of IFRIC 23 Uncertainty in Income Tax Income (issued June 7, 2017 and effective for annual periods beginning on or after 1 January 2019).

IFRS 12 contains a guide to accounting for current and deferred tax, but does not provide guidance on how to reflect the effects of uncertainty. The clarification clarifies how to apply the recognition and measurement requirements in IAS 12 in the presence of uncertainty in the presentation of the income tax. The Bank must decide whether to consider each case of uncertainty in the tax accounting separately or in combination with one or more other uncertainties, depending on which approach makes it possible to best predict the uncertainty resolution. The bank should proceed from the assumption that the tax authorities will check the amounts that they have the right to audit and will have full knowledge of the relevant information when carrying out the verification. If the bank comes to the conclusion that the tax authorities are unlikely to decide on a specific issue for which there is uncertainty in the presentation of the tax, the effects of uncertainty will be reflected in the determination of the respective taxable profit or loss, tax bases, unused tax losses, unused tax benefits, or tax rates by using either the most probable value or the expected value, depending on which method the bank considers the most responding forecasting to permission for uncertainty. The Bank will reflect the effect of changing the facts and circumstances or the appearance of new information that affects judgments or estimates, the use of which is required by the explanation, as the change in accounting estimates. Examples of changes in facts and circumstances or new information that may lead to a review of judgment or assessment include, but are not limited to, inspections or actions of the tax authorities, changes in the rules established by the tax authorities, or expiration of the right of tax bodies for the verification or re-examination of a specific issue concerning the display of income tax. The lack of agreement or disagreement between the tax authorities and individual decisions on a specific tax issue, in the absence of other facts, will most likely not constitute a change in the facts and circumstances or new information that affects judgments and appraisal values in accordance with the roles clarification. The Bank is currently assessing how the clarification will affect its financial statements.

Annual Improvements to IFRSs, 2015-2017 - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued December 12, 2017 and effective for annual periods beginning on or after 1 January 2010). January 1, 2019 or after this date).

These highly specialized adjustments relate to four standards. With regard to IFRS 3, they point out that it is necessary to reassess the previously shared share of joint operations when it receives control over a business. What is in line with IFRS 11, the amendments indicate that an investor should not revalue its prior share of participation when it obtains joint control over joint operations, similar to existing requirements when a related organization becomes a joint venture or vice versa. Changes made to IAS 12 explain that an entity recognizes all the effects of declaring or paying dividends on a profit tax when it recognizes transactions or events that have caused relevant distributions, such as a portion of profit or loss or as part of other aggregate receipts. It has now been clearly established that this requirement applies in all cases where payments for financial instruments classified as equity represent a distribution of income, and not only in those cases where the tax consequences result from changes in tax rates on distributed or retained earnings . Amendments to IAS 23 include a clear indication that loans and borrowings received specifically for the financing of a particular asset are excluded from the total cost of borrowings admitted to capitalization to a significant extent to the end of a given asset. The Bank is currently assessing the impact of changes on the financial statements.

Amendments to IAS 19, "Amendment, Reduction and Settlement of a Pension Plan" (issued February 7, 2018 and effective for annual periods beginning on or after January 1, 2019).

These amendments indicate how to determine retirement expenses in the event of a change in the retirement plan with established payments. When a plan is adjusted (modification, reduction or settlement), in accordance with the requirements of IAS 19, a net liability or asset over established payments should be reconsidered. These adjustments require the use of updated assumptions for this revaluation to determine the value of services in the current period and net interest on the balance in the reporting period after the program has changed. Prior to making amendments, IAS 19 does not include guidance on determining these costs after the change in plan. The requirement to use updated assumptions is expected to provide useful information to users of financial statements. The Bank is currently assessing the impact of changes on the financial statements.

Amendments to the Conceptual Basis of Financial Statements (Issued March 29, 2018 and effective for annual periods beginning on or after January 1, 2020).

The new version of the conceptual framework for financial reporting includes a new section on valuation, recommendations for reporting financial results, improvements in definitions and recommendations (in particular, definitions of commitments), and clarifications on important issues such as the role of leadership, prudence and uncertainty of assessment in the preparation of financial reporting

It is expected that new standards and clarifications will have a significant impact on the Bank's activities.

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

	2018	2017
Cash	201 773	219 132
Deposit certificates issued by NBU	127 200	555 570
Funds in the National Bank of Ukraine (except mandatory reserves)	86 203	43 138
Correspondent accounts, deposits and overnight loans in	185 773	21 758
Ukraine	*185 773*	*21 758*
Other countries		
Total cash and cash equivalents	***600 949***	***839 598***
For the purposes of drawing up the statement of cash flows, cash and cash equivalents are not included:	***612 653***	***846 908***
Part of the mandatory reserve on the correspondent account at the NBU		
Provisions for impairment of cash	11 904	7 967
Accrued interest income on deposit certificates issued by the NBU	(200)	(570)
Accrued interest income on correspondent accounts and overnight credit in banks	-	(87)

In accordance with the requirements of the National Bank of Ukraine, the Bank reserves and retains the required reserves on the correspondent account of the Bank opened at the National Bank of Ukraine. The formation of mandatory reserves is carried out in accordance with the norms of obligatory reserve set by the National Bank of Ukraine for deposits and deposits of legal and physical persons on demand and funds on current accounts and on time deposits and deposits (deposits) of legal entities and individuals . The amount of mandatory reserves, which must be kept daily at the beginning of the trading day on the correspondent account of the bank at the National Bank of Ukraine, must be not less than 40% of the reserve base calculated for the relevant maintenance period. As of December 31, 2018, the amount of mandatory reserves, which banks should hold on a correspondent account with the National Bank of Ukraine daily at the beginning of the trading day, the National Bank reduced to 0%. Thus, the Bank can quickly dispose of additional liquid funds.

Table 6.2. Analysis of changes in provision for cash and cash equivalents

	2018	2017
Provision for impairment at the beginning of the period	(7 967)	(51 836)
Changes from the application of IFRS 9	(534)	-
Adjusted provision for impairment at the beginning of the period	(8 501)	(51 836)
(Increase)/decrease in provision during the period	(3 403)	43 869
Reserve as of the end of the period	***(11 904)***	***(7 967)***

Table 6.3. Analysis of changes in the gross carrying amount of cash and cash equivalents

	2018	2017
Gross book value at the beginning of the period	847 566	448 456
Acquired/initiated financial assets	5 088 540	12 077 011
Financial assets whose recognition has been canceled or canceled (other than written off)	(5 529 832)	(11 604 504)
Exchange rate differences	12 921	-
Other changes	193 658	(73 397)
Gross book value at the end of the reporting period, cash and cash equivalents	***612 853***	***847 566***

Note 7. Loans and liabilities of banks

As at the reporting date, the Bank classifies Loans and liability of banks as financial assets measured at amortized cost.

Table 7.1. Loans and receivables of banks that are accounted for at amortized cost

	2018	**2017**
Correspondent accounts in banks of:	517	715
Ukraine	-	-
Other countries	517	715
Loans granted to other banks	-	-
Short-term	40 000	-
Long-term	-	-
Provision for loans granted to other banks, which are accounted for at amortized cost	(25 884)	(715)
Total loans and advances to banks that are accounted for at amortized cost	***14 633***	-

This table shows information about the correspondent account of PJSC «Promsvyazbank» (Russia), about which in December 2017 the sanation was announced. As of the reporting date, funds on the above account are freely used.

As at the end of the day on December 31, 2018, the Bank did not enter into agreements for the placement of deposits with other banks and contracts for the purchase and reverse sale (reverse repurchase) with other banks.

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 7.2. Analysis of the credit quality of loans granted to other banks, which are accounted for at amortized cost, for the reporting year 2018

	Stage 1	Stage 2	Stage 3	Acquired or created depreciated assets	Total
Loans granted to other banks	-	-	40 517	-	40 517
Minimum credit risk	-	-	-	-	-
Low credit risk	-	-	-	-	-
Average credit risk	-	-	-	-	-
High credit risk	-	-	40 517	-	40 517
Default assets	-	-	-	-	-
Total gross book value of loans granted to other banks	-	-	40 517	-	40 517
Provision for loans granted to other banks	-	-	(25 884)	-	(25 884)
Total loans granted to other banks	-	-	***14 633***	-	***14 633***

Table 7.3. Analysis of the credit quality of loans granted to other banks, which are recorded at amortized cost, for the previous 2017

	Stage 1	Stage 2	Stage 3	Acquired or created devalued assets	Total
Loans granted to other banks	-	-	715	-	715
Minimum credit risk	-	-	-	-	-
Low credit risk	-	-	-	-	-
Average credit risk	-	-	-	-	-
High credit risk	-	-	715	-	715
Default assets	-	-	-	-	-
Total gross book value of loans granted to other banks	-	-	715	-	715
Provision for loans granted to other banks	-	-	(715)	-	(715)
Total loans granted to other banks	-	-	-	-	-

Table 7.4. Analysis of changes in provisions for impairment of loans and advances to banks recorded at amortized cost for the reporting year 2018

	Stage 1	Stage 2	Stage 3	Total
Provision for impairment at the beginning of the period	-	-	(715)	(715)
Acquired / initiated financial assets	-	-	(25 169)	(25 169)
Provision for impairment at the end of the period	-	-	***(25 884)***	***(25 884)***

Table 7.5. Analysis of changes in provisions for impairment of loans and advances to banks accounted for at amortized cost for the previous 2017

	Stage 1	Stage 2	Stage 3	Total
Provision for impairment at the beginning of the period	-	-	-	-
Acquired / initiated financial assets	-	-	(715)	(715)
Provision for impairment at the end of the period	-	-	***(715)***	***(715)***

Table 7.6. Analysis of the change in the gross carrying amount for impairment of loans and liabilities in banks, which are recorded at amortized cost for the reporting 2018

	Stage 1	Stage 2	Stage 3	Initially depreciated assets	Total
Gross book value at the beginning of the period			715	-	715
Acquired / initiated financial assets			40 000	-	40 000
Other changes			(198)	-	(198)
Gross book value at the end of the reporting period			***40 517***	-	***40 517***

Note 8. Loans and liabilities of clients

As at the reporting date, the Bank classifies Credits and liabilities to clients as financial assets measured at amortized cost

Table 8.1. Loans and liabilities of clients, which are recorded at amortized cost

	2018	2017
Loans granted to legal entities	3 180 740	3 616 661
Loans granted to individuals - entrepreneurs	18 404	36 111
Mortgage Loans to Individuals	7 890	786
Loans granted to individuals for current needs	103 385	14 176
Other loans granted to individuals	5 931	5 145
Provision for loans granted to customers, which are accounted for at amortized cost	(319 943)	(295 197)
Total loans and liabilities of recorded at amortized cost	***2 996 407***	***3 377 682***

Concentration of loans to customers:

as at 31 December 2018, the aggregate amount of loans issued to the 10 largest borrowers of the Bank amounted to UAH 1,974,671 thousand, or 66% of the loan portfolio.

(in thousands of Ukrainian hryvnias unless otherwise indicated)

as at 31 December 2017, the aggregate amount of loans issued to the 10 largest borrowers of the Bank amounted to UAH 2,610,580 thousand, or 77% of the loan portfolio.

The Bank does not have received pledged securities, which are collateral for loans and advances to customers in repo transactions.

Table 8.2. Analysis of the credit quality of loans and liabilities of clients recorded at amortized cost for the reporting year 2018

	Stage 1	Stage 2	Stage 3	Acquired or created depreciated assets	Total
Loans and liabilities of clients at amortized cost:					
Loans granted to legal entities	2 255 291	13 947	911 502	-	3 180 740
Loans granted to individuals - entrepreneurs	18 404	-	-	-	18 404
Mortgage Loans to Individuals	7 890	-	-	-	7 890
Loans granted to individuals for current needs	102 120	60	1 205	-	103 385
Other loans granted to individuals	5 895	10	26	-	5 931
Total gross carrying value of loans and liabilities of clients recorded at amortized cost	2 389 600	14 017	912 733	-	3 316 350
Provisions for impairment of loans and liabilities of clients recorded at amortized cost	(26 032)	(343)	(293 568)	-	(319 943)
Total loans and liabilities of clients recorded at depreciated cost	***2 363 568***	***13 675***	***619 165***	-	***2 996 407***

Table 8.3. Analysis of the credit quality of loans and liabilities of clients recorded at amortized cost for the previous year 2017

	Stage 1	Stage 2	Stage 3	Acquired or created depreciated assets	Total
Loans and liabilities of clients recorded at amortized cost					
Loans granted to legal entities	2 182 090	-	1 434 571	-	3 616 661
Loans granted to individuals - entrepreneurs	36 111	-	-	-	36 111
Mortgage Loans to Individuals	786	-	-	-	786
Loans provided to individuals for current needs	13 925	-	251	-	14 176
Other loans granted to individuals	5 145	-	-	-	5 145
Total gross carrying value of loans and liabilities of clients recorded at amortized cost	2 238 057	-	1 434 822	-	3 672 879
Provisions for impairment of loans and liabilities of clients recorded at amortized cost	(9 047)		(286 150)		(295 197)
Total loans and liabilities of clients recorded amortized cost	***2 229 010***	-	***1 148 672***	-	***3 377 682***

During 2018 there was a partial repayment by counterparties - individuals, arrears written off earlier than the accumulated reserves in the amount of UAH 21 thousand.

Table 8.4. Analysis of the change in the gross carrying amount for impairment of loans and liabilities of clients at amortized cost for 2018

	Stage 1	Stage 2	Stage 3	Initially depreciated assets	Total
Gross book value at the beginning of the period	***2 238 057***	-	***1 434 822***	-	***3 672 879***
Acquired / initiated financial assets	809 991	10	351 022	-	1 161 023
Financial assets, recognition of which has been canceled or canceled (other than write-offs)	(480 568)	-	(811 820)	-	(1 292 388)
Transition to stage 1	40 419	-	(40 741)	-	(322)
Transition to stage 2	(40 310)	14 007	-	-	(26 303)
Transition to stage 3	(2 525)	-	2 058	-	(467)
Write-off of financial assets at the expense of reserves	-	-	(9 424)	-	(9 424)
Other changes (changes in debts under current contracts)	(175 464)	-	(13 184)	-	(188 648)
Gross book value at the end of the reporting period	***2 389 600***	***14 017***	***912 733***	-	***3 316 350***

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 8.5. Analysis of changes in provisions for impairment of loans and liabilities of clients at amortized cost in 2018

	Stage 1	Stage 2	Stage 3	Acquired or created depreciated assets	Total
Provision for impairment at the beginning of the period	*(9 047)*	-	*(286 150)*	-	*(295 197)*
Changes from the application of IFRS 9 *expected loan losses*	*(24 046)*	-	*23 154*	-	*(892)*
Adjusted provisions for impairment at the beginning of the period	***(33 093)***	-	***(262 996)***	-	***(296 089)***
(Increase) / decrease in provision for impairment during the period	7 061	(343)	(13 232)	-	(6 514)
Increase in reserve on new contracts	*(15 908)*	*(4)*	*(51 671)*	-	*(67 583)*
(Increase) / decrease in provision for impairment under current contracts	*9 256*	-	*(162 094)*	-	*(152 838)*
Financial assets whose recognition has been canceled or canceled (except write-offs)	*13 965*		*190 652*		*204 617*
The overall effect of the transition between stages	(252)	(339)	9 881	-	9 290
Transition to stage 1	*(508)*		*11 232*		*10 724*
Transition to stage 2	*197*	*(339)*			*(142)*
Transition to stage 3	*59*		*(1 351)*		*(1 292)*
Write-off of financial assets at the expense of the provision	-	-	*9 424*	-	*9 424*
Adjustment of interest income, recorded at amortized cost	-	-	*(26 764)*	-	*(26 764)*
Provision for depreciation at the end of the period	***(26 032)***	***(343)***	***(293 568)***	-	***(319 943)***

Table 8.6. Analysis of changes in provisions for loans to customers in 2017

	Loans granted to legal entities	Loans granted to individuals - entrepreneurs	Mortgage Loans to Individuals	Loans granted to physical persons for current needs	Other loans granted to individuals	Total
Balance by the state at the beginning of the period	***(142 238)***	***(33)***	-	***(55)***	***(178)***	***(142 504)***
(Increase) / decrease in provision during the period	(146 455)	**(6 141)**	-	(189)	151	(152 634)
Exchange rate differences	(59)	-	-	-	-	(59)
Balance by state at the end of the period	*(288 752)*	***(6 174)***	-	***(244)***	***(27)***	***(295 197)***

During 2017 there was a partial repayment by counterparties - individuals, arrears written off at the expense of the formed reserves in the amount of 40 thousand UAH. It is this amount that differs from the total amount of provision for impairment of funds (table 6.4), funds in banks (table 7.3) and loans to customers (table 8.2) (total 109 480 thousand UAH), from the amount of changes in provisions for equivalents cash, customer loans and funds in other banks, indicated in the Profit and Loss Statement and other comprehensive income (UAH 109 440 thousand).

Table 8.7. Structure of loans by types of economic activity

	2018		2017	
	amount	%	amount	%
Real estate operations, leasing, engineering and services	50 283	1.5	275 745	7.5
Healthcare	51 748	1.6	112 751	3.1
Trade; repair of cars, household products and personal items	2 216 551	66.8	2 199 256	59.9
Agriculture, hunting, forestry	21 735	0.7	27 815	0.8
Construction of buildings	286 446	8.6	367 634	10.0
Ground and pipeline transport	178 843	5.4	28 506	0.8
Activities of hotels and similar temporary accommodation facilities	-	-	115 014	3.1
Manufacture of machinery, equipment and other products	165 912	5.0	255 793	7.0
Activities in the field of sports, organization of recreation and entertainment	75 133	2.3	130 256	3.5
Individuals	116 804	3.5	20 107	0.5
Others	152 896	4.6	140 002	3.8
Total loans and liabilities of clients without provisions	***3 316 350***	***100***	***3 672 879***	***100***

The table shows the balance of loans arrears, broken down by type of economic activity. The main sectors of the economy that lend to the Bank are: trade; real estate transactions; building construction; repair of cars, household appliances, etc. The Bank for the purpose of minimizing credit risk sets sector lending limits that were not violated during the reporting year.

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 8.8. Information on loans by type of collateral for 2018

	Loans granted to legal entities	Loans granted to individuals - entrepreneurs	Mortgage Loans to Individuals	Loans granted to individuals for current needs	Other loans granted to individuals	Total
Unsecured loans	-	-	-	10 973	5 906	16 879
Loans secured with	3 180 740	18 404	7 890	92 412	25	3 299 471
cash	*1 236 009*	-	-	*2 228*	-	*1 238 238*
real estate	*1 247 710*	*18 272*	*7 890*	*74 384*	-	*1 348 255*
including housing	*4 661*	-	*7 532*	*52 762*	-	*64 956*
warranties and sureties	-	-	-	*11 420*	*25*	*11 444*
Other assets	*697 021*	*132*	-	*4 380*	-	*701 533*
Total loans and advances to customers without provisions	***3 180 740***	***18 404***	***7 890***	***103 385***	***5 931***	***3 316 350***

During the reporting period, the Bank made a decision on satisfaction of the requirements of the mortgagee by acquiring the title to the mortgage subject to the mortgage treaties, as a result of which overdue loan debt was repaid to the amount of UAH 277,229 thousand and credited to the balance of the Bank investment property for the amount of 282 020 thousand UAH.

Table 8.9. Information on loans by type of collateral for 2017

	Loans granted to legal entities	Loans granted to individuals - entrepreneurs	Mortgage Loans to Individuals	Loans granted to individuals for current needs	Other loans granted to individuals	Total
Unsecured loans	308 894	10		208	5 145	314 257
Loans secured with	3 307 767	36 101	786	13 968	-	3 358 622
cash	1 522 112	18 970	-	571	-	1 541 653
securities						-
Real estate	1 419 859	14 740	786	12 829	-	1 448 214
including housing	68 462	2 971	786	4 689	-	76 908
warranties and sureties	21 943	2 391	-	568		24 902
Other assets	343 853	-	-	-	-	343 853
Total loans and advances to customers without provisions	***3 616 661***	***36 111***	***786***	***14 176***	***5 145***	***3 672 879***

Table 8.10 Impact of collateral value on credit quality for 2018

	Carrying value loans	Expected cash flows from the sale of pledged collateral	Impact of collateral
Loans granted to legal entities	2 866 261	5 360 083	(2 493 822)
Loans granted to individual entrepreneurs	17 467	146 109	(128 642)
Mortgage Loans to Individuals	7 874	23 733	(15 859)
Loans granted to individuals for current needs	100 127	348 373	(248 246)
Other loans to individuals	4 679	-	4 679
Total loans	***2 996 408***	***5 878 298***	***(2 881 890)***

Table 8.11 Impact of collateral value on credit quality for 2017

	Carrying value loans	Expected cash flows from the sale of pledged collateral	Impact of collateral
Loans granted to legal entities	3 327 909	5 337 648	(2 009 739)
Loans granted to individual entrepreneurs	29 937	154 021	(124 084)
Mortgage Loans to Individuals	786	5 744	(4 958)
Loans granted to individuals for current needs	13 932	21 916	(7 984)
Other loans to individuals	5 119	-	5 119
Total loans	***3 377 683***	***5 519 329***	***(2 141 646)***

The valuation of the pledged property is carried out by an independent certified subject of valuation activities in accordance with Article 3 of the Law of Ukraine "On valuation of property, property rights and professional appraisal activity in Ukraine", in accordance with the procedure established by the regulatory acts specified in Article 9 of this Law, namely, the provisions (national standards) of property valuation, which are approved by the Cabinet of Ministers of Ukraine, methods and other normative-legal acts, which are made taking into account the requirements of the provisions (national standards) and approved by the Cabinet of Ministers of Ukraine or the State Property Fund of Ukraine (in particular, National Standards: № 1 «General Principles of Appraisal of Property and Property Rights», № 2 «Estimation of Real Estate», № 3 «Estimation of Integral Property Complexes» and other documents).

The review (actualization) of the value of the items of mortgaged property is carried out by an independent certified subject of valuation activity, taking into account the change in the market condition of such property and / or the state of preservation of this property, but at least once every twelve months for real estate, equipment and vehicles, once for six months - for other property, using comparative, cost and return approaches (separately), as well as by combining these.

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 8.12 Information on the total amount of minimum lease payments to be received by financial leasing (lease) and their present value in 2018.

	Less than 1 year	From 1 to 5 years	More than 5 years	Total
The total amount of minimum lease payments leased under finance lease (as at 31 December 2018)	278	-	-	278
Future financial income	32	-	-	32
Provision for financial lease at the end of the reporting period	(8)	-	-	(8)
Present value of minimum lease payments at the end of the reporting period	***243***	-	-	***243***

Table 8.13 Information on the total amount of minimum lease payments to be received by financial leasing (lease) and their present value in 2017.

	Less than 1 year	From 1 to 5 years	More than 5 years	Total
The total amount of minimum lease payments leased under finance lease as at 31 December 2017.	27 082	-	-	27 082
Future financial income	869	-	-	869
Provision for financial lease arrears	(5)	-	-	(5)
The present value of minimum lease payments by the end of 2017	***2 327***	-	-	***2 327***

Note 9. Investments in securities
Table 9.1 Investments in securities

	2018	2017
Securities that are recorded at amortized cost	-	-
Securities that are recorded at fair value through another comprehensive income	154 307	48 030
Securities that are recorded fair value through profit / loss	-	-
Total securities	***154 307***	***48 030***

Table 9.2. Investments in securities that are recorded at fair value through other comprehensive income

	2018	2017
Debt securities	154 678	48 066
government bonds	*154 678*	*48 066*
Shares of enterprises and other non-fixed income securities	784	784
fair value of which is determined by the calculated method	*784*	*784*
Revaluation of securities that are accounted for fair value through another cumulative income	(1 155)	(820)
Total securities, which are recorded at fair value because of another aggregate income	***154 307***	***48 030***

As at the balance sheet date, all securities are accounted for at fair value through other comprehensive income. Investments in securities consist of debt securities in the form of government bonds in the amount of UAH 154 678 thousand and an admitted impairment of UAH 371 thousand, the fair value of which at 31 December 2018 amounts to UAH 154 307 thousand. (as at 31 December 2017 -48,030 thousand UAH) and participation in LLC «BUSINESS OF INVESTMENTS AND SAVINGS», in the amount of UAH 784 thousand, and a recognized discount of UAH 748 thousand, the fair value of which as of December 31, 2018 is 0 thousand UAH. (as of December 31, 2017 - UAH 0 thousand).

Debt securities in the Bank's portfolio as at 31.12.2018 and 31.12.2017 are characterized by low credit risk.

The Bank did not transfer securities without termination of recognition in the form of collateral for repo transactions.

Table 9.3. Major equity investments and other non-fixed income securities that are recorded at fair value through other comprehensive income

Company name	Type of activity	Country of registration	Fair value 2018	Fair value 2017
LLC «BUSINESS FOR INVESTMENT AND SAVINGS»	Code CFAA 64.99 Provision of other financial services	804	0	0

Note 10. Investment property
Table 10.1 Investment property estimated using the fair value method

	2018	2017
Fair value of investment property at the beginning of the period	-	-
Acquisition	282 020	-
Fair value of investment property at the end of the period	282 020	-

(in thousands of Ukrainian hryvnias unless otherwise indicated)

During the reporting period, the Bank made a decision on satisfaction of the requirements of the mortgagee by acquiring the title to the mortgage subject to the mortgage treaties, as a result of which overdue loan debt was repaid to the amount of UAH 277,229 thousand and credited to the balance of the Bank investment property for the amount of 282 020 thousand UAH.

As of December 31, 2018, the deviation of the fair value of investment property determined in accordance with International Standards on valuation and IFRS according to the report of LLC «Vector Vote» (certificate of valuation entity № 806/16 of October 13, 2016) is not from the carrying value substantial (less than 10%)

As a result, the Bank did not recognize the impairment of investment property in 2018. As on December 31, 2018, the fair value of investment property in accordance with the report on the independent appraisal of LLC «Vector Vote» was UAH 279,732 thousand.

Table 10.2 Amounts recognized in the Profit and Loss Statement and other comprehensive income

Amounts of income and expenses	2018	2017
Income from lease of investment property	6 016	-
Direct operating expenses (including repairs and maintenance) from investment property generating rental income	-	-
Other direct costs that do not generate rental income	-	-

Note 11. Property, plant and equipment and intangible assets

Transactions in receipt, transfer, transfer, disposal of fixed assets and intangible assets are recorded at their carrying amount

Table 11.1 Property, plant and equipment and intangible assets

	Ground section	Buildings, constructions and transmission devices	Machinery and equipment	Vehicles	Instruments, instruments, inventory (furniture)	Other fixed assets	Other non-current tangible assets	Incomplete capital investments in fixed assets and intangible assets	Intangible assets	Total
Carrying amount at the beginning of the previous period	**232**	**16 302**	**1 814**	**784**	**240**	**445**	**-**	**-**	**2 694**	**22 511**
Initial (revalued) cost	*232*	*22 259*	*12 065*	*1 975*	*3 822*	*1 817*	*1 374*	-	*5 063*	*48 607*
Wear and tear at the beginning of the previous period	-	*(5 957)*	*(10 251)*	*(1 191)*	*(3 582)*	*(1 372)*	*(1 374)*	-	*(2 369)*	*(26 096)*
Comings-in	-	4	3 024	-	1 352	340	2 266	31 941	35	38 962
Capital investments for the completion of fixed assets and improvement of intangible assets	-	96	3 818	-	465	534	2 696	(30 587)	25	(22 953)
Retirement	(145)	(990)	(14)	-	(6)	(20)	-	-	(2)	(1 177)
Depreciation deductions	-	(991)	(837)	(250)	(270)	(60)	(3 354)	-	(619)	(6 381)
Disposal of depreciated OZ	-	(204)	(228)	-	(154)	(52)	(115)	-	(3)	(756)
Carrying amount at the end of the previous period (at the beginning of the reporting period)	**87**	**14 421**	**7 805**	**534**	**1 781**	**1 239**	**1 608**	**1 354**	**2 133**	**30 962**
Initial (revalued) cost	*87*	*21 165*	*18 665*	*1 975*	*5 479*	*2 619*	*6 221*	*1 354*	*5 118*	*62 683*
Depreciation at the end of the previous period (at the beginning of the reporting period)	-	*(6 744)*	*(10 860)*	*(1 441)*	*(3 698)*	*(1 380)*	*(4 613)*	-	*(2 985)*	*(31 721)*
Comings-in	-	-	15 146	-	836	1 497	2 857	13 189	512	34 037
Capital investments for the completion of property, plant and equipment and improvement of intangible assets	-	12	80	-	2	98	3 125	(1 764)	6	1 559
Other transfers	-	-	-	-	-	-	-	(12 389)	-	(12 389)
Retirement	-	-	-	-	-	(78)	-	-	(5)	**(83)**

(in thousands of Ukrainian hryvnias unless otherwise indicated)

	Ground section	Buildings, constructions and transmission devices	Machinery and equipment	Vehicles	Instruments, instruments, inventory (furniture)	Other fixed assets	Other non-current tangible assets	Incomplete capital investments in fixed assets and intangible assets	Intangible assets	Total
Depreciation deductions	-	(936)	(2 586)	(188)	(476)	(195)	(4 202)	-	(616)	**(9 199)**
Disposal of depreciated OZ	-	-	(32)	-	(36)	(119)	(3)	-	(233)	**(423)**
Carrying amount at the end of the reporting period	**87**	**13 497**	**20 445**	**346**	**2 143**	**2 561**	**3 388**	**390**	**2 030**	**44 887**
initial (revalued) cost	*87*	*21 177*	*33 859*	*1 975*	*6 281*	*4 017*	*12 200*	*390*	*5 398*	*85 384*
Wear and tear at the end of the reporting period	-	*(7 680)*	*(13 414)*	*(1 629)*	*(4 138)*	*(1 456)*	*(8 812)*	-	*(3 368)*	*(40 497)*

As for December 31, 2018:

- The Bank did not have property, plant and equipment and intangible assets in respect of which the legislation provides for restrictions on possession, use and disposal.
- The Bank did not have collateral property, plant and equipment.
- The Bank did not have property, plant and equipment that are temporarily not used (preservation, reconstruction, etc.).
- The Bank did not have any property, plant and equipment withdrawn from operation for sale;
- The initial cost of fully amortized non-current assets amounted to UAH 23,484 thousand;
- The Bank does not have the value of intangible assets that are subject to a restriction of ownership;
- The Bank did not have created intangible assets;
- The Bank did not have any increase or decrease during the reporting period arising from revaluation, as well as from impairment losses recognized or reversed directly in equity.

Note 12. Other financial assets
Table 12.1. Other financial assets

	2018	2017
Accounts receivable from transactions with banks	73 937	14 188
Accounts receivable for transactions with customers	17 250	306
Accounts receivable for transactions with payment cards	3 317	5 367
Accounts receivable from operations with other financial instruments	1 515	212
Monetary funds with limited right of use	25 287	15 748
Other financial assets	5 550	5 611
Provision for impairment of other financial assets	(23 644)	(1 212)
Total other financial assets minus reserves	***103 212***	***40 220***

The article «Moneys with Limited Use Rights» shows the balances on the balance account «Funds of the Bank in Settlements», which records the guarantee deposit in PJSC IB «Pivdennyi» Bank and PJSC «BANK FAMILYI» for ensuring fulfillment of obligations under the agreement on support for membership in IPS VISA.

As at the reporting date, the Bank does not have receivables for securities, which were transferred in the form of a loan and which the receiver of securities has the right to sell or provide to the next pledge, in accordance with the terms of the contract or existing practice.

Table 12.2. Analysis of changes in provision for impairment of other financial assets for 2018

	Accounts receivable from transactions with banks	Accounts receivable for transactions with customers	Accounts receivable from operations with other financial instruments	Monetary funds with limited right of use	other financial assets	Total
Balance at the beginning of the period	(749)	-	-	-	(463)	(1 212)
(Increase) / decrease in provision for impairment of other financial assets during 2018	(3 082)	(17 084)	(980)	(860)	(426)	(22 432)
Balance at the end of the period	***(3 831)***	***(17 084)***	***(980)***	***(860)***	***(889)***	***(23 644)***

During 2018 there was a partial repayment by counteragents of debt, previously written off bad debts in the amount of UAH 756 thousand.

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 12.3. Analysis of changes in provision for impairment of other financial assets for 2017

	Accounts receivable with banks	Other financial assets	Total
Balance at the beginning of the period	(860)	(79)	(939)
Increase/(decrease) in provision for impairment of other financial assets in 2017	110	(384)	(274)
Balance at the end of the period	(750)	(463)	(1 213)

Table 12.4. Analysis of the change in the gross carrying amount for the cancellation of other financial assets for the reporting year of 2018

	Accounts receivable from transactions with banks	Accounts receivable for transactions with customers	Accounts receivable for transactions with payment cards	Accounts receivable from operations with other financial instruments	Monetary funds with limited right of use	other financial assets	Total
Balance at the beginning of the period	14 188	306	5 367	212	15 748	5 611	41 432
Accounts receivable initially recognized during the reporting period	60 823	17 163	40	1 303	1	4 194	83 523
Accounts receivable, the recognition of which was terminated or repaid	(9 002)	(182)	(138)	-	(6)	(3 612)	(12 939)
Other changes	7 928	(37)	(1 952)	-	9 544	(643)	14 840
Balance at the end of the period	***73 937***	***17 250***	***3 317***	***1 515***	***25 287***	***5 550***	***126 856***

The line «Other changes» reflects the amount of increase/(decrease/repayment) of receivables within the framework of current contracts during the reporting year 2018.

Table 12.5. Analysis of the change in the gross carrying amount under impairment of other financial assets for the prior year 2017

	Accounts receivable from transactions with banks	Accounts receivable for transactions with customers	Accounts receivable for transactions with payment cards	Accounts receivable from operations with other financial instruments	Monetary funds with limited right of use	Other financial assets	Total
Balance at the beginning of the period	860	302	3 434	-	11 628	1 574	17 798
Accounts receivable initially recognized during the reporting period	14 188	106	4 888	212	6	4 440	23 840
Accounts receivable, the recognition of which was terminated or repaid	(860)	(142)	(242)	-	-	(343)	1 587
Other changes	-	40	(2 713)	-	4 114	(60)	1 381
Balance at the end of the period	***14 188***	***306***	***5 367***	***212***	***15 748***	***5 611***	***41 432***

Table 12.6. Analysis of the credit quality of other financial assets for the reporting year 2018

	Minimal credit risk	Low credit risk	Average credit risk	High credit risk	Default assets	Total
Accounts receivable from transactions with banks	73 188	-	-	-	749	73 938
Accounts receivable for transactions with customers	17 230	20	-	-	-	17 250
Accounts receivable for transactions with payment cards	3 317	-	-	-	-	3 317
Accounts receivable from operations with other financial instruments	325	306	-	673	212	1 515
Monetary funds with limited right of use	25 287	-	-	-	-	25 287
Other financial assets	5 220	269	23	39	-	5 550

Table 12.7. Analysis of the credit quality of other financial assets in the previous 2017

	Minimal credit risk	Low credit risk	Average credit risk	High credit risk	Default assets	Total
Accounts receivable from transactions with banks	13 439	-	-	-	749	14 188
Accounts receivable for transactions with payment cards	5 367	-	-	-	-	5 367
Accounts receivable from operations with other financial instruments	-	53	140	-	119	312
Monetary funds with limited right of use	15 748	-	-	-	-	15 748
Other financial assets	5 897	3	5	8	4	5 917

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Note 13. Other assets
Table 13.1 Other assets

	2018	2017
Accounts Receivable for Acquisition of Assets	218	2 282
Prepayment for services	469	1 244
Precious metals	746	402
Other assets	146	3 306
Costs of future periods	7 568	3 306
Reserve for other assets	(293)	(1 782)
Total other assets minus reserves	***8 853***	***5 692***

Costs of future periods:

as of December 31, 2018: lease - 4 094 thousand UAH, license fees and software use - 1 914 thousand UAH, utilities - 101 thousand UAH, audit - 608 thousand UAH,

as of December 31, 2017: lease -2 468 thousand UAH, audit - 165 thousand UAH, utilities - 175 thousand UAH, vacation future periods - 119 thousand UAH.

Table 13.2 Analysis of changes in provisions for impairment of other assets for the reporting year 2018

	Accounts receivable for purchase of assets	Prepayment for services	Total
Balance at the beginning of the period	(1 428)	(354)	(1 782)
(Increase) / decrease in reserve under impairment during the period	1 406	83	1 489
Balance at the end of the period	(22)	(271)	(293)

Table 13.3 Analysis of changes in provisions for impairment of other assets for the prior year 2017

	Accounts receivable for purchase of assets	Prepayment for services	Total
Balance at the beginning of the period	(1)	(1)	(2)
(Increase) / decrease in reserve under impairment during the period	(1 427)	(353)	(1 780)
Balance at the end of the period	**(1 428)**	**(354)**	**(1 782)**

Note 14. Clients` money
Table 14.1. Clients` money

	2018	2017
State and public organizations:	-	969
current accounts	-	*969*
Other legal entities	1 800 307	2 177 138
current accounts	*288 542*	*563 049*
term funds	*1 511 765*	*1 614 089*
Individuals:	1 746 383	1 575 223
current accounts	*159 642*	*122 719*
term funds	*1 586 741*	*1 452 504*
Total clients` money	***3 546 690***	***3 753 330***

As of December 31, 2018, the Bank placed 10 largest customers in the amount of 1,682,480 thousand. UAH accounted for 47% of clients' funds (as of December 31, 2017 - UAH 2 231 817 thousand accounted for 59%).

The carrying value of borrowed funds of customers, which is collateral for credit operations and financial liabilities, provided by the Bank, as of December 31, 2018: UAH 1 253 099 thousand. (as of December 31, 2017: UAH 1 569 169). These are term deposits of clients in the amount of 1 238 238 thousand UAH. and cash cover for financial obligations in the amount of 14 861 thousand UAH. Of them UAH 1 236 009 thousand were given as collateral for corporate loans and UAH 2 228 thousand - on loans of individuals. (2017: UAH 1 541 082 thousand and UAH 571 thousand respectively).

Table 14.2. Distribution of clients' money by types of economic activity

	2018		2017	
	amount	%	amount	%
Production and distribution of electricity, gas and water	2 327	0,1	9 332	0,2
Real estate operations, leasing, engineering and services	71 647	2,0	20 114	0,5
Trade, repair of cars, household products and personal items	418 105	11,8	673 195	17,9
Agriculture, hunting, forestry	38 490	1,1	44 789	1,2
Construction of buildings and structures	82 641	2,3	129 027	3,4
Insurance and other financial services (reinsurance and non-state pension provision)	87 204	2,5	149 710	4,0
Ground and pipeline transport	8 506	0,2	10 640	0,3
Activity in the field of administrative and auxiliary services	33 330	0,9	59 822	1,6
Arts, sports, entertainment and recreation	84 649	2,4	139 469	3,7
Mining and processing industry	561	0,0	52 946	1,4
Non-resident	841 417	23,7	861 579	23,0

(in thousands of Ukrainian hryvnias unless otherwise indicated)

	2018		2017	
	amount	%	amount	%
Individuals	1 741 963	49,1	1 574 184	41,9
Others	135 850	3,8	28 523	0,8
Total customer funds	***3 546 690***	***100,00***	***3 753 330***	***100***

Note 15. Debt securities issued by the Bank
Table 15.1 Debt securities issued by the Bank

	2018	2017
Deposit certificates	56	15 188
Total	***56***	***15 188***

As of the reporting date, the Bank issued an unpaid savings certificate in US dollars, which accrues an annual interest rate of 4.5%, the maturity of which is 09.07.2019.

As at the reporting date, the Bank has no assets provided as collateral for securities issued by the bank and convertible debt instruments (including components of liability and equity), their carrying amount, exchange procedures and methods for determining fair value.

Note 16. Provisions for liabilities
Table 16.1. Changes in provisions for liabilities in 2018

	Loan commitments	Total
Balance at the beginning of the period	2 833	2 833
Changes from the application of IFRS 9	(1 047)	(1 047)
Adjusted provisions for liabilities at the beginning of the period	1 786	1 786
Formation and / or increase of reserve	(804)	(804)
Balance at the end of the period	***982***	***982***

The provisions in the table set out in the table are formed for bank guarantees provided to legal entities and individuals, and for unused balances on credit lines that are accounted for off-balance sheet accounts.

Table 16.2. Changes in provisions for commitments for 2017

	Loan commitments	Loan
Balance at the beginning of the period	1 074	907
Formation and/or increase of reserve	2 758	(167)
Use of the reserve	(999)	-
Balance at the end of the period	***2 833***	***1 074***

Note 17. Other financial liabilities
Table 17.1. Other financial liabilities

	2018	2017
Accounts payable for operations with other financial instruments	5 795	3 959
Accounts payable for transactions with payment cards		
Accounts payable for operations with foreign currency		
Accrued expenses	5 213	4 638
Accounts payable for transactions with payment systems	85 462	2 460
Other financial liabilities	271	783
Total other financial liabilities	***96 741***	***11 840***

Note 18. Other liabilities

Table 18.1 Other liabilities

	2018	2017
Accounts payable for taxes and duties, except for income tax	6 278	7 701
Accounts payable for acquiring assets	37	2 269
Accounts payable for services	1 932	-
Provision of holiday pay	6 483	4 246
future revenues	948	622
Other liabilities	42	5
Total	***15 720***	***14 843***

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Note 19. Share capital and emission differences (share premium)

Table 19.1. Share capital and emission differences (share premium)

	Number of shares in circulation (thousand pcs)	Simple shares (thousand pieces)	Total cost of shares (shares) (UAH thousand)
Balance as at 31 December 2016	500	500	500 000
Balance as at 31 December 2017	500	500	500 000
Balance as at 31 December 2018	500	500	500 000

During the reporting year, the Bank did not issue an additional issue of shares. At the reporting date, all 500 000 ordinary shares were issued, the nominal value of one share - 1,000 UAH. Each ordinary registered share gives the shareholder the right to vote in a resolution of all issues from which decisions are made by the General Meeting of Shareholders.

Ordinary shares give their owners the right to receive part of the Bank's income in the form of dividends, to participate in management of the Bank, to receive part of the property of the Bank in case of its liquidation and other rights stipulated by the Law of Ukraine «On Joint Stock Companies». Ordinary shares give their owners the same rights.

Note 20. Movement of revaluation reserve (components of other comprehensive income)

Table 20.1. Movement of revaluation reserve (components of other comprehensive income)

	2018	2017
Balance at the beginning of the year	(36)	-
Revaluation of securities	(336)	(36)
changes in revaluation to fair value	*(449)*	*(36)*
Revenue (expense) as a result of sale, reclassified in the reporting period for profit or loss	*113*	-
Total changes in revaluation reserves (other comprehensive income) less tax on profit	(336)	(36)
Balance at the end of the year	***(371)***	***(36)***

Note 21. Maturity analysis of assets and liabilities

Table 21.1. Maturity analysis of assets and liabilities

	2018			2017		
	less than 12 months	more than 12 months	total	less than 12 months	more than 12 months	total
ASSETS						
Cash and cash equivalents	600 949	-	600 949	839 598	-	839 598
Derivative financial instruments	242	-	242	265	-	265
Cash in other banks	14 633	-	14 633	-	-	-
Loans and liabilities of clients	2 680 724	315 683	2 996 407	2 354 847	1 022 835	3 377 682
Investments in securities	119 315	34 992	154 307	43 004	5 026	48 030
Investment property	-	282 020	282 020	-	-	-
Accounts receivable for current taxes on income	-	-	-	1	-	1
Deferred tax asset	398	-	398	215	-	215
Property, plant and equipment and intangible assets	-	44 887	44 887	-	30 962	30 962
Other financial assets	77 569	25 643	103 212	40 220	-	40 220
Other assets	8 853	-	8 853	5 692	-	5 692
Total assets	***3 502 683***	***703 225***	***4 205 908***	***3 283 842***	***1 058 823***	***4 342 665***
LIABILITIES			-			
Client's money	3 469 834	76 856	3 546 690	2 708 968	1 044 362	3 753 330
Derivative financial liabilities	1 225	-	1 225	1 690	-	1 690
Debt securities, issued by the Bank	56	-	56	15 188	-	15 188
Other funds raised	-	-	-	-	-	-
Commitment to current income tax	686	-	686	55	-	55
Provisions for liabilities	893	89	982	29	2 804	2 833
Other financial liabilities	94 773	1 968	96 741	11 252	588	11 840
Other liabilities	8 175	7 545	15 720	10 597	4 246	14 843
Total liabilities	***3 575 642***	***86 458***	***3 662 100***	***2 747 779***	***1 052 000***	***3 799 779***

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Note 22. Interest income and expenses
Table 22.1. Interest income and expenses

	2018	2017
INTERST INCOME		
Interest income, calculated on the effective interest rate		
Interest income on financial assets that are accounted for at amortized cost		
Loans and customer due diligence	330 982	400 720
Money in other banks	14 674	4 728
Correspondent accounts in other banks	8 042	1 347
Total interest income on financial assets carried at amortized cost	*353 698*	*406 796*
Interest income on financial assets carried at fair value through other comprehensive income		
Investments in securities	23 579	11 333
Total interest income on financial assets at fair value through other comprehensive income	*23 579*	*11 333*
Total interest income calculated at effective interest rate	*377 277*	*418 129*
Total interest income	***377 277***	***418 129***
INTEREST EXPENSES		
Interest expense calculated at the effective interest rate		
Interest expense on financial liabilities, which are accounted for at amortized cost		
Debt securities issued by the bank	(357)	(5 507)
Other funds raised	-	(2 355)
Term funds of legal entities	(83 984)	(85 073)
Term deposits of individuals	(144 699)	(120 197)
Overnight credits received from other banks	(40)	(6)
Loans received from other banks for repo transactions	(522)	-
Current accounts	(14 210)	(35 957)
Total interest expense calculated at the effective interest rate	*(243 813)*	*(249 096)*
Total interest expenses	***(243 813)***	***(249 096)***
Net interest income / (expenses)	**133 464**	**169 033**

Note 23. Commission income and expenses
Table 23.1. Commission income and expenses

	2018	2017
COMMISSION INCOME		
Settlement and cash transactions	267 291	36 719
Securities Transactions	-	2
Credit Client Services	15 651	10 254
Transactions in the foreign exchange market	9 678	6 709
Trust management operations	648	1 293
Guarantees provided	19 803	33 070
Others	7 044	1 910
Total commission income	***320 115***	***89 957***
COMMISSION EXPENSE		
Settlement and cash transactions	(10 465)	(7 421)
Transactions with securities	(153)	(88)
Others	(102)	(86)
Total commission expense	***(10 720)***	***(7 595)***
Net commission income / expenses	***309 395***	***82 362***

Note 24. Other operating income
Table 24.1. Other operating income

	2018	2017
Dividends		
Operating lease income (lease)	7 132	647
Revenue from the disposal of fixed assets and intangible assets	-	1 370
Other	4 320	437
Total operating income	***11 451***	***2 455***

The article «Others» is referenced:

- For 2018 – surplus in PTCS and unclaimed payments – UAH 2,724 thousand, agency reward – UAH 1,217 thousand;
- for 2017 – the return of previously accrued interest on early terminated deposits in the amount of UAH 10 thousand, fines and penalties received by the Bank – UAH 57 thousand, consulting services – UAH 26 thousand, utility costs UAH 60 thousand, agency reward – UAH 284 thousand;

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Note 25. Administrative and other operating expenses
Table 25.1. Administrative and other operating expenses

	2018	2017
Wages and bonuses	97 272	57 789
Accrual on the wages fund	20 890	12 114
Other employee benefits	750	414
Total staff costs	***118 912***	***70 317***

Table 25.2 Depreciation costs

	2018	2017
Depreciation of fixed assets	(8 583)	(5 760)
Depreciation of software and intangible assets	(616)	(619)
Total depreciation costs	***(9 199)***	***(6 379)***

Table 25.3. Administrative and other operating expenses

	2018	2017
Impairment of fixed assets and intangible assets		
Costs of maintenance of fixed assets and intangible assets, telecommunication and other operational services	(22 606)	(13 988)
Operating lease expenses (lease)	(227 639)	(21 689)
Other costs related to fixed assets	(118)	
Professional services	(3 259)	(2 192)
Marketing and advertising costs	(3 362)	(2 404)
Collection costs	(16 266)	(559)
Security costs	(4 303)	(2 493)
Insurance costs	-	(7 625)
Payment of other taxes and fees other than income tax	(13 447)	(17 479)
Other	(15 292)	(20 048)
Total administrative and other operating expenses	***(306 292)***	***(88 477)***

Note 26. Income tax expenses
Table 26.1. Income tax expenses

	2018	2017
Current income tax	(2 020)	(2 202)
Change in deferred income tax	183	92
Total income tax expense	***(1 837)***	***(2 110)***

Table 26.2. Reconciliation of the amount of income tax expense with the accounting profit tax

	2018	2017
Profit before tax	12 018	11 443
Theoretical tax deductions at the appropriate tax rate	(2 163)	(2 060)
IMPLEMENTATION OF ACCOUNT PROFIT (LOSS)		
Expenses that are not included in the amount of expenses for the purpose of calculating tax revenue, but recognized in accounting (specify what)	(3 866)	(3 657)
Including:		
Amount of accrued depreciation of fixed assets and intangible assets according to accounting data	(1 142)	(560)
Amount of the residual value of the object of fixed assets in case of liquidation according to the accounting data	(20)	(156)
Amount of expenses on provision of loan commitments and guarantees on accounting data	(2 620)	(2 929)
Amount of funds donated to non-profit organizations in the amount that exceeds 4% of taxable profit of the previous financial year	(26)	(12)
Interest income on impaired loans	(58)	
Expenses included in the amount of expenses for the purpose of calculating tax profit but not recognized in accounting	4 009	3 515
Including:		
Amount of accrued depreciation of fixed assets and intangible assets according to tax accounting data	968	567
The amount of the residual value of the item of property, plant and equipment in the event of liquidation according to the tax records	19	192
Change in provision for loan commitments and guarantees with increased financial results before tax	1 701	1 988
Amount of used reserves provision	1 064	624
Amount of adjustments in the provision for active operations as a result of applying IFRS 9	257	-
The fraction of the negative difference between the provision calculated in accordance with Section III of the TCU	-	144
Income which is not subject to income tax, but recognized in the accounting of DTA	(183)	(92)
Other adjustments	(1)	
Income tax expense	***(1 837)***	***(2 110)***

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 26.3. Tax implications related to the recognition of deferred tax assets and deferred tax liabilities for 2018

	31.12.2017	Recognized in profits / damages	31.12.2018
Tax effect of temporary differences that reduce (increase) the tax amount and carry forward tax losses for future periods	215	183	398
Property, plant and equipment	215	183	398
Net deferred tax asset (liability)	215	183	398
Recognized deferred tax asset	***215***	***183***	***398***

Table 26.4. Tax implications related to the recognition of deferred tax assets and deferred tax liabilities for 2017

	31.12.2016	Recognized in profits / damages	31.12.2017
Tax effect of temporary differences that reduce (increase) the tax amount and carry forward tax losses for future periods	123	92	215
Property, plant and equipment	123	92	215
Net deferred tax asset (liability)	123	92	215
Recognized deferred tax asset	123	92	215

Note 27. Earnings per ordinary share
Table 27.1. Net and adjusted earnings per one ordinary share

	2018	2017
Profit (loss) owned by the owners of ordinary shares of the bank	10 181	9 333
Profit (loss) owned by the owners of preferred shares of the bank	-	-
Profit (loss) per year	10 181	9 333
Average annual number of ordinary shares in circulation (thousand pieces)	500	500
Average annual number of preferred shares in circulation (thousand pieces)	-	-
Net and adjusted earnings (loss) per one ordinary share	20,36	18,67
Net and adjusted profit (loss) per preferred share	-	-

Table 27.2. Calculation of profit belonging to owners of simple and preferred shares of the bank

	2018	2017
Profit (loss) for the year owned by the owners of the bank	10 181	9 333
Dividends on ordinary and preferred shares	8 867	7 393
Retained earnings (loss) for the year	10 181	9 333
Retained earnings (loss) for the year owned by the owners of preferred shares, depending on the conditions of the shares	-	-
Dividends on privileged shares, for which a decision has been made regarding payment during the year	-	-
Profit (loss) for the year owned by the owners of preferred shares	-	-
Retained earnings (loss) for the year owned by the holders of ordinary shares, depending on the conditions of the shares	10 181	9 333
Dividends on ordinary shares, on which it was decided to pay during the year	8 867	7 393
Profit (loss) for the year owned by the shareholders - owners of ordinary shares	10 181	9 333

Note 28. Dividends
Table 28.1. Dividends

	2018	2017
	For ordinary shares	For ordinary shares
Balance at the beginning of the period	-	-
Dividends on which a decision is made to pay during the period	8 867	7 393
Dividends paid during the period	(8 867)	(7 393)
Balance at the end of the period	-	-
Dividends per share, on which the decision was made regarding payment during the period	***17,73***	***14,79***

The general meeting of shareholders takes a decision on the procedure for payment of dividends in accordance with the current legislation of Ukraine and the Charter of the Bank. For each ordinary share of the Bank, the same amount of dividends is charged.

Dividends are paid once a year based on the results of the calendar year. Dividends are paid from the net profit of the reporting year and/or retained earnings in the amount determined by the decision of the General Meeting of Shareholders of the Bank.

Payment of dividends to shareholders is conducted once in full in the term determined by the General Meeting of Shareholders in the decision on dividend payment. Payment of dividends is made in the term not later than six months after the end of the reporting year.

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Note 29. Operating segments

Table 29.1. Revenues, expenses and results of reporting segments for 2018

	Name of reporting segments			Other segments and operations	Withdrawal	Total
	corporate services clients	services to individuals	Interbank Business			
Revenues from external customers	***375 792***	***271 671***	***30 102***	***31 277***	-	***708 842***
Interest income	317 213	13 769	22 716	23 579	-	377 277
Commission income	58 579	254 149	7 386	-	-	320 114
Other operating income	-	3 753	-	7 698	-	11 451
Revenue from other segments	-	-	-	-	-	-
Total revenue segments	***375 792***	***271 671***	***30 102***	***31 277***	-	***708 842***
Interest expense	(93 832)	(149 419)	(562)			(243 813)
Commission costs	-	(8 894)	(1 571)	(255)		(10 720)
Result from revaluation of financial instruments carried at fair value through profit or loss	-	-	25 362	-	-	25 362
Result from revaluation of financial instruments at fair value through other comprehensive income	-	-	-	(2)	-	(2)
Result from operations with foreign currency	-	-	12 477	-	-	12 477
Result from revaluation of operations with foreign currency	-	-	2 955	-	-	2 955
Net loss / gain on impairment of financial assets	(2 214)	(4 301)	(50 225)	-	-	(56 740)
Net loss from impairment of other assets	-	-	-	1 489	-	1 489
Net loss / (profit) from increase / decrease in provisions for liabilities	804	-	-	-	-	804
Net gain / (loss) from derecognition of financial assets carried at amortized cost	-	-	-	5 880	-	5 880
Accumulated profit / (loss) from reclassification of financial assets carried at fair value through other comprehensive income to fair value through profit or loss	-	-	-	(113)	-	(113)
Expenditure on employee benefits	-	-	-	(118 912)	-	(118 912)
Costs of wear and tear and depreciation	-	-	-	(9 199)	-	(9 199)
Other administrative and operational expenses	-	-	-	(306 292)	-	(306 292)
Profit / (loss) before tax	-	-	-	-	-	12 018
Income tax expense	-	-	-	(1 837)	-	(1 837)
SEGMENT RESULT	***280 550***	***109 057***	***18 538***	***(397 964)***	-	
Profit (loss)	-	-	-	-	-	10 181

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 29.2. Revenues, expenses and results of reporting segments for 2017

	Name of reporting segments					
	services for corporate clients	services to individuals	investment banking activity	other segments and operations	Withdrawal	Total
Revenues from external customers	***458 086***	***29 644***	***9 391***	***12 050***	-	***509 171***
Interest income	398 934	1 786	6 075	11 334	-	***418 129***
Commission income	58 829	27 812	3 316	-	-	***89 957***
Other operating income	323	46	-	716	-	***1 085***
Revenue from other segments	-	-	-	***1 370***	-	***1 370***
Interest income	-	-	-	-	-	-
Commission income	-	-	-	-	-	-
Other operating income	-	-	-	1 370	-	***1 370***
Total revenue segments	***458 086***	***29 644***	***9 391***	***13 420***	-	***510 541***
Interest expense	(118 442)	(128 293)	(6)	(2 355)	-	(249 096)
Commission costs	-	(6 005)	(1 416)	(174)	-	(7 595)
Result from revaluation of financial instruments carried at fair value through profit or loss	-	-	-	21 458	-	21 458
Result from operations with foreign currency	-	-	14 906	-	-	14 906
Result from revaluation of operations with foreign currency	-	-	654	-	-	654
Net loss/income on impairment of financial assets	(152 616)	22	43 154	(274)	-	(109 714)
Net loss from impairment of other assets	-	-	-	(1 780)	-	(1 780)
Net loss/(income) from increase/decrease in provisions for liabilities	(2 952)	194		-	-	(2 758)
Expenditure on employee benefits	-	-	-	(70 317)	-	(70 317)
Costs of wear and tear and depreciation	-	-	-	(6 379)	-	(6 379)
Other administrative and operational expenses	-	-	-	(88 477)	-	(88 477)
Income/(loss) before tax	***184 076***	***(104 438)***	***66 683***	***(134 878)***	-	***11 443***
Income tax expense			-	(2 110)	-	(2 110)
SEGMENT RESULT	***184 076***	***(104 438)***	***66 683***	***(136 988)***	-	-
Profit (loss)						***9 333***

Table 29.3. Assets and liabilities of reporting segments for 2018

	Services for corporate clients	Services for individuals	Interbank Business	Other segments and operations	Total
ASSETS OF SEGMENTS					
Asset segments	2 889 332	115 996	662 649	-	3 667 977
Total asset segments	2 889 332	115 996	662 649	-	3 667 977
Unallocated assets	-	-	-	537 931	537 931
Total assets	***2 889 332***	***115 996***	***662 649***	***537 931***	***4 205 908***
LIABILITY OF SEGMENTS					
Obligations of segments	1 897 072	1 747 398	1 225	-	3 645 695
Total liabilities of segments	1 897 072	1 747 398	1 225	-	3 645 695
Retained liabilities	-	-	-	16 405	16 405
Total liabilities	***1 897 072***	***1 747 398***	***1 225***	***16 405***	***3 662 100***
OTHER SEGMENT ARTICLES					
Capital Investments				3 323	3 323
Amortization				(9 199)	(9 199)

Table 29.4. Assets and liabilities of reporting segments for 2017

	Services for corporate clients	Services for individuals	Interbank Business	Other segments and operations	Total
ASSETS OF SEGMENTS					
Asset segments	3 363 778	25 203	697 683	-	4 086 664
Total asset segments	3 363 778	25 203	697 683	-	4 086 664
Unallocated assets	-	-	-	256 001	256 001
Total assets	**3 363 778**	**25 203**	**697 683**	**256 001**	**4 342 665**
LIABILITY OF SEGMENTS					
Liability of segments	2 211 579	1 571 611	1 690	-	3 784 880
Total liabilities of segments	2 211 579	1 571 611	1 690	-	3 784 880
Unallocated liabilities	-	-	-	14 898	14 898
Total commitments	**2 211 579**	**1 571 611**	**1 690**	**14 898**	**3 799 779**
OTHER SEGMENT ARTICLES					
Capital Investments	-	-	-	7 634	7 634
Amortization	-	-	-	(6 379)	(6 379)

For purposes of reporting, the operations of the Bank are divided into such segments:

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Corporate customer services: this business segment includes servicing current accounts of legal entities, attracting deposits, providing credit lines in the form of «overdraft», servicing card accounts, providing loans and other types of financing, operations with foreign currency.

Services for individuals: provision of banking services to private individuals. This segment includes the same types of banking products as the corporate banking segment, as well as the services of opening and maintaining accounts and individuals, including accounts for the personal use of current and savings accounts, deposits, servicing credit cards for salaries projects.

Interbank business: operations on the interbank market, securities transactions issued by NBU, currency transactions.

Other segments and operations: includes transactions for the Bank's operations, fixed assets and intangible assets, deferred tax assets, prepayments and receivables related to the Bank's administrative and business activities.

Table 29.5. Information about geographic regions

	2018			2017		
	Ukraine	other countries	total	Ukraine	other countries	total
Revenues from external customers	708 842	-	708 842	510 541	-	510 541
Property, plant and equipment	39 079	-	39 079	25 867	-	25 867

Note 30. Financial risk management

The purpose of management of financial risks in the Bank is:

- providing profitable activities taking into account the moderate level of risks;
- compliance with all requirements of the National Bank of Ukraine on risk management;
- approximation of risk management standards to the Basel Committee's methodological recommendations (in particular, changes in the risk management framework of the Bank include a gradual transition from Basel I to Basel II-III).

The Bank's risk management system is designed in such a way that it involves all levels of management: the Supervisory Board defines the Bank's development strategy, forms a risk management strategy and policy; The Risk Management Committee monitors the state of implementation of measures for the operational elimination of deficiencies in the functioning of the risk management system, implementation of recommendations and comments of the internal audit unit, external auditors, the National Bank and other controlling bodies; The Management Board of the Bank manages the Bank's operations, general management of the risk management process, implements risk management policies approved by the Supervisory Board of the Bank, ensures the implementation of procedures for the identification, assessment, monitoring and monitoring of risks; The Risk Management provides direct analysis, monitoring and risk control, the impact of which on the Bank's indicators is most significant.

In addition, collegial bodies (Credit Committee, Assets and Liabilities Management Committee, Tariff Committee, Tender Committee) have been created and on a permanent basis, the task of which is also to efficiently solve tactical tasks in risk management.

The level of risk management existing in the Bank fully corresponds to the volume and complexity of the operations it conducts. The Bank uses the modern analytical module «Asset and Liability Analyzer», which allows automated management accounting to be used for management of major types of risks, which allows to promptly make the necessary decisions to minimize the negative impact of risks on the Bank's financial performance.

Among the financial risks that are managed on a systematic basis (daily) by the Bank, traditional ones should be distinguished: credit risk, market risk (interest rate, currency and price), and liquidity risk.

Credit risk

Credit risk (the most significant among all risks) is the risk of default by the borrower and interest thereon. Minimization of this risk is achieved due to the Bank's introduction of clear lending procedures for conducting credit operations and weighted methodologies used in the analysis of the solvency of the borrower, as well as through lending mainly under liquidity provision (real estate, property rights to cash deposits and others).

Among the methods used by the Bank in managing credit risk, one should distinguish: setting limits on credit operations (on the borrower, on the economy, on related parties, etc.); observance of obligatory economic norms of the National Bank of Ukraine (standards of credit risk); use of modern methods of analysis of the borrower's activity; establishment of credit ratings according to the Bank's own scale, based on financial stability of borrowers; mortgage insurance and financial risks; application of different methods for assessing the market value of pledged property (income, costing methods and analogue method); Conducting a structuring of a loan portfolio taking into account changes in the business environment.

In carrying out credit operations, the standards of credit risks established by the National Bank of Ukraine (Instruction on the procedure for regulating the activities of the Bank in Ukraine, approved by the Resolution of the Board of the National Bank of Ukraine dated August 28, 2001, No. 368) must comply with the following:

the maximum amount of credit risk per counterparty (H7);

Large Credit Risks (H8). The credit risk accepted for a single counterparty or a group of related counterparties is considered to be large if the sum of all claims against this counterparty or a group of related counterparties and all off-balance sheet commitments given by the Bank to a counteragent or a group of related counterparties is greater than 10% of the regulatory capital of the Bank;

The values of the credit risk standards (H7, H8, H9) are calculated in accordance with the requirements of the National Bank of Ukraine and are monitored daily by the Bank's management. As of December 31, 2018, they made H7 - 21.47% (with a normative value of no more than 25%), H8 - 283.12% (with a normative value of no more than 800%), H9 - 162.19% (at the normative value not more than 25%) (2017, H7 - 23,25%, H8 - 299,07%, H9 - 261,09%).

The National Bank of Ukraine approved the Bank's Action Plan to bring its activities in line with the requirements of the laws and regulatory acts of the National Bank of Ukraine regarding operations with bank related persons, namely: bringing the norm of H9 to the normative value. The plan is designed for 5 years. The Bank adheres to the established Plan.

The maximum amount of credit risk is presented as follows:

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Statement of financial position	2018	2017
Cash and cash equivalents (minus cash)	399 176	620 466
Loans and liabilities of banks	14 633	-
Loans and liabilities of clients	2 996 407	3 377 682
Investments in securities (including T-bills)	154 307	48 030
Other financial assets	103 212	40 220
	3 667 735	4 086 398
Off-balance sheet items		
Lending commitments	402 979	481 110
Guarantees	1 152 395	704 168
	1 555 374	1 185 278

The credit quality of financial assets is controlled by the Bank by establishing external and internal credit ratings of borrowers. The credit quality of the class of assets relating to the items of the statement of financial position related to lending based on external ratings and the credit ratings adopted by the Bank is disclosed in Notes 7, 8 and 9.

Market risk

Market risk is the risk of unexpected losses due to unfavorable changes in foreign exchange rates, interest rates, share prices, etc. According to the Basel Committee classification, market risks are subdivided into currency risk, interest rate risk and price risk. Market risk management according to the above classification is centrally managed by the Risk Management Department, using advanced measurement, measurement and control techniques. Market risk reports are heard by the Assets and Liabilities Management Committee, which then decides to adjust risk positions based on expected / projected levels of exchange rates, interest rates, and securities prices.

The Bank and the Bank have the largest impact on the Bank's currency and interest rate risk, while the impact of price risk is virtually absent, due to the fact that the Bank at the end of 2018 has insignificant balances on non-fixed income securities (UAH 784 thousand) that were purchased earlier.

Currency risk

Currency risk (component of market risk) is a risk associated with an existing or potential impact on the Bank's inflows as a result of unfavorable fluctuations in the exchange rates of foreign currencies and the cost of banking metals. Minimization of this risk is reached at the expense of the Bank conducting foreign exchange operations exclusively within limits of the currency position.

Among the methods that the Bank uses in managing currency risk, one should distinguish: VAR-methodology; setting limits on the maximum possible size of the currency position; observance of obligatory economic norms of the National Bank of Ukraine (norms of currency risk); currency risk hedging; back testing, stress testing in different scenarios for the development of financial markets.

Table 30.1. Currency risk analysis

	2018				2017			
	Monetary assets	Monetary liabilities	Derivative financial instruments	net position	Monetary assets	Monetary liabilities	Derivative financial instruments	Net position
US Dollars	1 991 769	1 998 936	-	(7 167)	2 136 455	2 287 158	124 616	(26 087)
Euro	385 859	270 915	(116 677)	(1 733)	465 049	236 225	(261 264)	(32 440)
Precious metals	746	-	-	746	402	-	-	402
Other currencies (freely converted)	147	440	-	(293)	119	42	-	77
Other currencies (nonconvertible)	245	261	-	(16)	267	557	-	(290)
Total	***2 378 766***	***2 270 552***	***(116 677)***	***(8 463)***	***2 602 292***	***2 523 982***	***(136 648)***	***(58 338)***

* in the "Net Position" column there is a general position for all currencies.
Precious metals: Gold - 742, Silver - 4.
Other currencies (freely convertible): British pounds sterling (324), Swiss francs - 31.
Other currencies (unconvertible): Russian rubles (173), Polish zlotys - 157.

Table 30.2. Changes in profit or loss and equity as a result of possible changes in the official exchange rate of hryvnia against foreign currencies as at the reporting date, provided all other variables remain fixed

	2018		2017	
	impact on profit (loss)	impact on equity	impact on profit (loss)	impact on equity
Strengthening the US dollar by 20%	(1 433)	(1 433)	(5 217)	(5 217)
Weakening of the US dollar by 20%	1 433	1 433	5 217	5 217
Strengthening the euro by 20%	(347)	(347)	(6 488)	(6 488)
Weakening the euro by 20%	347	347	6 488	6 488
Strengthening the pound sterling by 20%	(65)	(65)	(10)	(10)
Pound Sterling Decrease by 20%	65	65	10	10
Strengthening of other currencies and banking metals	152	152	27	27
Weakening of other currencies and bank metals	(152)	(152)	(27)	(27)

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Interest rate risk

Interest rate risk is a risk associated with an existing or potential impact on the Bank's inflow due to adverse fluctuations in interest rates. Minimization of this risk is achieved by balancing assets and liabilities that are sensitive to changes in the interest rate.

Among the methods used by the Bank in managing interest rate risk, it should be highlighted: GEP-analysis and setting limits on the maximum possible discrepancies between assets and liabilities that are sensitive to interest rate changes; management of the structure of assets and liabilities using spread indicators, net interest margins, yield / value of individual articles of interest-bearing assets/liabilities (in terms of different currencies); carrying out a well-balanced pricing policy in order to maximize net interest income; conducting stress testing in different scenarios for the development of financial markets.

Table 30.3. General analysis of interest rate risk

	On demand and less than 1 month	From 1 to 12 months	More than a year	Non-interest-bearing risk	Total
2018					
Total financial assets	1 226 887	2 211 709	357 570	409 742	4 205 908
Total financial liabilities	1 173 627	2 303 625	85 344	99 504	3 662 100
Net interest rate gap at the end of the reporting period	***53 260***	***(91 916)***	***272 226***	***310 238***	***543 808***
2017					
Total financial assets	1 680 931	1 450 075	1 044 600	167 059	4 342 665
Total financial liabilities	1 695 832	1 032 107	1 036 223	35 616	3 799 778
Net interest rate gap at the end of the previous period	***(14 901)***	***417 968***	***8 377***	***131 443***	***542 887***

The table shows interest-bearing assets and liabilities sensitive to changes in the carrying amount and maturity dates.
Interest on all items of assets and liabilities given in the table are charged at fixed rates.

Table 30.4. Monitoring of interest rates on financial instruments

(%)

	2018				2017			
	UAH	US dollar	Euro	other	UAH	US dollar	Euro	other
Assets								
Cash and cash equivalents	15,48	0,63	-	-	11,66	0,06	-	-
Money in other banks	22,65	2,27	-	-	10,59	0,02	0,29	5,17
Loans and liabilities of clients	16,09	8,15	7,77	-	15,45	9,92	9,42	-
Liabilities								
Bank's money	17,6	-	-	-	11,53	-	-	-
Clients' money								
Current accounts	3,5	1,41	2,02	-	4,85	4,01	-	-
term funds	15,09	5,75	5,55	-	15,03	6,94	5,94	-
Debt securities, issued by the Bank	-	-	5,01	-	-	7,82	7,61	-

The table shows the weighted average interest rate. The interest rate is calculated as a percentage in the annual calculation.

Geographic risk

Table 30.5. Analysis of the geographical concentration of financial assets and liabilities for the reporting year 2018

	Ukraine	OECD	Other countries	Total
				Активи
Cash and cash equivalents	600 949	-	-	600 949
Derivative financial assets	242			242
Loans and liabilities of banks	14 633	-	-	14 633
Loans and liabilities of clients	2 996 407	-	-	2 996 407
Investments in securities	154 307			154 307
Other financial assets	103 212	-	-	103 212
Total financial assets	***3 869 750***	-	-	***3 869 750***
Liabilities				
Money in other banks	-	-	-	-
Clients' money	2 705 239	1 333	840 118	3 546 690
Derivative financial liabilities	1 225	-	-	1 225
Debt securities issued by the Bank	56	-	-	56
Other funds raised	-			-
Other financial liabilities	96 741			96 741
Total financial liabilities	***2 803 261***	***1 333***	***840 118***	***3 644 712***
Net Balance Sheet for Financial Instruments	***1 066 489***	***(1 333)***	***(840 118)***	***225 038***
Liabilities of a loan nature	1 555 349	25	-	1 555 374

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 30.6. Analysis of the geographical concentration of financial assets and liabilities for 2017

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	839 598	-	-	839 598
Loans and liabilities of banks	-	-	-	-
Loans and liabilities of clients	3 377 682	-	-	3 377 682
Other financial assets	40 220	-	-	40 220
Total financial assets	***4 257 500***	-	-	***4 257 500***
Liabilities				
Bank's money	-	-	-	-
Client's money	2 891 720	405	861 205	3 753 330
Financial liabilities at fair value through profit or loss	1 690	-	-	1 690
Debt securities issued by the Bank	15 021	167	-	15 188
Other funds raised	-	-	-	-
Other financial liabilities	11 840	-	-	11 840
Total financial liabilities	***2 920 271***	***572***	***861 205***	***3 782 048***
Net Balance Sheet for Financial Instruments	***1 337 229***	***(572)***	***(861 205)***	***475 452***
Liabilities of a loan nature	1 268 144	-	-	1 268 144

The concentration of geographic risk is determined on the basis of the analysis of assets and liabilities from the point of view of their origin (place of registration). At the same time, institutions that conduct their activities in different economic environments, caused by different political, regulatory and legal conditions of economic activity, are sensitive to geographical risk. At the same time, the wrong choice for directing funds can lead to financial losses.

Taking into account that the Bank carries out its activities only on the territory of Ukraine, geographical risk is considered by the Bank as non-significant, that is, it has no impact on the Bank's profit and equity.

Liquidity risk

Liquidity risk is a risk that the Bank will not be able to meet its obligations to its clients and counterparties in a timely manner and in full. Minimization of this risk is achieved by balancing the Bank's own structure of assets and liabilities by terms of repayment / repayment (including, in terms of the main currencies in which the Bank carries out operations).

Among the methods that the Bank uses in managing liquidity risk, it should be highlighted: GEP-analysis and setting limits on the maximum possible liquidity breaks; use a billing calendar; observance of liquidity indicators (including obligatory economic norms of the National Bank of Ukraine, liquidity coverage ratio (LCR) and reserve requirements); diversification of assets and liabilities; support in the current state of the plan in case of unforeseen situations; conducting stress testing of the Bank's liquidity position under various scenarios for the development of financial markets.

Table 30.7. Analysis of financial liabilities by maturity in 2018

	On demand and less than 1 month	From 1 to 12 months	From 12 months up to 5 years	More than 5 years	Total
Clients' money	1 166 668	2 303 167	76 834	22	3 546 691
Other financial liabilities	91 251	3 522	1 968		96 741
Financial guarantees	243 918	693 660	214 817	-	1 152 395
Other liabilities of a loan nature	23	303	77	-	403
Total potential future payouts on financial liabilities	1 501 860	3 000 652	293 696	22	4 796 230

Table 30.8. Analysis of financial liabilities by maturity in 2017

	On demand and less 1 month	From 1 to 12 months	From 12 months up to 5 years	More than 5 years	Total
Banks' money	-	-	-	-	-
Clients' money	1 670 854	1 141 924	1 295 008	-	4 107 786
Other money raised	-	-	-	-	-
Other financial liabilities	8 799	2 453	581	7	11 840
Financial guarantees	195 237	494 614	14 317	-	704 168
Other liabilities of a loan nature	200	97 605	-	-	97 805
Total potential future payments on financial liabilities	***1 875 090***	***1 736 596***	***1 309 906***	***7***	***4 921 599***

Maturities are determined from the reporting date to the maturity date under the contract. Such amounts represent contractual undiscounted cash flows that are different from the amounts shown in the balance sheet, since the carrying amounts are based on discounted cash flows.

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 30.9. Analysis of financial assets and liabilities by maturity based on expected maturities in 2018

	On demand and less than 1 month	From 1 to 12 months	From 12 months up to 5 years	More than 5 years	Total
Assets					
Cash and cash equivalents	600 949	-	-	-	600 949
Derivative financial instruments	242	-	-	-	242
Loans and liabilities of banks	14 633	-	-	-	14 633
Loans and liabilities of clients	834 157	1 846 567	225 454	90 229	2 996 407
Investments in securities	42 985	76 330	34 992	-	154 307
Other financial assets	76 655	914	25 643	-	103 212
Total financial assets	***1 569 621***	***1 923 811***	***286 089***	***90 229***	***3 869 750***
Liabilities					
Clients` money	1 166 667	2 303 167	76 834	22	3 546 690
Derivative financial instruments	1 225				1 225
Debt securities issued by the Bank	56				56
Other financial liabilities	91 251	3 522	1 968		96 741
Total financial liabilities	***1 259 199***	***2 306 689***	***78 802***	***22***	***3 644 712***
Net liquidity breakdown on December 31st	310 422	(382 878)	207 287	90 207	225 038
The aggregate liquidity gap on December 31st	310 422	(72 456)	134 831	225 038	225 038

Table 30.10. Analysis of financial assets and liabilities by maturity based on expected maturities in 2017

	On demand and less than 1 month	From 3 to 12 months	From 12 months up to 5 years	More than 5 years	Total
Assets					
Cash and cash equivalents	839 598	-	-	-	839 598
Derivative financial assets	265	-	-	-	265
Loans and liabilities of clients	941 185	1 413 662	975 245	47 590	3 377 682
Securities for sale	-	43 004	5 026	-	48 030
Other financial assets	24 586	15 634	-	-	40 220
Total financial assets	***1 805 634***	***1 472 300***	***980 271***	***47 590***	***4 305 795***
Liabilities					
Clients` money	1 670 854	1 038 113	1 044 363	-	3 753 330
Derivative financial liabilities	1 690	-	-	-	1 690
Debt securities issued by the Bank	13 769	1 419	-	-	15 188
Other financial liabilities	8 799	2 453	581	7	11 840
Total financial liabilities	***1 695 112***	***1 041 985***	***1 044 944***	***7***	***3 782 048***
Net liquidity breakdown on December 31st	110 522	430 315	(64 673)	47 583	523 747
The aggregate liquidity gap on December 31st	110 522	540 837	476 164	523 747	523 747

The data on financial assets and liabilities in the table are presented at their book value, that is, taking into account discounted cash flows.

Note 31. Capital management

The Bank's management of capital is primarily aimed at protecting against possible risks inherent in its activities. The adequacy of the Bank's capital is controlled both through compliance with the mandatory economic standards of the National Bank of Ukraine (capital standards) and by the recommended indicators set by the Basel Capital Accord. In particular, the Bank calculates capital adequacy on a quarterly basis in accordance with Basel II recommendations (the quantitative measurement of credit, market and operational risk is carried out using the Standardized Approach).

The main objective of the Bank's capital management is to ensure balanced growth of assets and regulatory capital. In particular, in the Bank's active and passive operations policy, great importance is given to improving the structure of assets weighed on the basis of risk factors (avoiding too high a specific weight of assets, which should be weighed against the risk factor of 100%). Also, in order to improve the level of capitalization (if necessary), the Bank may refuse to pay dividends to participants and/or to increase the volume of regulatory capital both through contributions to the authorized capital and by attracting subordinated debt. In addition, the Bank constantly works to minimize distortions from regulatory capital: active work is ongoing on repayment of overdue accrued income, positive liquidity breaks are not allowed for more than 1 year, etc.

Capital adequacy ratio in accordance with the requirements of National Bank of Ukraine

According to the requirements of the National Bank of Ukraine, banks should maintain a capital adequacy ratio of 10% of the amount of assets weighted by risk factors. The table below lists the capital adequacy ratio of the Bank, calculated as of December 31, 2018 and 2017. During the reporting period and prior periods, the Bank complied with all capital standards established by the National Bank of Ukraine.

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 31.1. Regulatory capital structure

	2018	2017
Regulatory capital of the bank (RC)	**504 197**	**560 283**
Actually paid registered authorized capital	500 000	500 000
Opened reserves created or increased due to retained earnings:		
General reserves and reserve funds, which are created in accordance with the laws of Ukraine	34 055	33 589
of them reserve funds	34 055	33 589
Reduction of OK (amount of non-formed reserves, intangible assets minus the amount of depreciation, capital investments in intangible assets, losses past and current years)	(29 858)	(2 525)
including:		
Intangible assets minus the amount of wear	(2 084)	(2 125)
Capital investment in intangible assets	-	(400)
Losses of past years	1 427	-
Estimated loss of current year	(26 348)	-
Fixed capital (OC) (Tier 1 capital)	***504 197***	***531 064***
Estimated profit for the current year	-	57 819
Uncovered credit risk	(172 252)	(28 600)
Additional capital (2nd level capital)	-	29 219
Total regulatory capital	***504 197***	***560 283***
Assets weighted at risk	3 536 322	4 494 808
The aggregate amount of an open foreign currency position in all foreign currencies	24 770	20 815
Normative for the adequacy of regulatory capital (normative value - not less than 10%)	***14,88%***	***18,97%***

Note 32. Trust management accounts
Table 32.1. Trust management accounts

	2018	2017	Changes (+; -)
Current accounts of the trustee's trustee bank	171	4 718	(4 547)
Accounts receivable from operations of trust management	-	151 974	(151 974)
Other assets in trust management	49 779	-	49 779
Total for active trust accounts	***49 950***	***156 692***	***(106 742)***
Funds of banking management	(49 950)	(156 692)	106 742
Total for passive accounts of trust management	***(49 950)***	***(156 692)***	***106 742***

As of December 31, 2017, the Bank created two construction financing funds, managed by the Bank. Accounting for trust management operations is carried out by the administrator of each fund of the banking management.

Note 33. Contingent liabilities of the Bank

The Bank discloses information about events that occurred at the end of 2018 but not reflected in other notes that the probability of a loss of resources embodying economic benefits is not in line with the determination of the obligation, in particular:

1) review of cases in court.

At the reporting date, as of December 31, 2018, cases involving the PUBLIC JOINT STOCK COMPANY "BANK INVESTMENTS AND SAVINGS" (hereinafter - the Bank), in which the Bank is the respondent in the amount of UAH 467 185.57, is available in the courts.

As a whole, as shown by the preliminary analysis of litigation, litigation does not entail a negative risk for the financial position and stability of the Bank.

2) potential tax liabilities.

The Bank's policy on tax accounting is aimed at observing the principles of caution and prudence, is carried out in full compliance with the current legislation regulating its activities, the Bank has calculated all relevant taxes.

The Bank does not foresee the risks associated with the emergence of potential tax liabilities and, at the end of the reporting period, does not assess their financial impact.

The correctness of drawing up tax returns, as well as other issues of compliance, is subject to verification and study by a number of supervisory bodies. The controlling body has the right to carry out an inspection and independently determine the amount of taxpayer's monetary obligations no later than the end of 1095 days (2 555 days in the case of verification of a controlled transaction) that occurs on the last day of the deadline for filing a tax return.

3) capital investment obligations.

Capital commitments are not available as at the end of December 31, 2018.

4) adherence to special requirements.

At the reporting date, as of December 31, 2018, the Bank does not have requirements for compliance with certain conditions for received loan funds

5) operational lease obligations (lease).

Table 33.1 Future minimum lease payments for a non-repayable operating lease agreement (lease)

	2018	2017
Up to 1 year	-	66 751
From 1 to 5 years	-	228 113
More than 5 years		
Total	-	294 864

(in thousands of Ukrainian hryvnias unless otherwise indicated)

As at the reporting date, there are no non-cancellable agreements with the Bank on operating lease (lease). On the previous reporting date of December 31, 2017, the Bank concluded 87 operating lease agreements (leases), including 49 contracts with validity term of up to 1 year and 38 contracts with validity period of 1 to 5 years.

6) loan commitments.
As at 31.12.2018, the amount of commitments related to lending (as a rule, these are withdrawal lines provided to customers) amounted to UAH 392 705 thousand. Their possible financial impact on the Bank's financial performance is unimportant and does not involve serious risks (in particular, liquidity risk), given that 97% of them are reversal, that is, they are not risky.

Table 33.2 Structure of loan commitments

	2018	2017
Unused Credit Line	392 705	481 110
Export letters of credit	10 274	85 699
Import letters of credit	1 155	-
Guarantees issued	1 152 395	704 168
Provision for loans related to lending	(982)	(2 833)
Total liabilities related to lending, minus provisions	***1 555 547***	***1 268 144***

Table 33.3 Lending commitments in terms of currencies

	2018	2017
UAH	1 309 908	915 524
US Dollar	242 611	352 620
Euro	3 029	-
Other	-	-
Total	***1 555 547***	***1 268 144***

7) Assets pledged and assets subject to restriction relate to the possession, use and disposal of assets.
As at 31.12.2018 and as of December 31, 2017, the Bank did not have any assets pledged and those that are subject to restrictions related to their possession, use and disposal.

Note 34. Derivative financial instruments and hedging
Table 34.1. Fair value of derivative financial instruments that is accounted for through profit or loss

	2018		2017	
	positive value fair cost	negative value fair cost	positive value fair cost	negative value fair cost
Forward contracts	-	-	56 134	(57 990)
Futures contracts	-	-	-	-
Swap contracts	116 677	(116 677)	301 379	(301 379)
Options	-	-	-	-
Pure fair value	***242***	***(1 225)***	***265***	***(1 690)***

During the reporting period, the Bank did not use derivative financial instruments for hedge accounting purposes.

Note 35. Fair value for financial instruments

Fair value is determined by the Bank as the amount for which a financial instrument can be exchanged between knowledgeable and interested parties under normal conditions other than compulsory or liquidation. The best evidence of fair value is the market price of a financial instrument.

The Bank has calculated the fair value of financial instruments based on available market information (if any exists) and using the appropriate valuation technique.

For assets with a maturity of up to one month, the fair value is approximately equal to the carrying amount due to the relatively high urgency of these financial instruments. For longer-term indebtedness of other banks and other banks, the interest rates applied reflect market rates and, accordingly, the fair value is close to the balance sheet.

The carrying amount of available-for-sale securities is an adequate estimate of their fair value. Interest-bearing securities include interest rates that reflect fair market rates, and, accordingly, fair value is close to the carrying amount of these instruments.

The fair value of a loan portfolio is based on the characteristics of the loan servicing and the interest rate of individual loans in each portfolio sector. The provision for loan impairment is based on the risk premium applicable to various types of loans, based on factors such as: the current situation in the economy, in which the borrower operates, the financial position of each borrower and the guarantees received. Accordingly, the provision for losses on loans is considered as a weighted estimate of possible losses that is required to reflect the impact of credit risk.

Mostly, loans are provided at market rates, and therefore current balance sheet balances represent a fair value valuation. Accordingly, the carrying amount, calculated as the amortized cost of such instruments, is a moderate approximation to their fair value.

For deposits with a maturity of up to one month, the fair value is approximately equal to the carrying amount due to the comparative short-term nature of these financial instruments. For longer-term deposits, interest rates applied reflect market rates and, consequently, fair value approximates the book value.

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 35.1 Fair value and input level hierarchy used for 2018 asset and liability assessment methods

	Fair value for different valuation models				
	market quotations (1-st level)	evaluation model using observational data (2-st level)	a valuation model that uses indicators not supported by market data (3-st level)	Total fair value	Total book value
ASSETS					
Cash and cash equivalents	-	600 949	-	600 949	600 949
cash	-	*201 773*	-	*201 773*	*201 773*
funds in the National Bank of Ukraine (except for mandatory reserves)	-	*86 203*	-	*86 203*	*86 203*
correspondent accounts, deposits and overnight loans at banks	-	*185 773*	-	*185 773*	*185 773*
Deposit certificates issued by NBU	-	*127 200*	-	*127 200*	*127 200*
Loans and arrears of banks	-	14 633	-	14 633	14 633
Loans and arrears of banks Loans granted to other banks	-	*14 633*	-	14 633	14 633
Loans and customer due diligence	-	-	2 996 407	*2 996 407*	*2 996 407*
loans to legal entities	-	-	*2 866 261*	*2 866 261*	*2 866 261*
loans to individual entrepreneurs	-	-	*17 467*	*17 467*	*17 467*
mortgage loans of individuals	-	-	*7 874*	*7 874*	*7 874*
loans for current needs of individuals	-	-	*100 127*	*100 127*	*100 127*
other loans to individuals	-	-	*4 679*	*4 679*	*4 679*
Investments in securities	154 307	-	-	154 307	154 307
government bonds	*154 307*	-	-	*154 307*	*154 307*
Derivative financial assets	242	-	-	242	242
Other financial assets	-	103 212	-	103 212	103 212
receivables from operations with banks	-	*70 107*	-	*70 107*	*70 107*
accounts receivable for transactions with customers	-	*166*	-	166	166
receivables from operations with credit and debit cards	-	*3 317*	-	*3 317*	*3 317*
receivables from operations with other financial instruments	-	*535*	-	*535*	*535*
money with limited right of use	-	*24 427*	-	*24 427*	*24 427*
Other financial assets	-	*4 661*	-	*4 661*	*4 661*
Investment property	-	-	282 020	282 020	282 020
Property, plant and equipment and intangible assets	-	-	44 887	44 887	44 887
ground section	-	-	*87*	*87*	*87*
buildings, constructions and transmission devices	-	-	*42 771*	*42 771*	*42 771*
Intangible assets	-	-	*2 029*	*2 029*	*2 029*
LIABILITIES	-	-	-	-	-
Clients` money	-	3 546 690	-	3 546 690	3 546 690
state and public organizations	-	-	-	-	-
other legal entities	-	*1 800 306*	-	*1 800 306*	*1 800 306*
individuals	-	*1 746 384*	-	*1 746 384*	*1 746 384*
Derivative financial liabilities	1 225	-	-	*1 225*	
Debt securities issued by the Bank	-	-	56	56	56
deposit certificates	-	-	*56*	*56*	*56*
Other financial liabilities	-	-	96 741	96 741	96 741

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 35.2 Fair value and input level hierarchy used for 2017 asset and liability assessment methods

	Fair value for different valuation models				
	market quotations (1-st level)	evaluation model using observational data (2-nd level)	a valuation model that uses indicators not supported by market data (3-rd level)	Total fair value	Total book value
ASSETS					
Cash and cash equivalents	-	839 598	-	839 598	839 598
cash	-	*219 132*	-	219 132	219 132
funds in the National Bank of Ukraine (except for mandatory reserves)	-	*598 709*	-	598 709	598 709
correspondent accounts, deposits and overnight loans at banks	-	*21 758*	-	21 758	21 758
Depositary certificates issued by the NBU	-	*555 570*	-	555 570	555 570
Loans and arrears of banks	-	-	-	-	-
Loans granted to other banks	-	-	-	-	-
Loans and customer due diligence	-	-	3 377 682	3 377 682	3 377 682
loans to legal entities	-	-	3 327 909	3 327 909	3 327 909
loans to individual entrepreneurs	-	-	29 937	29 937	29 937
mortgage loans of individuals	-	-	786	786	786
loans for current needs of individuals	-	-	13 932	13 932	13 932
other loans to individuals	-	-	5 119	5 119	5 119
Investments in securities	48 030	-	-	48 030	48 030
government bonds	*48 030*	-	-	48 030	48 030
Derivative financial assets	265	-	-	265	265
Other financial assets	-	40 220	-	40 220	40 220
receivables from operations with banks	-	*13 439*	-	13 439	13 439
accounts receivable for transactions with customers	-	*306*	-	306	306
receivables from operations with credit and debit cards	-	*5 367*	-	5 367	5 367
receivables from operations with other financial instruments	-	*212*	-	212	212
money with limited right of use	-	*15 748*	-	15 748	15 748
Other financial assets	-	*5 148*	-	5 148	5 148
Investment property	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	30 962	30 962	30 962
ground section	-	-	*87*	87	87
buildings, constructions and transmission devices	-	-	*28 742*	28 742	28 742
Intangible assets	-	-	*2 133*	2 133	2 133
LIABILITIES				-	-
Clients` money	-	3 753 330	-	3 753 330	3 753 330
state and public organizations	-	*969*	-	969	969
other legal entities	-	*2 177 138*	-	2 177 138	2 177 138
individuals	-	*1 575 223*	-	1 575 223	1 575 223
Derivative financial liabilities	1 690	-	-	1 690	1 690
Debt securities issued by the Bank	-	15 187	-	15 187	15 187
deposit certificates	-	*15 187*	-	15 187	15 187
Other financial liabilities	-	11 840	-	11 840	11 840

During the reporting period and prior periods, the Bank had no financial assets whose fair value cannot be measured reliably.

The bank did not hold a pledge that it was allowed to sell or re-install.

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Note 36. Presentation of the financial instruments by rating category

Table 36.1 Financial assets by rating category for reporting 2018

		Financial assets held at fair value through other comprehensive income		Financial assets held at fair value through profit / (loss)		
	Financial assets carried at amortized cost	Debt financial assets held at fair value through other comprehensive income	Capital instruments	Financial assets that are initially recognized at fair value through profit or loss	Financial assets that are necessarily accounted for at fair value through profit or loss	Total
ASSETS						
Cash and cash equivalents	312 972	-	-	-	-	312 972
Loans and arrears of banks	14 633	-	-	-	-	14 633
loans granted to other banks	*14 633*	-	-	-	-	*14 633*
Credits and customer support	2 996 407	-	-	-	-	2 996 407
loans to legal entities	*2 883 727*	-	-	-	-	*2 883 727*
loans to individuals	*104 806*	-	-	-	-	*104 806*
mortgage loans	*7 874*	-	-	-	-	*7 874*
Investments in securities	-	154 307	-	-	-	154 307
Derivative financial assets	-	-	-	242	-	242
Other financial assets	103 212	-	-	-	-	103 212
receivables from operations with banks	*70 106*	-	-	-	-	*70 106*
accounts receivable for transactions with customers	*166*	-	-	-	-	*166*
accounts receivable for transactions with payment cards	*3 317*	-	-	-	-	*3 317*
receivables from operations with other financial instruments	*535*	-	-	-	-	*535*
money with limited right of use	*24 427*	-	-	-	-	*24 427*
Other financial assets	*4 661*	-	-	-	-	*4 661*
Total financial assets	***3 427 224***	***154 307***	-	***242***	-	***3 581 773***

Table 36.2 Financial assets by rating category for the previous 2017

		Financial assets held at fair value through other comprehensive income		Financial assets held at fair value through profit / (loss)		
	Financial assets carried at amortized cost	Debt financial assets held at fair value through other comprehensive income	Capital instruments	Financial assets that are recognized initially at fair value through profit or loss	Financial assets that are necessarily accounted for at fair value through profit or loss	Total
ASSETS						
Cash and cash equivalents	577 328	-	-	-	-	577 328
Loans and liability of clients	3 377 682	-	-	-	-	3 377 682
loans to legal entities	*3 357 845*	-	-	-	-	*3 357 845*
loans to individuals	*19 051*	-	-	-	-	*19 051*
mortgage loans	*786*	-	-	-	-	*786*
Investments in securities	-	48 030	-	-	-	48 030
Derivative financial assets	-	-	-	265	-	265
Other financial assets	40 220	-	-	-	-	40 220
receivables from operations with banks	*13 439*	-	-	-	-	*13 439*
accounts receivable for transactions with customers	*306*	-	-	-	-	*306*
accounts receivable for transactions with payment cards	*5 367*	-	-	-	-	*5 367*
receivables from operations with other financial instruments	*212*	-	-	-	-	*212*
money with limited right of use	*15 748*	-	-	-	-	*15 748*
Other financial assets	*5 148*	-	-	-	-	*5 148*
Total financial assets	***3 995 230***	***48 030***	-	***265***	-	***4 043 525***

Table 36.3 Financial liabilities by rating category for the reporting year 2018

(in thousands of Ukrainian hryvnias unless otherwise indicated)

	Financial liabilities that are accounted for at amortized cost	Financial liabilities at fair value through profit / (loss)		Total
		Financial liabilities that are recognized initially at fair value through profit or loss	Financial liabilities are held for trading	
LIABILITIES				-
Clients` money	3 546 690	-	-	3 546 690
Derivative financial liabilities	-	1 225	-	1 225
Debt securities issued by the Bank	56	-	-	56
Total financial liabilities	***3 546 746***	***1 225***	-	***3 547 971***

Table 36.4 Financial liabilities by rating category for the previous year 2017

	Financial liabilities that are accounted for at amortized cost	Financial liabilities at fair value through profit / (loss)		Total
		Financial liabilities that are recognized initially at fair value through profit or loss	Financial liabilities are held for trading	
LIABILITIES				-
Clients` money	3 753 330	-	-	3 753 330
Derivative financial liabilities		1 690	-	1 690
Debt securities issued by the Bank	15 188	-	-	15 188
Total financial liabilities	***3 768 518***	***1 690***	-	***3 770 208***

Note 37. Related party transactions

In the reporting year, the approach to determining the persons related to the Bank has not changed. For the purposes of drawing up these financial statements, the parties are deemed to be linked if they are jointly controlled, or if one party controls another or has the ability to materially affect the financial and operating decisions of the other party in accordance with IAS 24 «Related party disclosures». When considering each possible case of relations with related parties, the essence of these relationships, and not just the legal form, is taken into account.

In the course of its activities, banking operations are conducted with major shareholders, leading management personnel, associates and other related parties. These operations include settlements, loans, documentary operations, deposits, foreign exchange operations.

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 37.1. Balances with related parties as at the end of 2018

	The largest participants (shareholders) of the bank	Leading management personnel	Associated companies	Other related parties
Loans and customer due diligence (contractual interest rate 0,1 –33 %)	1 102	136	452	1 659 074
Provision for loan arrears as of December 31	(158)	(23)	(65)	(8 019)
Other assets	-	-	-	1 866
Clients` money (contractual interest rate 1 -23 %)	7 511	3 147	4 016	54 820
Debt securities issued by the Bank	-	-	-	-
Provisions for liabilities	40	2	6	25
Other liabilities	-	6	2	19 115

Table 37.2. Income and expenses related to transactions with related parties for 2018

	The largest participants (shareholders) of the bank	Leading management personnel	Associated companies	Other related parties
Interest income	197	15	78	138 701
Interest expense	(111)	(13)	(42)	(8 050)
Dividends	8 867	-	-	-
Commission income	286	48	86	18 061
Deductions to provisions for loan impairment and funds in other banks	158	23	65	(150 020)

Table 37.3. Other rights and obligations with related parties as at the end of 2018

	The largest participants (shareholders) of the bank	Leading management personnel	Associated companies	Other related parties
Import letters of credit	-	-	-	-
Other liabilities	848	111	198	1 166
Guarantees provided	-	-	-	2 026

Table 37.4. Total amount of loans granted to related parties and repaid by related parties during the reporting year 2018

	The largest participants (shareholders) of the bank	Leading management personnel	Associated companies	Other related parties
Amount of loans granted to related parties	662	49	178	-
Loans repayment by related parties	-	-	-	768 914

Table 37.5. Balances with related parties as at 31 December 2017

	The largest participants (shareholders) of the bank	Leading management personnel	Associated companies	Other related parties
Loans and customer due diligence (contractual interest rate 0,1 –33 %)	440	87	274	2 427 988
Provision for loan arrears as of December 31	-	-	-	(158 039)
Other assets	-	-	-	35
Clients` money (contractual interest rate 1 023 %)	6 161	8 133	4 130	71 582
Debt securities issued by the Bank	-	-	-	-
Provisions for liabilities	1	-	-	1
Other liabilities	-	6	5	12

Table 37.6. Revenues and expenses from transactions with related parties for the prior year 2017

	The largest shareholders (shareholders) of the bank	Leading management personnel	Associated companies	Other related parties
Interest income	12	1	22	173 385
Interest expense	803	186	539	(9 353)
Dividends	7 393	-	-	-
Commission income	165	338	27	11 174
Deductions to provisions for loan impairment and funds in other banks	-	-	-	(46 604)

(in thousands of Ukrainian hryvnias unless otherwise indicated)

Table 37.7. Other rights and obligations related to transactions with related parties as at the end of prior 2017

	The largest participants (shareholders) of the bank	Leading management personnel	Associated companies	Other related parties
Import letters of credit	-	-	-	-
Other liabilities	1 516	233	401	66 814
Guarantees provided	-	-	-	401

Table 37.8. Total amount of loans granted to related parties and repayments by related parties during the previous period

	The largest participants (shareholders) of the bank	Leading management personnel	Associated companies	Other related parties
Amount of loans granted to related parties	-	-	163	-
Loans repayment by related parties	46	58	-	106 491

Table 37.9. Payments to top management

	2018		2017	
	expenses	accrued liability	expenses	accrued liability
Current paychecks for employees	8 109	579	11 255	745
Payments on release			87	

Note 38. Subsequent events

After the date of issue of the report, the Bank did not have any significant events that would require adjusting the financial statements.

Approved for release and signed

2 April 2019 Chairman of the Board Y.O. Zinnikov

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