DYNAMIC
FRIENDLY
RESPONSIBLE

bank PIVDENNY

ANNUAL REPORT — 2018

Chairperson's foreword

On the road to success, one needs to have the courage to answer difficult questions, accept challenges and be open to changes and new opportunities.

Understanding the needs and meeting the expectations of more than half a million customers is not an easy task. However, it has been our top priority for the past 25 years!

We have created this annual report to show our sustainability, responsible approach and long-term development strategy.

Pivdenny Bank has been successfully operating in Ukraine for more than 25 years. 2018 was one of the most successful years in the Bank's history . Our major achievement was the fivefold growth of the Bank's net profit to UAH 274 million. At the end of the year, the Bank was in full compliance with all the capitalization and liquidity ratios set by the National Bank of Ukraine. The results of the assessment of the bank's financial standing carried out by the NBU in 2018 confirmed that Pivdenny Bank is well prepared for any market changes and challenges.

Our customers have had numerous opportunities to see that Pivdenny Bank always honours its commitments. Even in turbulent times we have never suspended payments to customers. Our financial strength is underpinned by professional risk management and responsible approach of the Board of Directors to doing business. Three members of the Supervisory Board of the Bank are independent directors with work experience in foreign financial institutions. They help us enhance our operational efficiency and continuously improve our business processes.

At the end of 2017, the Bank launched a wide-scale transformation program. The program supports our new business development strategy focused on customers and customer needs. All customer touchpoints including the website and local branches as well as business processes and internal regulations should contribute to creating the best customer experience.

In 2018, we took a lot of important steps to achieve our strategic goal: we established three vertical structures corresponding to the retail, SME, and corporate business segments. Within our network, we established an independent vertical of operational units with the aim to ensure efficient support to customer transactions and operation of local PoSs. Last year the Bank designed and implemented numerous services, including iconic Google Pay and Apple Pay. Furthermore, we completed a number of large-scale organizational projects.

Rebranding became a spectacular example of the fundamental changes taking place within the Bank. We presented a brand new logo and style, and implemented a new standard of branches. By the end of the year, 15 branches all over Ukraine were modified to conform with the new standard. This network transformation is underway.

We proceed with our strategy and by our professional day-to-day work we seek improve the quality of life of our clients, employees and society in general.

Chairperson of the Board of Directors
Alla Vanetsyants

KEY MILESTONES IN THE BANK’S HISTORY

25 YEARS OF FINANCIAL STABILITY

1993—2000 CREATION AND EVOLUTION OF BUSINESS

- Foundation of the Bank, obtaining a banking license
- Member of Interbank Currency Exchange
- Member of S.W.I.F.T
- Associated member of Europay Int. and Thomas Cook dealer
- First commercial bank in Ukraine to issue customer bonds

2001—2005 DEVELOPMENT OF SERVICES AND PARTNERSHIPS

- Associate member of Visa and Mastercard
- Successful AML examination by F.A.T.F.* commission resulting in Ukraine’s exclusion from the F.A.T.F.’s blacklist
- License for precious metals trading
- First factoring and leasing transactions

2006—2014 NATIONAL AND INTERNATIONAL EXPANSION

- Debut USD 25 million international syndicated loan and its successful pay out
- Debut issue of 3-year Eurobonds for USD 100 million
- Acquisition of Regional Investment Bank (Latvia) and creation of international banking group
- 3D Secure technology
- Over 50 new branches all over Ukraine

2015—2018 DIGITALIZATION AND NEW BUSINESS STRATEGY

- Internet banking for corporate clients (iFOBS)
- Internet / Mobile banking for individuals (MyBank), BankID, online deposits
- Successful release of:
  - Tap for Pay mobile app
  - Google Pay
  - Garmin Pay for VISA
  - Apple Pay
- Rebranding and rebranching - 15 branches in new design

PIVDENNY BANK - KEY PERFORMANCE INDICATORS IN 2018

30% of the largest Ukrainian companies are Pivdenny Bank's customers

over **35 000** legal entities, with deposits of UAH **9.2** billion

The bank serves more than **550 000** individuals with deposits of UAH **8.5** billion

UAH **274** million net profit

2 510 employees

Regulatory capital — UAH **2 367** million, capital adequacy ratio — **12.14%** (must be no less than 10% according to the NBU's requirements)

UAH **17.5** billion loan portfolio

2nd place among Ukrainian banks with private capital in terms of size of its assets, loan portfolio and volume of deposits

2nd place in the banking system in terms of trade finance transactions in UAH

10th place in the banking system in terms of deposits from individuals

№ 1 corporate bank with private Ukrainian capital in 2018, according to "Financial Club".

2nd place in the "Financial Oscars — 2017" annual rating from "Business" journal, "Corporate Partner" nomination.

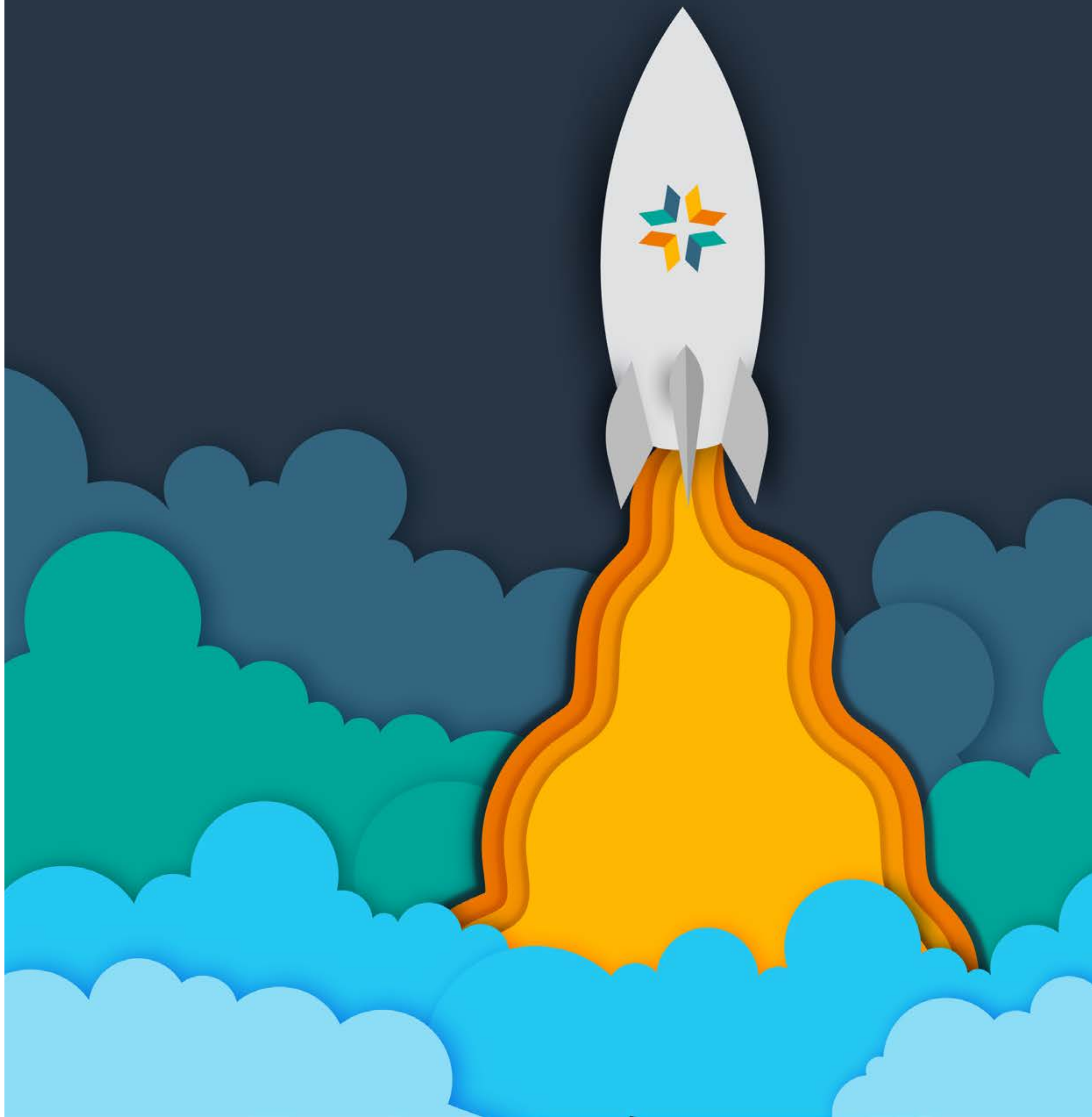
Ratings

uaAA «Credit Rating»

Caa1 Moody's Investors Service

Contents

STRATEGY AND MARKET



Macroeconomic environment

Following the crisis of 2014–2015, Ukraine's economy has been demonstrating stable growth. According to various estimates, in 2018, GDP growth comprised 3–3.5%, which exceeded the indicator of 2017. However, it should be taken into account that the crisis-driven reduction of GDP comprised 16%, and the domestic economy has not recovered to the level that it demonstrated in the past. The recovery of the economy and the increase in social standards resulted in the improvement of the welfare of the population that, in its turn, boosted consumer demand. This improved the trade balance and became a key driver of the growth of the economy.

High inflation — high discount rate

On the other hand, the increase in demand prevented the reduction in the inflation rate to the range targeted by the NBU. As a result, in 2018 the inflation rrate comprised 9.8% YOY, while the NBU planned a decrease of this indicator to below 8% YOY. As such, the regulator was forced to pursue a more exacting monetary policy, having increased the discount rate by 3.5 p.p. to 18% during the year.

Ukrainian hryvnia continued to devaluate

The preservation of relative economic and political stability facilitated the growth of investment demand from companies, which became another driver of economic growth. Nevertheless, interest among foreign investors remained low given the slow pace of reforms and perceived high risks. The inflow of proceeds to the fiscal account of Ukraine's balance sheet was mostly supported by the public sector, while foreign investors appeared to be rather reluctant to invest in the real sector of the economy. Given the higher current account deficit due to the high demand for foreign products and the weak inflow of foreign investments to the real sector of the economy, the UAH has devaluated on average from USD/UAH 26.60 in 2017 to USD/UAH 27.20 in 2018.

Increase in the gold and foreign currency reserves to a safe level

Owing to cooperation with international partners, Ukraine succeeded in entering the market for foreign lending in November and obtained financing from the IMF, the World Bank and the EU in December of the reporting year. As a consequence, and thanks to the placement of foreign currency T-bills and purchase of foreign currency on the international market by the regulator, in 2018 the country's foreign currency reserves grew by 10.6% and comprised $20.8 billion which is the highest since 2013. In early 2019, Ukraine's reserves covered 3.5 months of future imports, which is believed to be a secure level required to ensure financial stability of the country. However, given the expected significant repayments of external debt obligations during the course of 2019, these reserves do not guarantee total stability.

UKRAINIAN GDP GREW IN 2018 **3%**

9.8% 2018 INFLATION RATE

The risks are still here, while economic growth is feasible

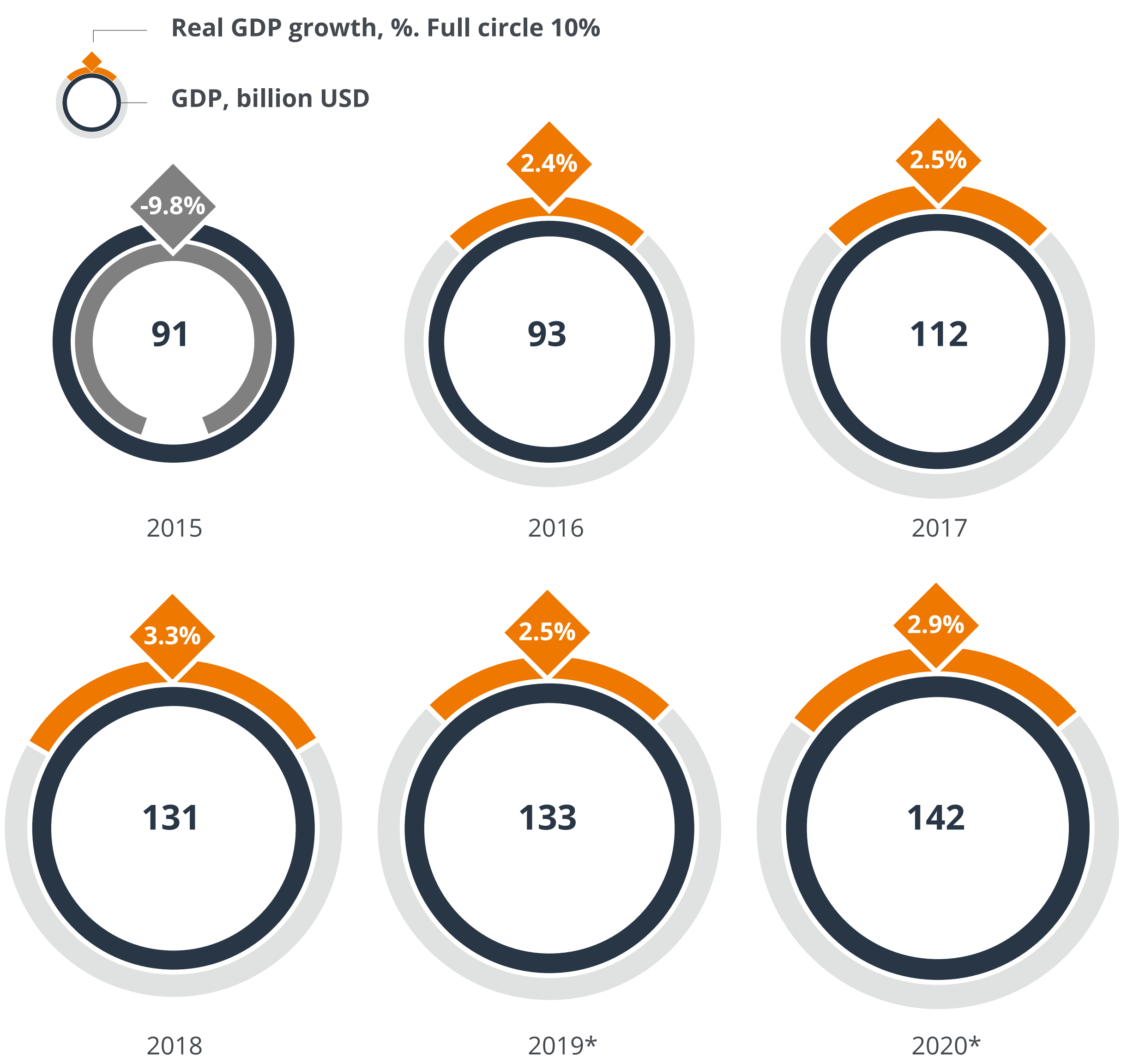
Analysts expect further economic growth in 2019, albeit at a slower pace due to the very slow implementation of fundamental reforms (in the energy sector, judicial system, in anti-corruption areas, and in tax administration), low efficiency of public administration, and an inefficient fiscal policy of the government caused by a significant debt burden.

Prudent policies pursued by the regulator and a sufficiently high foreign currency and gold reserve will ensure relative stability of the national currency in 2019 subject to the absence of foreign economic shocks. However, in perspective, the UAH will continue its gradual devaluation due to fundamental factors, with short-term periods of strengthening ahead. In the case of the deceleration of reforms, the inflow of foreign capital to Ukraine will remain weak. On the other hand, according to our base scenario, cooperation with foreign partners will continue and will make it possible to refinance a portion of the foreign sovereign debt.

As far as risks are concerned, geopolitical risks will remain high, including: further worsening of relations with Russia and escalation of the conflict in eastern Ukraine. Also, there are high external risks caused by the deceleration of growth rates of key economies and the feasibility of escalation of trade wars that, in turn, could cause a significant slowdown in global economic growth. The above factors may have an adverse effect on the Ukrainian trade balance and further complicate the attraction of foreign capital, which would have a negative impact on other macroeconomic indicators (GDP growth rates, levels of international reserves, UAH devaluation rates, and inflation rates). The 2019 double elections bring significant risk of aggravation of the political situation in the country.

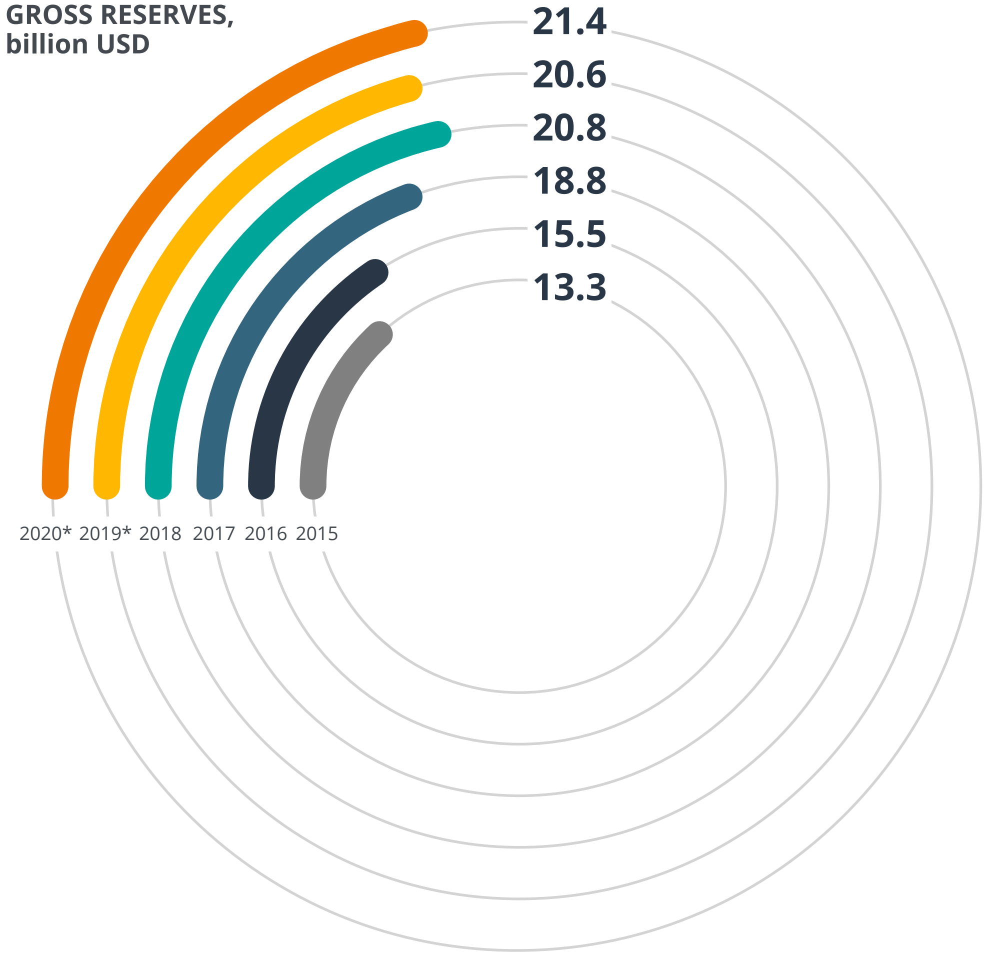
GROWTH OF MACROECONOMIC INDICATORS IN UKRAINE

GROSS DOMESTIC PRODUCT, billion USD



Source: National Bank of Ukraine
*forecast

GROSS RESERVES, billion USD



BALANCE OF PAYMENTS, billion USD

Source: National Bank of Ukraine
*forecast

Ukraine's banking sector

UAH
21.7 BILLION —
NET PROFIT REPORTED BY THE BANKING SECTOR OF UKRAINE

The Ukrainian banking sector continued to strengthen in 2018. Ukrainian banks increased their capital, thanks to which the majority of financial institutions managed to comply with the statutory capital adequacy ratio.

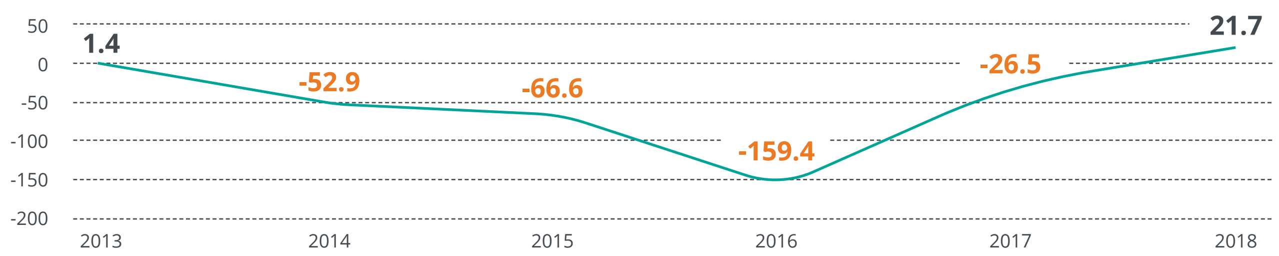
Five banks left the market during the reporting year. As regards the sector structure, its concentration continues to be significant (TOP-20 Ukrainian banks account for more than 90% of the market), while the government accounts for 55% of the net assets of the sector.

Given the improvement of the financial welfare of the population, individuals' deposits grew 6.4% in 2018, while corporate deposits grew only 0.7%. At the same time, high consumer demand caused growth of UAH-denominated loans to the population by more than 30% since the beginning of the year.

According to the NBU, total loans to businesses have been growing at a slower pace (6% for the year). One of the main factors that restrained lending to corporations was the growth of interest rates caused by stricter NBU monetary policy. In addition, lending was restrained by the large share of NPLs that decreased from the beginning of the year to only 52.8% (vs. 54.5%). The major concentration of non-performing loans falls on state-owned banks (67.9%), while banks with private Ukrainian capital reported the lowest level of NPL (23%).

Thanks to the reduction of allocations to reserves and the growth of the interest and fee and commission incomes, the banking sector has become profitable for the first time since 2013: UAH 21.7 billion — net profit of solvent banks.

Movements in the net profits in the banking sector of Ukraine*, 2013–2018

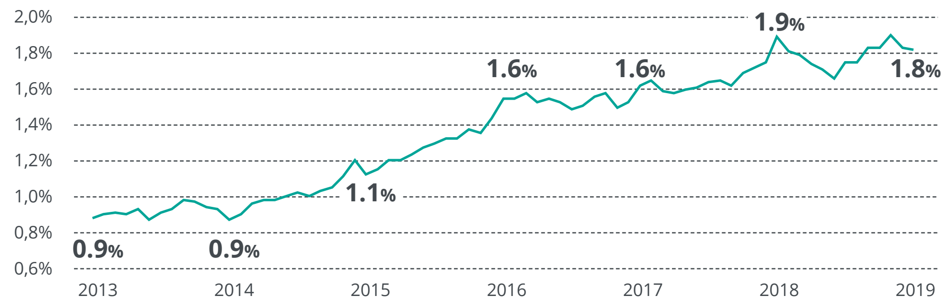


Source: National Bank of Ukraine *Without results of insolvent banks

Market standing of the Bank

The Bank operated confidently in 2018 and became the 12th major Ukrainian bank in terms of its net assets (one position higher in the rankings). Generally, during the past 5 years, the Bank expanded its presence on the market almost twice, with the share of its net assets having grown from 0.89% in 2013 to 1.82% by the end of 2018.

The Bank's position in rankings*



In terms individuals deposits, the Bank has been growing and outperforming its competitors, which allowed it to advance from 11th to 10th place in the rankings. Along with individuals, businesses also demonstrated their confidence in the Bank. As a result, corporate deposits have been increasing at an even higher pace than the average.

In 2018, the Bank vigorously supported Ukrainian businesses as evidenced by the high pace of growth of lending to legal entities in UAH (+27.2% for the reporting year). This indicator is significantly higher than the overall market growth index (+3.6%). The overall portfolio of corporate loans in foreign currency shrank by 14.1%, which is in line with the Bank's strategy envisaging a reduction of its vulnerability to foreign currency risks. Given prudent lending policy, the bank reported one of the lowest shares of NPLs in Ukraine.

Pivdenny Bank was a leader in terms of trade finance and forex transactions during the year

Efficacious policy and professional risk management practices allowed the Bank to remain profitable even in the market turmoil period when most banks suffered significant losses. During 2018, Pivdenny Bank also reported a net profit of UAH 274 million, which is almost five times higher as compared to 2017.

The Bank's position in rankings*

12 ↑ TOTAL NET ASSETS

10 ↑ DEPOSITS OF INDIVIDUALS

12 = DEPOSITS OF CORPORATE CLIENTS

13 ↑ LOANS TO INDIVIDUALS

24 ↑ LOANS TO CORPORATE CLIENTS

* As at 31 December 2018

↑ The Bank has improved its position as compared to 2017

= The Bank has preserved its position as compared to 2017

Source: National Bank of Ukraine

UAH 274 MILLION
NET PROFIT FOR 2018

THE PERCENTAGE OF NPLs AT PIVDENNY BANK AT THE END OF 2018 WAS ONLY 9% (WITH AN AVERAGE OF 52.8% IN THE DOMESTIC BANKING SYSTEM OVERALL)

Mission, vision and values

Mission

To improve the quality of life of our clients, employees and their families by creating financial opportunities for the development of Ukrainian business.

Vision

To be a universal Ukrainian bank and a leader of financial solutions, understanding customer needs and offering simple and reliable products.

Values

Focus on customer needs

All products and services of Pivdenny Bank are designed to provide maximum benefits and advantages to customers and offer simple and understandable services.

We are always receptive to the wishes of our customers. We take their opinions into account in our operations and seek to continuously improve our products and services.

Integrity

We provide complete, accurate and timely information on our products and services, honour our commitments, and always act to protect our customers' interests.

We trust each other and openly discuss any routine matters on the agenda. We respect our Code of Corporate Ethics when communicating with customers and colleagues.

Proactivity

We initiate transparent and candid discussions of fresh ideas and take any opportunities to put them into practice. We always encourage creative solutions and are not afraid to go beyond conventional limits. We initiate business communications with customers, voice convincing arguments, inspire others, and accept new challenges.

Continuous development

We treat any changes as new opportunities. We set ambitious goals, achieve them with confidence and are not afraid of mistakes.

We support our employees' commitment to self-enhancement and strive to create an environment that fosters the realization of common goals.

Team

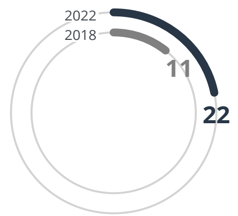
Our team is our main asset; therefore, we take efforts to ensure the all-out development of employee skills and trust their professionalism.

We treat success as a victory for our whole team and, therefore, create conditions to ensure that every employee can share in that victory.

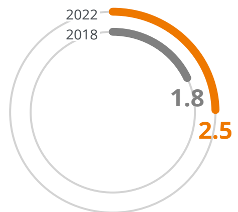
Business strategy

The Bank's key goals

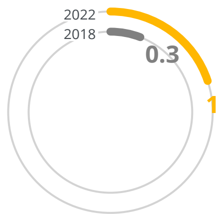
ROE, %



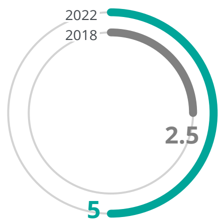
MARKET SHARE IN TERMS OF ASSETS, %



PROFIT, UAH billion



CAPITAL, UAH billion



Equal among the best

Pivdenny Bank's strategic goal is to have a solid market position among the major Ukrainian banks, a profitability index comparable to that reported by the key banking system players, as well as to be a leader in selected market segments.

The Bank revised its strategy in 2018. Pivdenny Bank plans to move from the corporate banking model focused mostly on servicing large corporate customers to a new model of a universal bank with a leading position in the segment of customized financial solutions for each customer, be they a large enterprise or a private individual. As a result of this shift in the strategic focus, we will reinforce the presence of Pivdenny Bank on the domestic banking market and achieve higher market and financial indicators to become a market leader and to be in a better position to meet our customers' needs.

Customer needs are at the heart of the new strategy

The Bank's strategy is aimed at providing a positive customer experience. This goal is achieved thanks to profound knowledge and a clear understanding of customer needs, quality services, industry-specific know-how, attractive product solutions, efficient coverage of the key channels of communication with customers, innovations, transparency in customer relations, implementation of clear information policy and responsible management practices.

Adding value

Implementation of the strategy will contribute to creating added value for all stakeholders, including customers, the regulator, shareholders and employees. The above will make it possible to create sustainable competitive advantages for the Bank and will serve as a guarantee of a solid market position.

Advantages for customers

Once the strategy is implemented, customers will take conscious decisions regarding long-term cooperation with the Bank, treating it as an advisor and an expert to rely on when addressing financial and business tasks. Customers will have access to up-to-date and fast instruments that meet their financial needs, achieving the best possible balance of price and quality as well as a mutually profitable partnership with the Bank.

Advantages for the regulator

In Pivdenny Bank, the National Bank of Ukraine will have a responsible and reliable partner who works in strict compliance with NBU requirements in terms of responsible business conduct and performance of financial operations. The Bank has achieved fully compliance with requirements regarding additional capitalization, improved its regulatory capital adequacy ratio, successfully passed stress-test procedures, and followed the regulator's strategic objective of supporting the Ukrainian economy by issuing UAH-denominated loans.

Advantages for shareholders
Implementation of the strategy will result in significant growth of the Bank's market share, improve its profit margins, and make its business more predictable and self-sufficient.

Advantages for employees
The Bank will undermine its employer brand as a place where any employee get self-fulfilment as a professional and as an individual. For its personnel, Pivdenny Bank will be an exciting and pleasant place to work.

Implementation of the Bank's strategy

The three key elements of the strategy are: (1) market position and business model, (2) customer experience; (3) organizational development.

The **"Market position and business model"** is an external component of the Bank's strategy. A combination of market measures is intended to create a self-sufficient and balanced portfolio of business solutions covering the Bank's positions in customer, product and regional segments. The bank will reinforce its market positions and will ensure differentiation and optimization of its business model.

The **"Customer experience"** is a core element of the Bank's strategy. It will be implemented through increased customer focus and operational flexibility in order to create a sustained competitive advantage.

"Organizational development" will ensure internal support of the strategy among employees to make the Bank a flexible and responsive institution prepared for any market challenges.

Balance between business lines

The Bank seeks to establish a balanced business mix. To achieve this goal, the Bank needs to reinforce its positions in the SME and retail business segments, retaining its positions in corporate business.

The SME segment focuses on further coverage within Ukraine, implementation of a broad, standardized product range and attractive offers, attraction of customers via non-standard channels, and the launch of an efficient dialogue between the customer and the Bank.

The retail business segment will seek to further support the need of the population to keep their savings in a reliable Bank, to implement changes to improve customer experiences, and to develop state-of-the-art customer service and communications channels. In terms of regional development, the Bank primarily focuses on the expansion of its presence in major regions (Kyiv, Lviv, Dnipro, Kharkiv, etc.) with simultaneous retention of leading positions in Southern Ukraine.

In the corporate business segment the Bank focuses on the expansion of relations with the existing customer base, diversification of the customer portfolio, with emphasis on non-credit products and high value-added products, as well as on a personalized approach to customers and development of account managers' competencies.

Key elements of the Bank's strategy

Operations strategy

To be competitive, Pivdenny Bank is constantly creating new opportunities for its customers and improving its operational efficiency. The key objective of the operational strategy is to improve operations efficiency. The target operational model of the Bank is focused on improvement of customer experience, raising efficiency, standardization and automation of business processes, and improvement of functional interaction and manageability.

Target operations model

Customer oriented:

- maximum transfer of customers to distant banking servicing;
- premium quality of services of front office personnel thanks to liberation from redundant functions and focus on sales.

Cost-efficient:

- efficient steps (no doubling or excessiveness), optimal labour efforts;
- simple centralized processes;
- acceptable and controllable operational risks.

Well-scalable:

- faster implementation of new products, growth of business volumes without excessive costs;
- maximum automation and standardization of key business processes;
- efficient horizontal and functional interaction, higher manageability.

Implementation of operational strategy

The Bank's operational strategy will be implemented in two key directions: "Top down" — by means of cascading operational goals that are in line with the strategy, to the level of processes governance.

"Bottom up" — by means of on-going control over the compliance of processes with the operational strategy and process modification to achieve the targeted operational goals.

Where positive customer experience becomes a priority, the key goal is to ensure convenient and secure interaction between the customer and the Bank. This goal is achieved through implementation of new products and opportunities for customers, together with optimization of direct service processes. This requires complex, regular, systematic efforts aimed at improvement of processes in all directions and at all levels. Via optimization, automation, higher controllability and better efficiency of business processes, the Bank's employees and managers will get the opportunity to focus on the realization of the Bank's mission and values.

The methodology of project management allows for the most efficient implementation of large-scale initiatives, adequate allocation of resources, organization of employees and design of a clear-cut process of embedding the changes.

The Bank's key projects and initiatives

In 2018 the Bank fully completed 7 and partially implemented 3 out of the 25 projects from the project portfolio, including:

- development of the Bank's strategy for the next 5 years;
- launch of electronic document flow and digital document storage;
- launch of sales of insurance products via the Bank's branches and web-site;
- creation of electronic platform for personnel development and training;
- optimization of the process of searching and blocking financial transactions at the request of financial monitoring;
- implementation of product loyalty program for Mastercard cardholders;
- development of brand book and complex integration of the new identity of the Bank in all areas of activity;
- implementation of non-contact NFC-payments for customers of the Bank;
- completion of the first stage of rebranding of the Bank's regional network: opening of 15 rebranded branches;
- completion of the third stage of upgrading of the functionality of the system of remote services for legal entities (iFOBS): creation of new opportunities for the Bank's customers.

Implementation of PaperLess

A major initiative is the implementation of PaperLess that envisages the maximum possible waiving of paper document flow using electronic document flow technologies and electronic digital signature (EDS). The Bank has already implemented an electronic document flow using systems of remote services for customers and within the Bank.

The PaperLess concept is implemented at all levels and in different aspects, including: in relations with customers, public authorities and contractors, and within internal document flow processes.

Customer services are focused on distance services and EDS

During 2018, the Bank developed additional program modules for legal entities and individuals to remotely obtain bank statements, place cash deposits; make use of additional opportunities in terms of transactions with payment cards (transfers, utility payments, etc.); remotely execute insurance policies with partner companies, etc.

The Bank also plans to implement the following initiatives:

- conclusion of agreements on regular money transfers;
- online acceptance of documents from the subjects of foreign economic activities for currency exchange transactions and currency control;
- online acceptance of salary slips, financial statements and other documents signed by EDS;

PaperLess helps:

- TO SAVE MONEY
- TO SAVE TIME
- TO SAVE WORKING SPACE
- TO ENSURE SECURITY OF PERSONAL DATA
- TO PROTECT THE ENVIRONMENT

- remote verification of the information submitted by individual customers via Internet channels;
- launch of online foreign currency exchange for individuals, and other initiatives.

Internal document flow

In 2018, the Bank implemented Single Data Storage (SDS) — an instrument allowing for the storage and systematization of scanned copies of documents for their further processing.

Single Data Storage is an important step towards digitalization of operations. The key result of its application is improved quality of operations as a one-stop-shop allowing access to various types of documents. In addition, SDS makes it possible to withdraw all paper copies of documents related to current activities, to ensure their security and to limit and ensure proper access to data. SDS, created initially to support the core activities of the Bank, is also used in support processes, and the area of its application is continuously expanding. The Bank has an established electronic internal document flow system, which is regularly updated.

Electronic document exchange with the regulator

Starting from 2018, the Bank began accepting documents signed by EDS from public authorities. The reverse electronic document flow is expected to be implemented in the near future.

Security of operations

The Bank needs to ensure a high level of security for its transactions; therefore, Pivdenny Bank is constantly introducing and developing additional instruments and measures in this area.

In particular, in 2018, the Bank developed and implemented:

- mandatory photographic recording and single samples of customer signatures;
- scanning of individuals' identity documents;
- automated control and templates within the automated banking system, allowing for the prevention of unauthorized or incidental entry or editing of data;
- use of a single storage location for scanned copies of documents.

The Bank is continuing this activity in 2019. Scheduled measures include:

- automatic verification of the authenticity of individuals' identity documents;
- new opportunities and application of identity document readers;
- additional authorization of debit operations;
- additional automated internal control instruments, etc.

Centralization of back-office functions

Centralization of back-office functions is a comprehensive change at the strategic level. This change has affected almost all areas of the Bank's activity that used to be decentralized within the regional network. This allowed to free front-office employees from irrelevant functions and contributed to higher quality and accountability of operations.

Plans for 2019

To achieve its strategic goals, the Bank started implementing new initiatives and solutions:

- development of a complex CRM-system that will help to manage customer experience to the best extent possible;
- implementation of a new MyBank app for individuals;
- implementation of new functions in iFOBS – online banking for corporate clients;
- redesign of the Bank's site to provide a new online-banking experience for customers;
- implementation of the electronic document flow system using EDS;
- opening of 22 rebranded branches (including opening new branches and relocation or rebranding of existing ones);
- reengineering of the process of lending to legal entities;
- development of the services model for customers with foreign economic activity;
- reorganization of the contact centre (development of electronic communications channels).

Communication with customers and rebranding

Customer needs are at the heart of the Bank's business strategy. All its services and products are designed to meet the financial needs of customers. The key principle is to ensure maximum benefit for the customer through simple competitive solutions.

Principles of interaction with customers

The Bank's key objective is to ensure positive customer experience and to build mutually rewarding relations with its customers. The Bank seeks to establish a culture of responsibility. Its key principles are declared in the corporate Code of Ethics.

The key principles of customer relations:

- integrity;
- honesty;
- lawfulness;
- transparency and economically-driven relations.

Standards of communications

Pivdenny Bank has implemented customer service standards, which are mandatory for all its employees.

When interacting with customers, the Bank's employees:

- always seek to professionally deliver premium quality services;
- offer products meeting customers' needs;
- timely respond to customers' requests;
- provide timely and extensive consultations;
- inform about possible risks;
- refrain from misleading customers;
- take all measures to improve service quality;
- ensure customer data security;
- are personally responsible for their actions.

Feedback

The Bank makes account for customer needs, values customers' opinion and seeks to constantly improve its products and services.

The Bank promptly responds to every request, comment or complaint, resolves conflicts and prevents similar situations in the future.

Feedback from customers and other stakeholders helps the Bank to develop and improve its operations.

Coverage of the Bank's digital channels

IFOBS – ONLINE BANKING FOR CORPORATE CLIENTS
19,530 CUSTOMERS*

MYBANK – ONLINE BANKING FOR INDIVIDUALS
150,493 CUSTOMERS*

FACEBOOK – FACEBOOK.COM/BANK.PIVDENNY
19,000 FOLLOWERS*

CORPORATE WEB-SITE – WWW.BANK.COM.UA
75,000 UNIQUE VISITORS PER MONTH**

* As at 1 April 2019
** For 2018

- Customer-oriented approach based on consultations and solutions rather than on products
- Full range of bank services all over the country, including Internet/mobile banking
- Guarantees of financial security and confidentiality for customers remain the focus of our activity

Information security systems

During the reporting year, Pivdenny Bank performed wide scale R&D in order to find and implement optimum solutions in the information security area, including:

- analysis and selection of the best software to protect the Bank from viruses and malware;

- development and implementation of a number of anti-virus policies aimed at minimization and prevention of cyber security threats;

- tests to identify vulnerabilities of the Bank's network;

- development of measures to create optimal complex protection;

- training sessions on information security for the Bank's personnel.

Rebranding

Pivdenny Bank's new customer-centric business strategy aimed at expansion in the retail and SME business segments and development of the network of regional branches, affecting all aspects of the Bank's activity. The idea of transformation into a modern and innovative bank was embodied in a new brand identity and new format of branches.

New identity

The key elements of the Bank's new identity represent Pivdenny Bank as an institution in which tradition and modernity, experience and innovation are combined.

The new logo contains the traditional pattern of the Ukrainian vyshyvanka shirt, a symbol of motherhood, vitality, growth and well-being. The logo underscores the Bank's traditionalism, customer focus and Ukrainian origin. Bright and contrasting colours emphasize that the brand is bold and contemporary.

БАНК ПІВДЕННИЙ → bank PIVDENNY

Rebranding: key results of 2018

15 BRANCHES REBRANDED

SIGN-PLATES AT **44** BRANCHES RENOVATED

MyBank AND **iFOBS** APP INTERFACES UPDATED

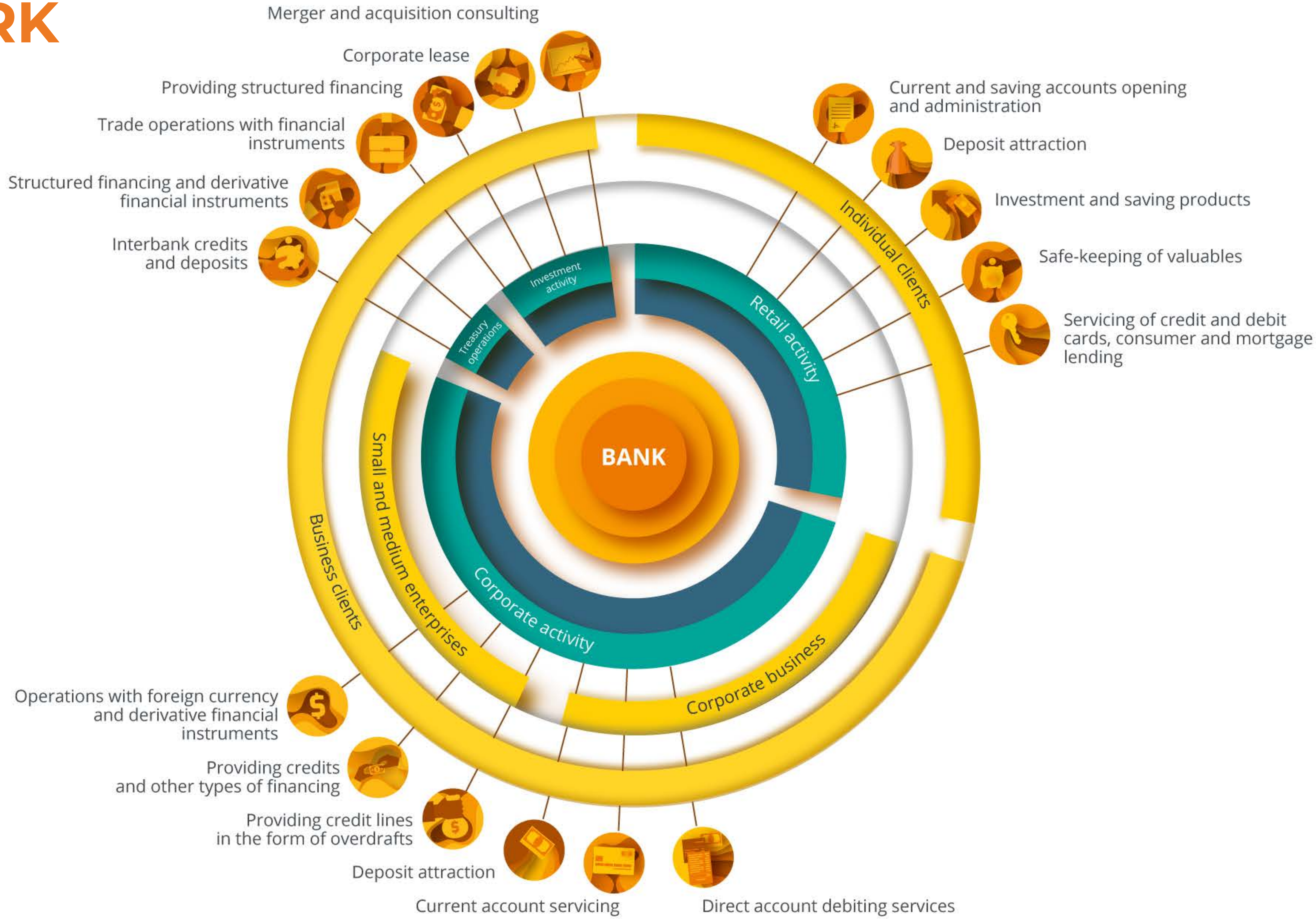
The new branch format

New branches demonstrate the Bank's new approach to dialogue with the customer. Convenience and comfort are the Bank's number one concern. The whole space is divided into ergonomic areas comfortable for both customers and personnel. To divide the customer flow, new branches offer separate areas for individuals and for corporate clients, cash desk areas and comfortable lounge zones. The self-service area offers 24/7 service. Here customers can withdraw cash from cards and use other popular banking services. Branches in large oblast centres are additionally equipped with depositories and premium customer service areas.

In 2018, the Bank opened 15 rebranded branches. Another 22 branches, including brand new branches and the relocated and rebranded branches, will open during 2019.

BUSINESS PROFILE OF THE BANK

HOW DOES THE BANK WORK



Pivdenny Bank — a reliable Bank

Key indicators of the Bank's reliability*

CAPITAL

Capital adequacy (H2) — 12.14%
(with prescribed statutory ratio of 10%)

The Bank has successfully passed the stress test of the NBU

All requirements of the regulator have been complied with by the Bank

LIQUIDITY

LCR is 112% in all currencies
(with prescribed statutory ratio of 80%)

LCR in foreign currency is 129%
(with prescribed statutory ratio of 50%)

QUALITY OF ASSETS

The share of overdue loans within the loan portfolio is less than 4% (banking system — 41%, excluding state-owned and Russian banks — 16%)

The Bank has successfully adopted IFRS 9 (additional provision comprised less than 1%)

INDEPENDENT RATINGS

The Credit Rating Agency has upgraded the Bank's long-term rating to uaAA

Moody's has improved the rating of UAH-denominated deposits to Caa1 and the Bank's risk rating to B3

COMPLIANCE

The Bank has successfully completed the following audits:
- a complex assessment and stress-testing by the NBU
- an audit by the Deposit Guarantee Fund of Ukraine
- a review by the Tax Inspectorate
- an audit by the State Financial Monitoring Service of Ukraine

* As at 31 December 2018

** LCR – Liquidity Coverage Ratio

Pivdenny Bank is a stable and transparent financial institution with high capitalization rates. The Bank is in compliance with the ratios and instructions of the regulator, and strictly follows the requirements of the effective laws of Ukraine.

The Bank's financial mechanisms include the following:

- attraction of resources with maximum degree of diversification in terms of maturities, currencies and amounts, with the objective of their use in asset management operations complying with targeted profitability rates;

- ensuring a high degree of operational efficiency and generation of maximum net commission/foreign exchange income;

- ensuring an optimal balance of risk and profitability on asset management transactions.

A successful year

2ND PLACE IN THE BANKING SYSTEM IN TERMS OF TRADE FINANCE TRANSACTIONS IN UAH

10TH PLACE IN THE BANKING SYSTEM IN TERMS OF VOLUME OF DEPOSITS FROM INDIVIDUALS

10TH PLACE IN THE BANKING SYSTEM IN TERMS OF VOLUMES OF FOREIGN CURRENCY PURCHASE AND SALE TRANSACTIONS

12TH PLACE IN TERMS OF VOLUME OF ASSETS

In 2018, Pivdenny Bank reported a net profit of UAH 274 million, which is five times higher than the indicator in 2017; the index of fulfilment of budgetary KPIs in the Bank's business was 102.2%.

During 2018, the Bank placed special emphasis on improvement of its asset quality, increasing of the volume of funds attracted from customers, and focused on further build-up of the UAH-denominated loans portfolio.

Loans to companies in UAH increased by 27.2% (UAH 1.7 billion), while loans in foreign currencies decreased by $55 million (14.1%). The above figures are in line with the Bank's strategy, since the increase of the share of the national currency significantly exceeds the reserve of its viability in case of depreciation of the UAH and facilitates higher profitability. Within the banking system, the UAH-denominated corporate loans portfolio has not changed during the year, while foreign currency loans to legal entities grew by 5% during the same period.

The volume of purchases and sales of foreign currency by the Bank's customers in 2018 reached USD 4.3 billion — growth by USD 800 million (23%) as compared to 2017. The Bank has retained a stable position within the TOP-10 domestic banks in this sphere.

The share of non-performing loans in the Bank's loan portfolio was below 4% in 2018, which is significantly better than in the banking system overall, where the respective index was 41% (16% without taking into account the figures reported by the state-owned and Russian banks).

The Bank's capital adequacy ratio (H2) exceeded 12% (12.14%) as of 31 December 2018 (in December 2017 – 10.37%). Its minimum value prescribed by the regulator is 10%.

Capital structure

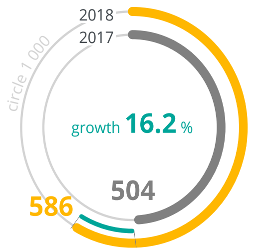
Pivdenny Bank closed the reporting year having increased its regulatory capital by UAH 265 million (growth of 12.6%). The key pillars underpinning the above achievement are the net profit of 2018 that comprised UAH 274 million and the supplementary subordinate debt of USD 1.2 million contributed by the Bank's shareholders. The Bank did not purchase or issue new shares in 2018.

The Bank's key financial indicators in 2018 as compared to 2017

NET PROFIT, million UAH

NET INTEREST INCOME, million UAH

NET FEE AND COMMISSION INCOME million UAH



Transition to IFRS 9

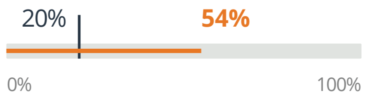
The premium quality of the Bank's loan portfolio was also confirmed by the results of its transition to the new standard of accounting based on an expected credit losses model in January 2018. Despite the much more exacting requirements of IFRS 9, the Bank had to increase its loan loss provision by 1% only.

Liquidity

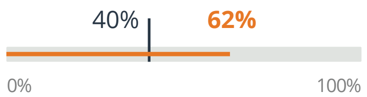
Liquidity risk is the existing or contingent risk adversely affecting proceeds and equity of a bank and arising due to its inability to honour its commitments when due without incurring unacceptable losses.

The Bank on a daily basis monitors its liquidity ratios in compliance with requirements of the NBU including:

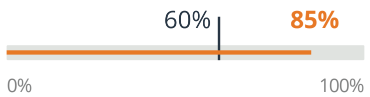
Instant Liquidity Ratio (H4)
The ratio of highly liquid assets to liabilities payable on demand.



Current Liquidity Ratio (H5)
The ratio of liquid assets to liabilities with remaining maturities of less than 31 days.

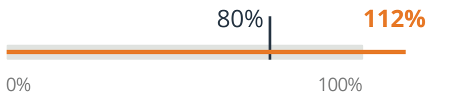


Short Term Liquidity Ratio (H6)
The ratio of liquid assets to liabilities maturing within one year.



LCR (Liquidity Coverage Ratio)
Is a new prudential liquidity ratio establishing a minimum liquidity level required to cover expected cash outflows during the next 30 days under a stressed scenario. In the banking system, significant outflows usually occur in periods of market turmoil.

In all currencies



In foreign currency

By all indicators the Bank is significantly outperforming the minimum statutory requirements of the regulator, which is evidence of the institution's reliability and its ability to honour its obligations when due.

20% Requirement of the NBU, not less than

Ratio of Pivdenny Bank in 2018

* As at 31 December 2018y

Review conducted in 2018

The Bank has successfully passed a complex audit conducted by the NBU, an audit by the Deposits Guarantee Fund of Ukraine, the NBU's compliance audits of its financial monitoring and currency regulations system, as well as a Tax Inspectorate audit. These auditors did not issue any serious comments and did not impose any fines or penalties on the institution. This is the result of the competent approach applied by the Bank when establishing and developing business relations with its customers and the professional activity of all divisions of the financial institution.

Evaluation of the bank's financial strength by the NBU

Pivdenny Bank has successfully passed the NBU's stress-testing carried out within the scope of diagnostics of the domestic banking sector. As of 31 December 2018, the Bank was in full compliance with the action plans of achievement of the targeted economic ratios agreed upon with the NBU.

Independent rating — confirmation of reliability

Pivdenny Bank has once again succeeded in improving its credit rating during the reporting year.

In October 2018, the independent Credit-Rating Agency improved the Bank's long-term credit rating to uaAA.

Already in December, Moody's improved the long-term rating of the Bank's UAH-denominated deposits to Caa1 and the Bank's risk rating to B3. This is the highest possible baseline assessment for a Ukrainian bank constrained by the sovereign rating.

Pivdenny Bank is the only Ukrainian bank with private capital to have an international credit rating assigned by Moody's.

Regional presence

As of 31 December 2018 Pivdenny Bank delivered a wide range of services to corporate customers and individuals all over Ukraine via its regional network of 95 branches scattered over 18 regions of Ukraine. The Bank continues to develop its regional network, with a focus on the convenience of their location, ergonomics of internal space, and quality of services. The Bank's Head Office is located in Odesa.

uaAA

HIGH CREDITWORTHINESS AS COMPARED TO OTHER UKRAINIAN BORROWERS OR DEBT INSTRUMENTS

THE SIX CAPITALS OF THE BANK: GENERATION OF VALUE ADDED VALUE

To design its products and services, Pivdenny Bank makes use of resources that include not only financial capital, but also human knowledge, social unity and natural sources.

FINANCIAL CAPITAL

The pool of funds used by the Bank to deliver services and to develop its business

Equity – UAH 2.5 billion

Net profit for the year – UAH 274 million

PRODUCTION CAPITAL

The physical capital of the Bank used to deliver services

Retail network – 95 branches

Number of ATMs – 280

INTELLECTUAL CAPITAL

The bank's intangible assets that ensure competitive advantages

Investments in personnel training and development – UAH 2.9 million

UAH 10.8 million Investments in technologies

HUMAN CAPITAL

Skills and experience of the bank's personnel and their efforts to implement innova-tive solutions

Number of employees – 2 510 persons

Number of employees that attended specialized training courses – 1811 persons

SOCIAL CAPITAL

Personal relations facilitating growth of collective welfare

Social investments – UAH 7.2 million

150 active blood donors among employees

NATURAL CAPITAL

The bank's impact on the environment and use of natural resources

Water consumption rate – 11 822 m³

Paper consumption – 4 592.5 kg

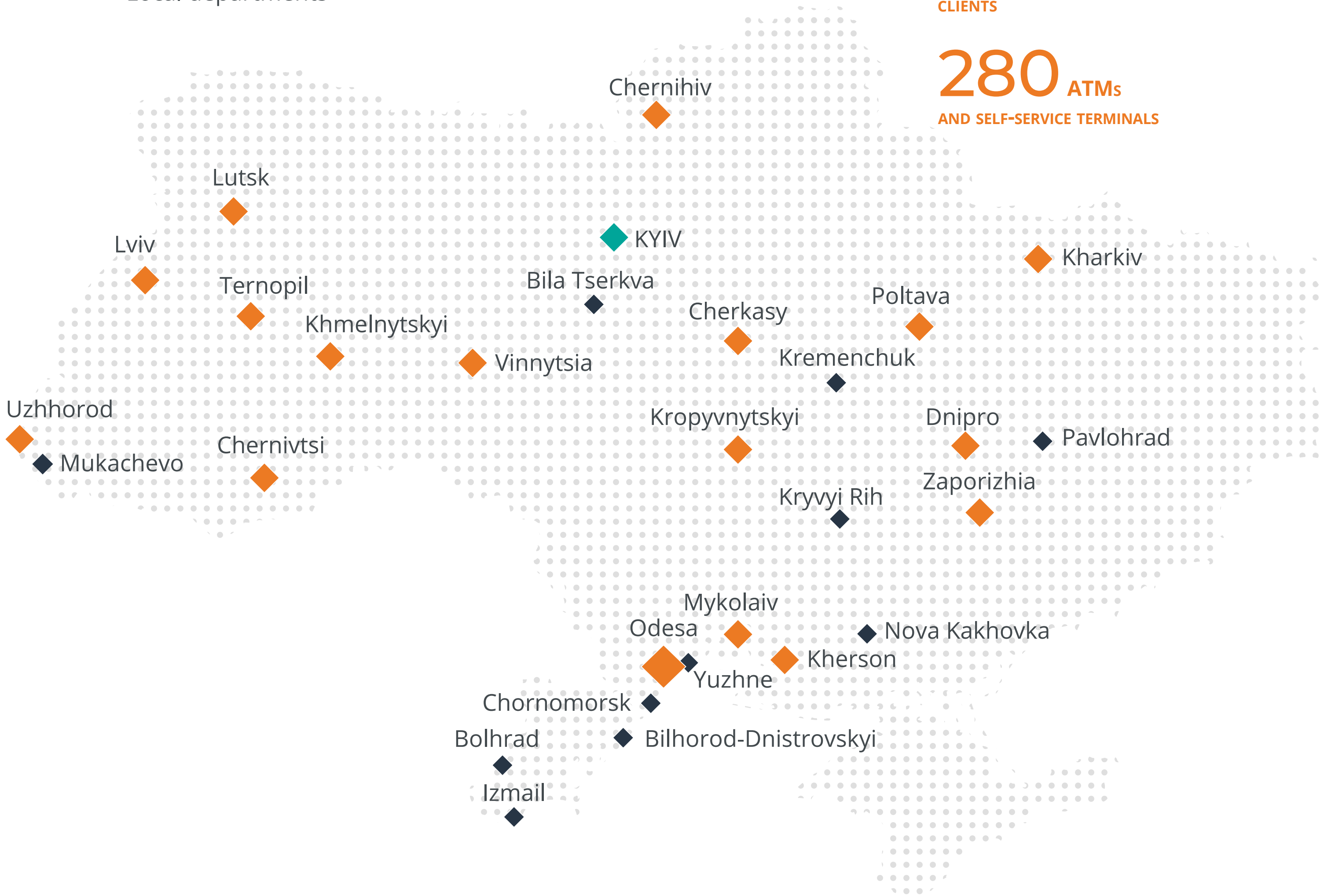
* As of 31 December 2018, for year

Source: management reports

Geographical spread of departments

Head Office address:
Odesa, Krasnova St, 6/1

- Head Office
- Regional departments
- Local departments



95 BRANCHES

18 REGIONS

OVER **550 000** CLIENTS

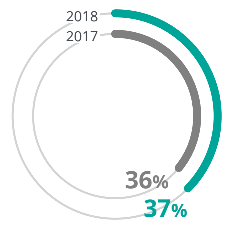
280 ATMs AND SELF-SERVICE TERMINALS

Retail business

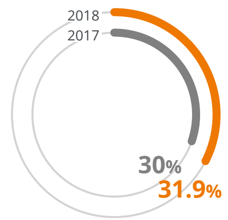
PIVDENNY BANK IS ON THE LIST OF THE TOP-5 UKRAINIAN BANKS IN TERMS OF THE NUMBER OF ACTIVE PAYMENT CARDS

Share of retail business in the Bank's indicators*, %

NET FEE AND COMMISSION INCOME



EQUITY AND LIABILITIES



Movements in the indicators of the retail business in 2018 as compared to 2017*, %

19.7%↓ ASSETS

9.6%↑ EQUITY AND LIABILITIES

10%↑ NUMBER OF CUSTOMERS

*Source: management reports

Pivdenny Bank is a universal bank rendering services to all categories of customers. However, it is the retail business segment (i.e. services to individuals) that makes the Bank recognizable on the market and facilitates customer awareness about the Bank.

Thanks to the concerted efforts of the retail business team, in 2018 the Bank became one of the TOP-10 Ukrainian banking institutions in terms of volume of liabilities attracted by the retail business: according to management reports, respective liabilities grew 9.6% in 2018.

By the end of December 2019, the Bank will serve over 550 thousand individuals. Its customer base grew 10% as compared to the previous year.

Results of retail business segment in 2018

One of the principal financial goals of the Retail Business Department for 2018 was to increase revenues from transactional business. As a result, the number of payment cards issued by the Bank reached almost 500 thousand, of which 65% are actively used.

While lending to individuals is not Pivdenny's core business, the Bank adheres to a moderate risk appetite policy in the area of consumer lending. This is why the Bank's credit products are designed to grant consumer loans to the Bank's existing customers. Preference is given to customers that are participants of the Bank's salary projects, to seamen, IT specialists and premium segment customers. The retail business puts an emphasis on the growth of individuals' deposits and on the development of transactional business.

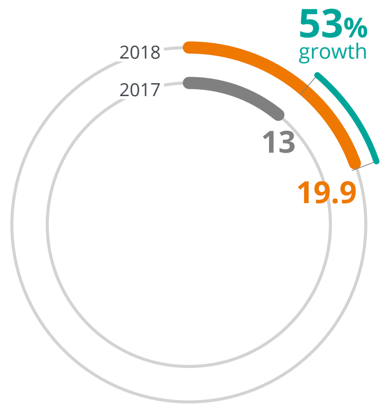
Advantages for customers

The Bank was one of the first Ukrainian financial institutions to offer its customers the option of digitalization of their cards in Apple Pay and Google Pay in order make payments via smartphones, etc. This step resulted in a significant increase in the number of cashless transactions.

Cashless & Security

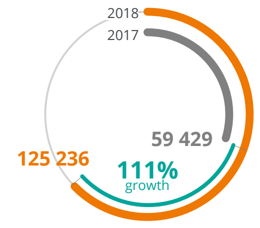
Modern market trends target maximum refusal from cash-based settlements. At the same time, cashless settlements should be both simple and secure. During 2018, Pivdenny Bank implemented a number of projects to support Cashless & Security in Ukraine.

Increase in the volume of settlements using payment cards*, UAH billion



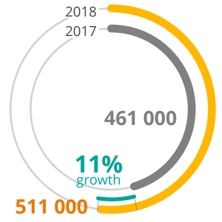
Increase in the number of MyBank users in 2018 as compared to 2017*

Number of activated customers



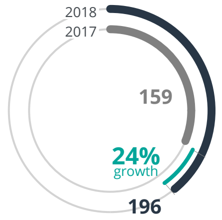
Increase in the number of applications submitted to the Bank's contact center

Number of applications



Growth in the volume of transactions processed via self-service terminals, UAH million

Transactions volume



*Source: management reports

Implementation of payment technology with the help of digitalized payment cards (tokens) using Android, iOS, and Garmin devices equipped with NFC technology. Payment is made without the physical use of a payment card and is a more secure means of payment.

The Bank issues payment cards only on non-contact carriers with an EMV-chip, which guarantees additional protection of payments.

Application of 3D-Secure and Verified by Visa technology — connection of payment cards at the card-issuing stage to the system of additional authentication during online payments.

Interaction with customers

Pivdenny Bank is aware of customers' needs and provides opportunities to interact with the Bank in a manner that's as convenient as possible for each customer. Customers are able to use this service via remote channels.

How does a customer interact with the Bank?

- Internet/ MyBank mobile banking apps
- The Bank's website www.bank.com.ua
- The Bank's contact center, E-mail, Skype
- Bank branches
- Self-service terminals

Products and solutions

Pivdenny Bank offers a wide range of financial products to individuals. The Bank meets all requirements of individual customers, starting from offering classical instruments, such as loans, deposit programs, card-based products, forex transactions, and ending with transfers to individual bank safety deposit boxes, transactions with T-Bills, insurance services, transactions in coins and metals, and Bank ID.

Loyalty programs

The Bank pays special attention to customer loyalty programs and monitors consumers' needs and their level of satisfaction with the banking services offered to them. In 2018, Pivdenny Bank launched a corporate customer remuneration program, including: the award of bonuses for cashless settlements and execution of agreements on banking products.

UAH **730 000**

WAS PAID OUT IN BONUS POINTS IN **2018**

Yet another program envisages the issue, at the expense of the Bank, of payment cards of higher categories to customers characterized by high transactional activity. In addition, a smart-pricing feature was introduced into payment-card-based pricing packages, which enables customers, subject to compliance with certain conditions, to make use of their pricing packages free of charge.

Key achievements in retail business in 2018

Development of products for individuals:

- the Bank implemented a loyalty program for Mastercard system card holders;
- the Bank realised a number of hi-tech products with Visa/Mastercard systems, including: Apple Pay (Visa), Google Pay (Visa, Mastercard) enabling tokenization of cards into Apple Pay and Google Pay wallets;
- transition to non-contact cards and more profitable Visa/Mastercard products, including issue of non-contact chipped cards within all pricing packages;
- launch of sales of PZU Ukraine insurance products via the Bank's branches.

New MyBank system services:

- independent registration of customers via the mobile app;
- option to check rates within the card details section, with reference to the rates quoted on the Bank's site;
- utility payments processed by Portmone (in Ukraine) and HERZ (in Kyiv);
- new services related to payment of utility bills, including: home security services, home intercoms, distribution, Internet, telephony, etc.;
- addition of cards (Visa cards) to Apple Pay wallet;
- push-notifications to customers;
- the option of logging in via mobile app by means of finger print;
- auto-substitution of authorization codes sent via SMS to approve transactions.

Development of customer service channels:

- implementation of 24/7 retail customer service for all products;
- involvement of contact center operators in processing applications submitted via the Bank's Facebook page;
- priority connection of premium segment customers to contact center operators;
- implementation of cancellation of PIN-blocking during phone calls to the contact center, which reduces the work load for branches;
- launch of the Callback service in the Bank's contact center, which enables customers to avoid long call waiting times during peak periods.

Further development priorities

Business goals

Pivdenny Bank has huge development potential in the retail banking business. Within the next three years the Bank plans to increase its market share in the mass market and premium segments, to increase volumes of attracted liabilities, and to raise the efficiency of the business thanks to a larger share of active customers and greater commission income from transactions. Without any doubt, to achieve these goals, the Bank needs to have in place an adequate product strategy, efficient customer engagement and service channels, and to streamline its internal processes.

Products

Customers need simple and understandable products that are easy to order and to use. The retail business will focus on the development of transactional products. The Bank will continue to customize its product range according to customer needs and will actively implement smart-pricing technology in its pricing packages. The Bank plans to design separate product offers for its premium segment customers ("Elite package"). To that end, based on its branches in the largest Ukrainian regional centres (Kyiv, Odessa, Dnipro, Lviv), the Bank created premium service areas.

Service

The Bank's service development plans are in line with the key modern trends in the banking sector, including the creation of a chatbot, use of a single financial phone number for customers, and a simplified procedure for sending PIN-codes to customers. The MyBank Internet and mobile banking service is at the heart of the system of servicing and communicating with customers. Therefore, significant attention will be paid to develop the MyBank feature. In particular, efforts will be concentrated on such services as conversion of foreign currencies online, renewal/change of login and password details, change of card PIN-codes, opening of current accounts with issuance of payment cards, and re-issuance of payment cards.

Branch network expansion

The growth of the retail network and retail business segment gives Pivdenny Bank a number of advantages including: higher loyalty on the part of the Bank's customers, greater recognisability and convenience for customers. Apart from further service quality improvements, Pivdenny Bank will continue to transform its branch network to enable each customer to obtain high-quality advice and find solutions.

Small and medium business

The SME segment, offering the highest potential for growth and regional expansion of the bank, is the key driver of the Bank's development. Therefore, one of the key goals set by Pivdenny Bank is to be a leader in the area of servicing SME segment customers. This task is delegated to the SME Department.

SME segment performance in 2018

According to the classification adopted by Pivdenny, the SME segment includes companies and self-employed individuals with annual revenues of up to UAH 200 million or credit portfolios worth up to UAH 50 million. Overall, the Bank renders services to more than 30 thousand SME segment customers. In 2018, the number of active customers grew by 11.3% in comparison with 2017.

The year 2018 saw the establishment of the SME segment services team, both at the Head Office and regional branch level, and it was also the year in which the Bank's further direction within the SME segment was identified. At the same time, much attention was paid to the development of new and the improvement of existing products, and to increasing the efficiency of current procedures and processes.

Attraction of customers operating in the foreign economic activity area was an important goal in 2018. As of today, the share of Pivdenny Bank in the volume of forex transactions for the benefit of SME segment customers comprises 4%. During the next three years, the Bank intends to enter the list of the TOP-5 Ukrainian banks in terms of volume of forex transactions for SME segment customers.

Movements in SME-segment indicators in 2018 as compared to 2017*, %

27.5% ↑ ASSETS

34.0% ↑ EQUITY AND LIABILITIES

35.1% ↑ FOREX TRANSACTIONS

11.3% ↑ NUMBER OF CUSTOMERS

*Source: management reports

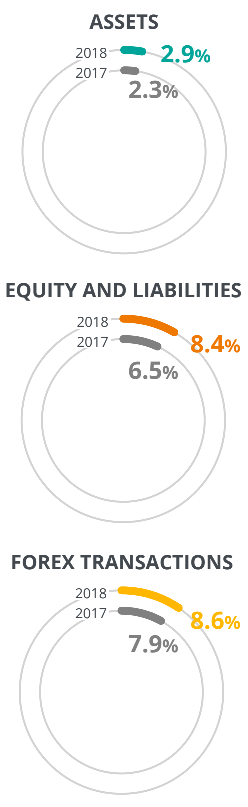
During 2018, the SME loans portfolio grew 27.5%. This happened thanks to the attraction of new customers and to higher volumes of lending to existing SME segment customers. The Bank strives to offer its customers the most beneficial lending conditions in terms of attractive interest rates and, depending on the collateral, requirements concerning their financial position and other conditions.

Advantages for customers

Products and solutions

Pivdenny Bank is capable of meeting any needs of SMEs. These include both day-to-day transactions (i.e. opening of accounts, trade acquisition, mPOS terminal services, Internet-acquisition, corporate cards, escrow accounts, salary card projects) and lending programs (overdraft, loans for purchase of property and equipment, loans to finance day-to-day operations, investment credit, credits secured by deposits, bill avalization, and factoring

SME share in the bank's performance indicators*, %



*Source: management reports

operations). Attractive deposit programs, trade finance transactions and industry-specific solutions are also accessible for SME segment customers.

For customer convenience, the Bank is constantly developing new products and services, and at the same time improves the terms and conditions of existing products and services. During 2018, the SME Department updated almost all existing products and proposed six new offers to customers, including new modules in the iFOBs system for remote customer service, new tariff plans and new deposit programs.

Individual approach
Customers have different needs and capabilities. Therefore, the Bank pays special attention to providing an individual approach, i.e. it provides products and services on terms and conditions that are the best suited to meet individual customer needs.

For example, customers pursuing foreign economic activity have access to dedicated account managers specialized in the area of currency control, and have the opportunity to contact a hotline for "Advice on foreign economic activity matters", to obtain free advice on opening of current accounts in foreign currencies, and on peculiarities of currency control and currency legislation. This allows customers to promptly obtain answers to their questions and to identify optimal solutions.

Partnership programmes
Pivdenny Bank takes part in more than 30 partnership programs launched to offer businesses attractive conditions of financing at lower interest rates and to provide guarantees of purchase of original goods from leading producers. The Bank provides its customers with financing for purchases of agricultural machinery, plant-protecting agents and fertilizers. The Bank's partners include globally renowned companies including: John Deere, Caterpillar, Fendt, Claas, New Holland, and others. 20% of new loans issued by the bank were granted under partnership programs.

In addition, in 2018 Pivdenny Bank became a participant of the state program of support for Ukrainian agricultural producers. Customers can now obtain compensation from the state subject to procurement of domestic machinery through Pivdenny Bank only.

Credit risk management policies
The Bank has implemented a system of risk management ensuring the Bank's compliance with all its payment obligations, irrespective of the financial standing and payment discipline of its borrowers. This is why decisions as regards the granting of loans are made only based on the results of scrupulous analysis of customers' financial statements. The preliminary resolution as regards feasibility of further review of a credit application and collection of the full package of required documents is made by the Bank within several days based on the minimum package of the potential borrower's documents. We believe such an approach is our competitive advantage over other Banks. The critical criteria affecting the final decision include a transparent ownership structure with the ability to identify the ultimate beneficiary owner, and a positive credit history.

A company seeking to obtain a loan from Pivdenny should have at least 12 months of business experience. The Bank's usual practice is to impose a limit on overdrafts of up to 30% of the proceeds from the counterparties.

Key achievements in SME segment in 2018

- Our achievements include an increase in the assets and liabilities portfolios in the SME segment by 23% and 19%, respectively, and growth of volumes of customers' foreign economic contracts by 35%.
- The bank has implemented a number of new tariff packages, including "Kaznacheiskyi", "Reiestrovyi", escrow accounts, "Zastavnyi", "Komfortnyi" and "Klasychnyi on-line" deposits, as well as new additional modules within iFOBS.
- Standardized and structured credit products, banking guarantees and promissory bill avalization products.

Further development priorities

The SME segment will remain a priority line of business for Pivdenny Bank. As such, in the coming years, the Bank will expand its presence within the segment, seeking to be one of the TOP-5 players of the forex market and significantly increase its liabilities in UAH, enlarge its loan portfolio, and implement new services.

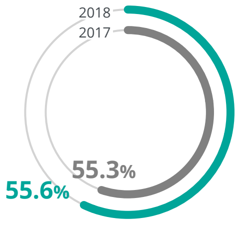
To achieve these targets, the Bank will take steps to improve customer experience, inter alia, by developing new services and improving its customer service and support technologies. In doing so, the Bank will focus its efforts on growth outside the Odesa region, especially in those regions with the highest economic potential, such as Kyiv, Dnipro, Kharkiv, and Lviv.

Corporate business

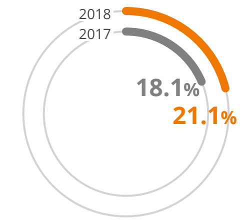
PIVDENNY BANK WON THE "CORPORATE BANK" CATEGORY IN THE "BANKS OF THE YEAR" AWARDS THANKS TO ITS GROWTH OF UAH-DENOMINATED LOANS TO LEGAL PERSONS IN THE PERIOD FROM JANUARY TO NOVEMBER 2018

Share of corporate business in the bank's performance indicators*, %

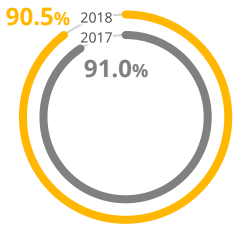
ASSETS



EQUITY AND LIABILITIES



FOREX TRANSACTIONS



*Source: management reports

Pivdenny Bank wants to become a reliable financial partner and advisor for its customers. During its 25 years of serving corporate customers, the Bank has built solid expertise and a strong team that both has a profound understanding of financial instruments and is clearly aware of the specifics of the market and key economic sectors.

Results of operations in the corporate business segment in 2018

Corporate business has always accounted for a significant share of the financial indicators of the Bank. During the reporting year, the share of the corporate business segment has demonstrated overall growth of 23% in comparison with 2017.

PIVDENNY BANK IS IN SECOND PLACE IN THE BANKING SYSTEM IN TERMS OF UAH-DENOMINATED GUARANTEES

The Bank distinguishes two categories of corporate customers:

- large corporate business represented by customers with annual turnovers in excess of UAH 1 billion;

- medium corporate business represented by customers with annual turnovers from UAH 200 million to UAH 1 billion.

The Bank treats large corporate business as its key segment generating revenues and credit income, while medium corporate business is believed to be a segment with significant growth potential and, as a consequence, a driver of the Bank's growth.

Movements in the corporate business indicators in 2018 as compared to 2017*, %

3.6% ↑ ASSETS

20.1% ↑ EQUITY AND LIABILITIES

22.8% ↑ FOREX TRANSACTIONS

23.2% ↑ NUMBER OF CUSTOMERS

*Source: management reports

Advantages for customers

Pivdenny implemented a system in which the customer obtains maximum benefits from interaction with the Bank, including an individual approach, high qualification of employees and financial reliability.

Each customer of the Corporate Business Department is assigned a personal account manager who supports the customer and promotes his/her interests in all areas, including loans, deposits and cash and settlement services. In addition, each customer has access to specialists, such as personal operators responsible for settlements in Ukrainian hryvnia and foreign currencies or personal credit specialists. This system allows for a prompt response to the needs of the customer and the ability to address any requests and applications. The Bank does not tolerate situations wherein the customer does not receive any feedback.

Products and solutions
Pivdenny Bank supports a full range of transactions, and its customers do not require assistance from other banks. Any customer of the Bank has access to solutions for processing current settlements, to a wide range of financing products, foreign currency transactions, trade finance transactions, and to securities transactions. Moreover, Pivdenny Bank applies a customized approach to its customers, and account managers are always prepared to offer solutions that best meet any request.

The reliability of Pivdenny Bank is based on the scrupulous selection of credit projects. Thanks to their high level of financial expertise, the Bank's analysts can evaluate any project promptly, with high quality and with minimum distraction of the customer.

Industry expertise
Pivdenny Bank seeks to be an expert not just in the financial sector, but also in those sectors in which our customers operate. This approach has been successfully applied in our cooperation with companies operating in the gas, fuels, pharmaceuticals, agricultural and leasing segments.

A spectacular example of the above is our team serving the Ukrainian pharmaceuticals market. During 2018, we performed a extensive expert evaluation of all areas of this market.

As far as the gas industry is concerned, in 2018 the Bank also managed to improve its positions: today, our customers include 6 new groups of companies, for whose benefit the bank processed transactions worth UAH 1 billion.

Today, Pivdenny renders services to four major players operating on the market of construction and assembly works, two of which became our customers in 2018. Overall, the total volume of trade finance transactions grew by UAH 300 million, and the total trade finance transactions portfolio exceeded UAH 800 million.

Pivdenny Bank occupies strong positions in the oil supplies sector. The TOP-10 operators of the oil market are all Pivdenny Bank customers.

In addition, the Bank has been actively offering its services to logistics companies operating in grain and mineral fertilizer transportation; in particular, the Bank provided financing for grain carriers' purchases.

The Bank is one of the first institutions to make use of new market opportunities and, thanks to its expertise, to offer products helping its customers to develop their businesses

Key achievements in corporate business in 2018

- Preparation and implementation of a procedure for the sale of products to corporate customers (including identification of functional roles, principles of interaction, rules of subordination, and target setting and budget fulfilment instruments) allowed for the improvement and increased efficiency of the services provided to customers from the corporate business segment.

- Development of business expertise (creation of industry-specific task forces, identification of industry priorities, reinforcement of industry expertise) as well as implementation of operational standards and regular work with CRM (standards of phone call processing, personal meetings, crossing of counterparties with existing customers).

- Product range development:
  - "Exporter" credit line;
  - "Importer" credit line;
  - escrow account (squeeze-out);
  - standards of bill avalization-related products;
  - forward foreign currency purchase contracts;
  - financing construction and upgrades of grain elevators;
  - broker services — T-bills;
  - "Zastavnyi" deposit;
  - development of MC Business Debit card packages;
  - sales of foreign currency without opening an account.

- Establishment of front office units, in particular, appointment of dedicated managers in charge of engagement functions (without follow-up), which allow for the organization of direct sales.

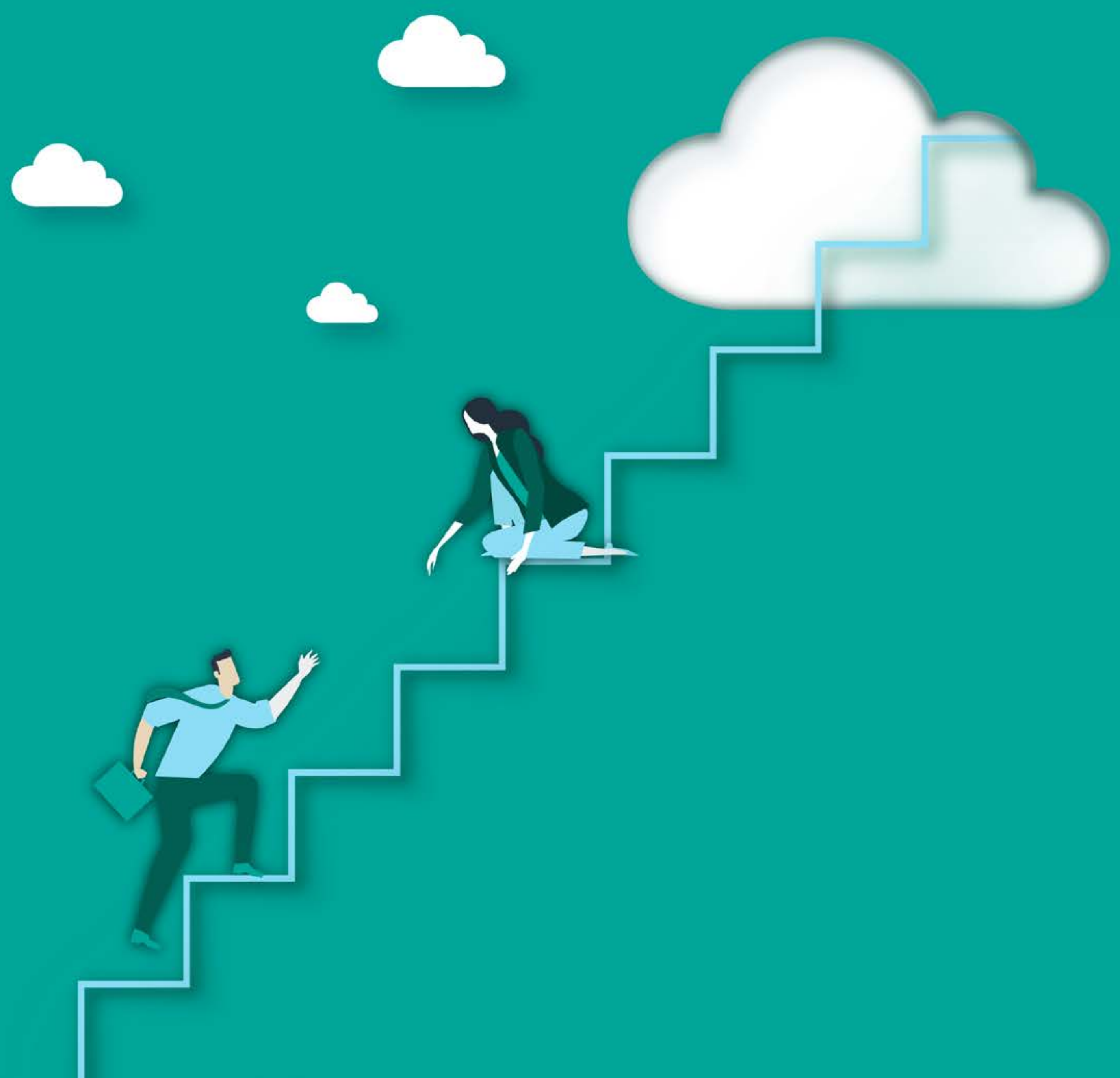
Further development priorities

Pivdenny Bank has plans to further develop its corporate business. The Bank has plans for the extensive development in the medium business segment. At the same time, the key priority for work with large corporate customers is to raise the efficiency of the business against a background of moderate growth of assets.

Therefore, the main goals of the Corporate Business Department for the next three years would be to ensure higher return on capital and to raise the efficiency of attracted funds. In addition, the Bank plans to secure a growth in forex operations thanks to the attraction of customers engaged in foreign economic operations. Apart from traditional transactions of foreign currency exchange, the Bank has and will continue to develop new products and services to allow customers to manage their currency risks (forward transactions), credit lines collateralized by free foreign currency, etc.

To achieve ambitious goals, the Corporate Business Department intends to reinforce its industry and market expertise, to expand its presence beyond the domestic region and to improve customer service quality. The launch of free advice for customers from the foreign economic activity segment is an example of expert assistance offered. Since the start of 2019, any legal entity may submit an application via the Bank's website and obtain advice as regards opening of accounts in a foreign currency, obtaining loans from non-residents, and on matters pertaining to foreign currency control. In addition, the Bank's experts can conduct preliminary reviews of foreign economic contracts for compliance with regulations on financial monitoring and currency control. Consultation of this kind will help applicants take adequate management decisions, avoid last minute surprises and non-standard situations during the entire contract performance process.

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY



Corporate governance principles

Corporate governance at Pivdenny Bank is organized in accordance with the international principles adopted in the banking sector and includes the main elements of this system.

The components of the corporate governance system are as follows:

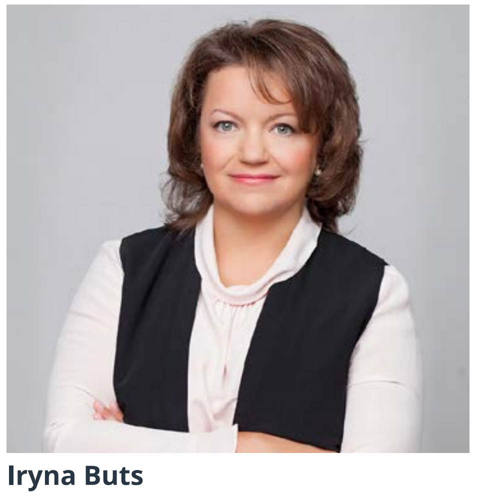
- corporate culture;
- business strategy;
- effective interaction between the governing and controlling bodies;
- internal control and compliance;
- monitoring of conflict of interest risks;
- financial and career incentives;
- transparency.

Management vertical

The Supervisory Board and the Board of Directors are the key corporate governing bodies of the Bank.

The activities of the financial institution are directly governed by the Board of Directors chaired by Ms Alla Vanetsyants, a shareholder of the Bank. Each member of the BOD oversees one or several directions and is responsible for the concerted and efficient operation of the structural units subordinated to him/her.

Alla Vanetsyants
Chairperson of the Board of Directors
Ms Vanetsyants has been in the office of Chairperson of the Management Board of Pivdenny Bank since June 2016.

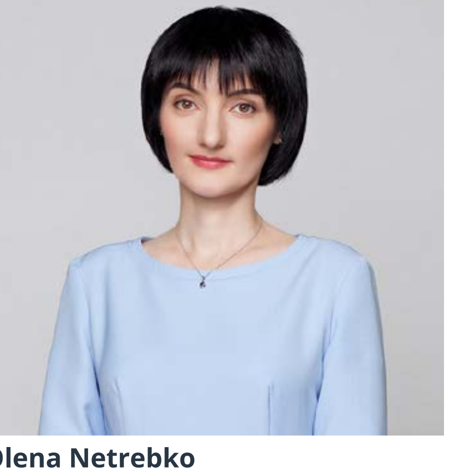


Iryna Buts
Deputy Chairperson of the Board of Directors
Ms Buts has been in the office of Deputy Chairperson of the Management Board of Pivdenny Bank since 2011.
Ms Buts oversees the operation of the financial and IT divisions.

Maksym Tsymbal
Deputy Chairperson of the Board of Directors
Mr Tsymbal has been in the office of Deputy Chairperson of the Management Board of Pivdenny Bank since 2015.
Mr Tsymbal is in charge of corporate banking.

Ludmila Kovalenok
Member of the Board of Directors, Chief Accountant
Ms Kovalionok has been Chief Accountant and a member of the Management Board of Pivdenny Bank since 1998.

Volodymyr Gavlytskyi
Member of the Board of Directors, Compliance Department Director
Mr Gavlytskyi has been on the Management Board of Pivdenny Bank since 2012.
Mr Gavlytskyi oversees the compliance, financial monitoring and currency control areas.



Olena Netrebko
Member of the Board of Directors, Business Processes Department Director
Ms Netrebko has been on the Management Board of Pivdenny Bank since 2016.
Ms Netrebko is in charge of operational support, business processes improvement and project activity.

Supervisory Board

The Supervisory Board has six members, three of which are independent directors with international education and experience in international financial institutions.

The Supervisory Board features the following permanent committees:

The Audit Committee manages issues related to the performance of audits by independent and internal auditors.

The Risk Management Committee oversees the efficiency of the system of management of risks arising within the Bank's operations.

The Appointments and Remuneration Committee accounts for the personal composition and evaluation of performance of the governing bodies of the Bank and approves the amounts and terms of payment of remuneration to the members of the governing bodies.

Four structural divisions are directly subordinated to the Supervisory Board, including: the Risk Management Department, the Internal Audit Department, the Compliance Department and the Corporate Governance Centre

Iurii Rodin
Chairperson of the Supervisory Board, a major shareholder and a beneficiary owner of Pivdenny Bank
Mr Rodin has 23 years of experience in banking and management

Mark Bekker
Deputy Chairperson of the Supervisory Board and a shareholder of Pivdenny Bank

Johanes de Brown Willibrordus
Independent director
A partner of COB Europe LLC.
Held management positions in the representative office of ABN AMRO in Germany.
Held the position of director of operations of the representative office of ABN AMRO in Hungary.
Acted as the main advisor of ABN AMRO at JSC Ukreximbank, Ukraine.
Obtained a master's degree from Technische Universiteit Eindhoven (the Netherlands).

Margot K. Jacobs
Independent director
Senior consultant at East Capital since 2006.
Ms. Jacobs held management positions in UFG and Charlemagne Capital.
Ms. Jacobs has 12 years of experience working at KPMG Russia.
She has an MBA and a master's degree in human sciences from Georgetown University (USA)
CFA certificate.

Mykhailo Chornyi
Member of the Supervisory Board of Pivdenny Bank
Professional lawyer and legal sciences doctorate candidate.

Olena Korobkova
Independent director
Executive Director of the Independent Association of Ukrainian Banks.
International Diploma from the London Business Academy in management.

Remuneration policy

At the senior management level, the Bank must always maintain a balance between achievement of the target indicators and the prevention of any risky transactions. To that end, Pivdenny Bank has implemented a clear-cut system of financial and career incentives and adopted a mechanism of control over that system.

The implemented remuneration policy facilitates management of risks, thereby preventing acceptance of any excessive risks. In accordance with its internal regulations, the Bank performs daily monitoring of its credit risks and control over compliance with the NBU's H7 (maximum credit exposure per counterparty) and H9 (maximum credit exposure per related party transactions) ratios.

Related parties

As of 1 January 2019, the list of related parties of Pivdenny Bank included both individuals and legal entities. Related parties include controllers, significant stakeholders, affiliates, associates and senior managers of the Bank and its affiliates/associates

The Bank identifies, analyses and oversees related party transactions under the guidance of its internal regulations on identification of the Bank's related parties and the terms and conditions of transactions therewith. The Bank's divisions process transactions with related parties under the same conditions as those applicable to any other counterparties.

Information on related party transactions identified according to IAS 24 - Related Party Disclosures is presented in Note 35 - Related Party transactions of its separate financial statements.

Corporate Governance Code

The key principles underpinning the Bank's corporate governance system are set forth in the Corporate Governance Code. Its purpose is to establish a transparent and effective governance model ensuring a balance between the interests of majority and minority stakeholders, managers, business partners, customers and society.

Code of Ethics

The Bank's corporate culture is formalized within the Code of Ethics outlining the values and principles followed by Pivdenny Bank and its employees responsible for customer confidence, the Bank's reputation, and successful long-term development.

50% OF THE BOARD MEMBERS ARE INDEPENDENT DIRECTORS, WHICH IS SIGNIFICANTLY HIGHER THAN THE STANDARD NUMBER REQUIRED BY LAW

47 MEETINGS HELD IN **2018**

Risks management system

A proactive position in risk management as an integral part of the corporate governance system is the key to achieving the Bank's strategic objectives.

The risk management system is organised within the bank in compliance with legislation, the applicable regulations of the NBU, and considering the requirements of the international standards of corporate governance and risk management in banks.

The Bank seeks to be in complete compliance with legislation, applicable regulations, market standards, and principles of corporate governance, corporate ethics rules and internal regulations.

The Bank implements standards for a fair, professional and conscientious attitude among employees towards the performance of their professional responsibilities. Instances of conduct that is not in compliance with corporate ethics standards are very infrequent within the Bank. The Bank takes very seriously any breach of corporate ethics standards and applies adequate sanctions to those employees ignoring or violating these standards.

The Bank is guided by a "zero tolerance" policy toward any manifestations of corruption or fraud, and takes all legislative measures to prevent, identify and counter corrupt, fraudulent or related practices. Any reports about suspected fraud or corruption on the part of employees are considered with due diligence and receive an adequate response from the Bank.

Risk management principles

The Bank sticks to the following principles when managing substantial risks:

- Efficiency
- Proportionality
- Comprehensiveness
- Timeliness
- Containment of risks
- Risk awareness
- Engagement of top management
- Structuring
- Segregation of duties, independence
- Confidentiality
- Transparency

Risk management processes are regulated by a number of internal policies and procedures approved by the Supervisory Board and/or the Bank's Board of Directors.

Key internal banking regulations on risk management

- Declaration on Attitude Toward Risks (appetite for risks)
- Risk Management Strategy
- Code of Corporate Governance

- Code of Ethics
- Compliance Policy
- Policies on management of other significant risks (credit, market, liquidity, interest rate, and operational risks)
- Internal regulations governing the internal control system
- Policy on managing conflicts of interest
- Anticorruption program

Organizational chart of the Bank's risk management

SUPERVISORY BOARD

Is fully responsible for establishment of an adequate and efficient risk management system in the bank:

• ensures operation and efficiency of the risk management system;
• approves internal banking regulations on risk management (Risk Management Strategy, Declaration on Risk Appetite, Risk Management Policy, Procedures for Identification of Significant Risks, etc.);
• approves the list of risks (limitations) in light of each risk and a procedure for escalation of matters as regards departures from risk limits;
• determines the nature, format and volumes of information on risks, reviews management reports on risks.

Committee for risk management | Audit committee | Appointments and remnuneration committee

Board of directors (special committees of the BOD)

Oversees compliance with assignments and resolutions taken by the Management Board regarding implementation of the risk management system, including risk management strategy, policy and culture, and procedures and methods and other measures in the area of efficient risk management, including:

• design and approval of internal banking regulations on risk management (procedures, instruments and risk management models, etc.);
• design and submission to the Supervisory Board of management reports on risks;
• measures on prompt elimination of deficiencies in the risk management system.

Three lines of defence

Risk management is organized in the Bank in accordance with the applicable requirements of the NBU and taking into account international standards of corporate governance and risk management in banks, which envisage application of the "three lines of defence" principle.

The principle of "three lines of defence" ensures segregation of duties in the area of risk management among business units, support units, risk management and compliance units, and internal audit function.

The principle of "three lines of defence" in the Bank

I

FIRST LINE OF DEFENCE:

• Business units
• Business support units

Accepts risks, takes responsibility for day-to-day internal control, monitors the level of risks and submits reports on the current situation in the risk management area

II

SECOND LINE OF DEFENCE:

• Risk management function*
• Compliance function*

Responsible for identification, evaluation and monitoring of risks independently of the first line of defence and submits management reports on risk management issues to the Bank's governance bodies

III

THIRD LINE OF DEFENCE:

• Internal audit*

Carries out verification and evaluation of efficiency of the risk management system

* Units subordinated and reporting to the Supervisory Board of the Bank

Significant risks and their management

Credit risk is the probability of losses or extra costs or failure to generate targeted revenues as the result of default of a debtor or counterparty on its contractual commitments.

The main methods of managing and mitigating credit risks are as follows:

- prevention of risks by way of identification, analysis and evaluation of potential borrowers;
- implementation of requirements as regards risk identification and evaluation;
- control of compliance with credit risk ratios (H7, H8, and H9);
- restriction of risks within acceptable risk appetites and risk limits;
- establishment of provisions under IFRS to cover potential losses on loans and assessment of credit exposure in compliance with requirements of the NBU (Regulation No. 351), benchmarking analysis of results;
- implementation of a prudent collateral policy;
- monitoring and control of the level of risks;
- assessment of concentrations of risks in light of individual portfolios, countries, types of economic activity, etc.;
- regular analysis and evaluations of levels of risk, including applying scenario-based analysis.

Liquidity risk — is the probability of losses or extra costs or failure to generate targeted revenues as a result of the inability of the Bank to finance the growing asset base and/or to honour its liabilities when due.

To mitigate its liquidity risks, the Bank:

- maintains a stable and sufficiently diversified structure of equity and liabilities;
- plans its liquidity ratios and creates a safety cushion;
- makes investments in liquid financial assets considering the risk of excessive concentrations;
- maintains a pool of counterparties sufficient to attract the required resources in cases of unexpected liquidity gaps;
- establishes limits on maturity gaps, restricts concentrations for individual portfolios;
- performs continuous monitoring and control of risk levels;
- performs regular analyses and assessments of the level of risk, including applying a scenario-based analysis;

Interest rate risk of the banking book is the probability of losses or extra costs or failure to generate targeted revenues caused by the influence of any adverse changes in the interest rates on the banking book.

To manage its interest rate risk, the Bank:

- strives to maintain a stable and sufficiently diversified structure of its assets sensible to the changes in interest rates;
- maintains a pool of counterparties sufficient to attract required resources at an arm's length basis;
- establishes limits on maturity gaps between interest bearing assets and liabilities;
- performs continuous monitoring and control of risk levels;
- performs regular analyses and assessments of risk levels, including applying a scenario-based analysis.

Market risk is the probability of losses or extra costs or failure to generate targeted revenues as the result of adverse changes in interest rates, foreign exchange rates or values of financial instruments.

To manage its market risk, the Bank:

- carries out regular monitoring and control of the portfolios prone to market risks;
- prepares projections of movements in the value of market instruments;
- carries out monitoring and control of risk levels;
- performs regular analyses and assessments of risk levels, including applying a scenario-based analysis.

Operational risk is the probability of losses or extra costs or failure to generate targeted revenues as a result of deficiencies or errors in the organization of internal processes, deliberate or inadvertent acts of the Bank's employees or other persons, failures of IT systems, or as the result of external factors.

The Bank has established an alert-based system of operational risk management intended to minimize potential losses through:

- creation and maintenance of a database of internal events associated with operational risk and through analyses of the information accumulated in this database;
- self-assessments of structural units in light of their inherent operational risks;
- monitoring of the key risk indicators (KRIs);
- performance of scenario-based analysis.
- The Bank evaluates its operational risk taking into account its correlation with and impact on other risks.

Compliance risk is the probability of losses/imposition of penalties, extra costs or failure to generate targeted revenues or of reputational losses as the result of the Bank's non-compliance with requirements of legislation, regulations, market standards, fair competition rules, corporate ethics rules, origination of conflicts of interest, and violation of internal banking regulations.

Key compliance risk management activities are as follows:

- organization of control over the Bank's compliance with the requirements of legislation, internal banking regulations, and standards of professional associations applicable to the Bank;
- prevention of and countering legalization (laundering) of proceeds from crime, financing of terrorism, and proliferation of weapons of mass destruction;
- prevention and settlement of conflicts of interest;
- prevention of abuses of authority and corrupt legal offences by employees, participation in investigations of internal and external fraud;
- analysis and preparation of conclusions as regards compliance risk inherent in new products or caused by significant changes in the Bank's operations;
- organization of control over the Bank's compliance with requirements as regards timeliness and accuracy of its financial statements and statistical reporting;
- organization of control over protection of personal data according to the requirements of legislation;

- organization of control over compliance of NPLs management activity with requirements of legislation;
- taking measures to implement FATCA (Foreign Account Tax Compliance Act) provisions into the Bank's processes, control over compliance with FATCA requirements.

Risk management culture

The Bank seeks to implement a corporate culture oriented towards the standards of responsible and ethical conduct with a particular focus on risk-oriented behaviour of employees envisaging open discussion and responses to existing and contingent risks, with zero tolerance for disregarding risks and risky behaviours.

Together with other internal policies and procedures, the Code of Ethics establishes appropriate standards of professional conduct followed by all employees of the institution. Therefore, the risk management culture becomes an integral component of the risk management system.

Employees develop risk-oriented behaviour based on:

- guidance of senior managers of the Bank who foster the "tone from the top" environment, promote and encourage an honest, professional and conscientious attitude to risk management on the part of all employees;
- remuneration policy facilitating efficient risk management practices without giving incentives for accepting excessive risks;
- establishment of efficient communications mechanisms and channels for reporting on matters pertaining to risk management;
- arrangement of appropriate training sessions for employees.

Prevention of corruption and fraudulent practices

The Bank has adopted an internal Anti-Corruption Program according to which each person employed by the Bank has to take reasonable efforts to minimize the risk of involvement of the Bank and its employees in corrupt practices.

To prevent corrupt schemes, the Bank has implemented the following mechanisms:

- arrangement of training for all employees in the areas of preventing and countering corruption;
- obtaining written commitments from all employees as regards obligatory compliance with requirements of the Anti-corruption Program;
- anti-corruption screenings of customers, counterparties, and business partners;
- compliance with restrictions on Bank execution of labour agreements (contracts) or business arrangements, as well as restrictions on support of political parties and engagement in charitable activities;
- procedure for informing the Bank (including on the condition of confidentiality) as regards actual (or potential) commitment of corrupt or corruption-related legal offences by employees, customers and counterparties; implementation of protection measures for whistle-blowers;
- internal investigation procedures; taking measures to react to the identified facts of corrupt or corruption-related legal offences.

Countering financial crimes

Pivdenny Bank supports the development of efficient rules and procedures and internal standards to counter financial crimes. The key goal is to increase the efficiency of measures for countering legalization in advance of performance of the financial transactions in parallel with liberalization of such measures in respect of clients already familiar to the Bank.

Pivdenny Bank has implemented all required instruments of countering legalization of proceeds from crime and financing of terrorism designed based on the best international practices and FATF recommendations.

Such instruments, inter alia, include:

- 'Know your customer' policy;

- on-going monitoring of business relations with customers;

- Customer Acceptance Policy;

- submission of reports on suspicious acts to the competent authorities.

IN ADDITION, DURING 2018, WE REFORMED OUR FINANCIAL MONITORING DEPARTMENT. THE OBJECTIVE OF THE REFORM WAS TO ENSURE MAXIMUM EFFICIENT PERFORMANCE OF ON-GOING TASKS IN CONNECTION WITH THE CHANGE OF APPROACH BY THE REGULATOR.

Transparent policy of informing about risks

The requirements regarding management reporting implemented in the Bank ensure provision of information as regards the level of risks requiring timely and adequate decisions to the Supervisory Board, the Management Board, other collegiate authorities and users. This reporting is accurate, precise, and informative and covers all material types of risks.

The information subject to disclosure under requirements of the regulatory authorities is published within prescribed deadlines.

Key achievements in the risk management area in 2018

To ensure development and improvement of risk management practices, in 2018 the Bank took the following measures:

- it brought the organizational structure of the risk management system into compliance with the requirements of the NBU taking into account current international standards of corporate governance and risk management in banks;
- segregation of duties and powers in the risk management area between the Supervisory Board, the Risk Management Committee, the Board of Directors and risk management and compliance functions;
- requirements as regards the independence of risk management and compliance bodies;
- the "3 lines of defence" principle that ensures segregation of duties in the area of risk management among business and support functions, risk management, compliance and internal audit functions.

To develop and improve compliance risk activity, in 2018 the Bank actively developed its corporate culture, improved control procedures and procedures for evaluation of risk-prone customers to implement a risk-oriented approach during establishment/continuation of business relations with customers.

- Corporate culture development:

  • during the reporting year, the Bank approved its Code of Ethics and Policy of Management of Conflicts of Interests;

  • the Bank improved its whistle-blowing procedure to ensure reporting by customers/counterparties and employees about instances of inadmissible behaviour in the Bank (to give additional reporting opportunities to informers, the Bank implemented new channels of the "Trust Line");

  • the Bank took additional measures in the management of conflicts of interest (including the procedure for reporting of potential conflicts of interest by employees);

  • the Bank elaborated its procedure for familiarization of its employees with internal banking documents;

  • the Bank conducted training events to familiarize its employees with the policy of management of conflicts of interest, with the specifics of operation of the system of reporting on instances of inadmissible behaviour/illegal acts by the customers, counterparts and employees.

- The Bank improved its compliance control procedures, including:

  • monitoring of changes in legislation, evaluation of their implications for the Bank and control over implementation of changes in the internal banking documents;

  • approval of new products, services and internal banking documents for the purpose of verification of compliance risk;

  • preparation of management reports on compliance risk activity and on internal control issues.

- The Bank took additional measures to prevent fraudulent practices and other violations, including:

  • implementation of changes in the operational processes to improve and reinforce internal control;

  • implementation of procedures for monitoring and analysis of doubtful transactions;

  • reviews/internal investigations or taking measures to prevent any misappropriations/violations in the future.

HR management

The team driving the realisation of the Bank's mission

The Bank's mission is to improve the quality of life of our clients, employees and their families by creating financial opportunities for the development of Ukrainian business. This mission is realized directly by the employees of the Bank. Each employee helps customers achieve their planned financial goals.

To realize this ambitious objective, we need people who not only perform their duties in the Bank, but also those who share a certain philosophy and values underpinning the business of our Bank. Pivdenny Bank Code of Business Ethics drafted in 2018 fixes 5 key values, including:

- focus on customers' needs;
- integrity;
- initiative;
- drive to development;
- team.

These values are not mere words. To obtain a job with the Bank, one needs to demonstrate not just required professional qualities — it is necessary to be "our" person in terms of spirit, i.e. to share the goals based on which the Bank was established.

Personnel recruiting process

During the past three years, Ukraine has experienced the problem of a lack of adequately qualified personnel. In this situation, timely recruitment of new qualified employees is the pre-requisite for the future growth of our business. How could we convince a person sharing our spiritual values that we need him or her in the Bank?

When sourcing new employees, Pivdenny Bank takes a proactive position. During 2018, the Bank participated in 63 job fairs. Furthermore, the Bank cooperated with Odesa and Kyiv employment centres.

The Bank has concluded agreements on practical training or internship of students with eight tertiary education establishments including Odesa National Economic University, Odesa National Communications Academy, Odesa National Polytechnics University, Odesa I. I. Mechnikov National University, Kyiv National University of Trade and Economics, V.I. Vernadsky Taurida National University, and Kyiv National Economic University named after V. Hetman. During 2018, Pivdenny offered practical training for 28 students, of whom 6 later applied for a job in the Bank.

To attract young specialists, Pivdenny Bank arranged a number of promotional campaigns via Facebook and Instagram.

In addition, the Bank made presentations at two specialized conferences, including iForum and the UGEN conference.

Opportunities for development

The Bank has a program of in-class and remote training, which enables its employees to improve their industry knowledge and to obtain new knowledge to develop their personal qualities and skills.

2 510 EMPLOYEES
CREATE OPPORTUNITIES FOR IMPROVEMENT OF THE FINANCIAL POSITION OF THE BANK'S CUSTOMERS

UAH 5.5 MILLION
WAS INVESTED IN EDUCATION AND DEVELOPMENT AND REMOTE TRAINING PROGRAMMES IN 2018

1 220 EMPLOYEES
ATTENDED TRAINING SESSIONS HELD BY THE BANK

1 811 EMPLOYEES
ATTENDED TRAINING COURSES AT LEAST ONCE

OVERALL, 8 656
TRAINING SESSIONS WERE ORGANISED BY THE BANK

Thanks to the implementation of the above programs in 2018, the Bank managed to improve the level of professionalism of its employees. Training programs are designed by the HR department jointly with experts from respective areas of banking.

During 2018, Pivdenny Bank held training sessions in the following areas:

- general banking operations;
- services and sales;
- banking products and procedures;
- use of software;
- personal efficiency;
- development of management skills;
- development of professional skills.

During their employment, employees attend remote training courses to master the skills mandatory for all employees, including: fire safety and labour protection rules, informational security rules, fundamentals of the Code of Ethics, Compliance Policy, the Anti-Corruption Program, and the Policy of Resolution of Conflicts of Interests.

The Bank encourages work accomplishments and strives towards self-improvement of its employees. In doing so, the Bank has implemented a program of rewards for its employees' accomplishments: on an annual basis, Pivdenny selects the best employees who can act as role models for their colleagues. The nominees receive cash incentives.

Atmosphere of trust

The Bank seeks to create conditions encouraging employee engagement in development of their institution. Pivdenny Bank's objective is to create an environment where the employees trust each other, openly discuss various business issues, freely articulate new ideas and have opportunities to put them into practice. According to the philosophy of Pivdenny Bank, any challenges faced by the Bank represent opportunities for development.

The Bank has a reference system of rewarding employees that help recruit new professionals. An employee is paid a material incentive if his or her nominee successfully passes the probation period. During 2018, the Bank has employed 13 new specialists recommended by current employees.

Career growth

Pivdenny Bank gives its employees the opportunity to unleash their potential and encourages their professional development. Therefore, the Bank has implemented a KPI evaluation system helping each employee to be aware of his/her contribution to the activities of the Bank, the procedures used to assess his/her performance and the way such an assessment would affect his/her salary and career.

Staff turnover

The Bank creates jobs with fair wages and social guarantees. During recent years, however, the Bank paid lower salaries as compared to its competitors, as the result of which 30% of its employees left the Bank in 2017.

THE BANK'S EMPLOYEES WERE PAID

UAH 852 THOUSAND IN MATERIAL ASSISTANCE

Taking into account market trends, the Bank has revised its remuneration policy and twice increased salaries for all employees in 2018. The above step made it possible to reduce the percentage of those who left their job to 20% during the year and to reduce this indicator to zero in the 4th quarter of 2018. The Bank plans another increase in wages in 2019.
The percentage of those who left on the pretext of low salaries decreased by 10% in 2018.

In addition, the Bank managed to reduce the numbers of quitters who worked less than one year from 33% to 23% in 2017 and 2018, respectively. The overall staff turnover rate decreased to 19% in 2018, which is significantly less than the average indicator recorded in the banking industry of Ukraine (26%). The staff turnover rate decreased by 2% during 2018.

Social security

A responsible attitude to its employees and to society is one of the cornerstones of Pivdenny Bank's business. The Bank consistently complies with Ukrainian legislation on labour. As regards the gender balance, the Bank employs 33% and 67% of males and females, respectively. The Bank actively employs students and people with disabilities.

The Bank pays material assistance in cases of emergencies, family problems, for costly medical treatment, and to retiring employees.

Succession system

An effective succession of values is feasible only based on personal example demonstrated by management to subordinates as well as based on a succession system. The Bank started implementing this approach in 2018 and intends to continue this activity in 2019. The goal of the tutor is to help a new employee to adapt to new tasks, to learn the methods of efficient performance, and to give the newcomer an opportunity to realize his/her own potential and to be successful in the new working environment.

2019 is a year of major changes

In 2018 Bank continued transition from a personnel administration system to a modern HR management system. The Bank's plans for 2019 includes the creation of a corporate competencies model, competencies evaluation procedure, a procedure for assessing respect for corporate values, assessment of the level of inclusion of personnel, development of the system of adaptation of personnel, extension of programs of training and preparation of employees' individual career and development plans.

Social responsibility

THE PCHIOLKA CHARITY FOUNDATION'S TURNOVER IN THE BANK COMPRISED

UAH 2 MILLION

The Bank believes that business is not just about profit generation. The Bank has commitments to society and develops its relations with society based on the principles of responsibility, ethics and transparency. Pivdenny Bank concentrates on the improvement of the welfare of society and seeks to create an internal environment inspiring its employees to take part in social responsibility projects. During 2018, the Bank invested UAH 7.244 million in charity, social protection, development of personnel, and promotion of sports and healthy ways of living.

In addition, the Bank offers special rates on services to charity and social welfare organisations charging minimal commissions for services and processing of all types of transactions.

Sports and culture

During the reporting year, Pivdenny Bank sponsored 4 sports and 7 cultural events. The Bank acted as an official partner of the Wizz Air Kyiv Marathon and the Zaporizhzhya Half Marathon, supported international music festivals "Jazz on the Dnipro" and "Koktebel Jazz Fest", and provided charitable support to "Kremin" basketball club and to the Lviv City Basketball Federation.

Charitable activity

The Bank partners with the Pchiolka Charity Foundation that supports critically ill children.

According to the conditions of this cooperation, the Bank covers all commissions for payments in favour of the Foundation (as well as any other charitable organizations). In addition, the Bank's self-service terminals have an option allowing customers to transfer charitable contributions to Pchiolka Foundation accounts.

The Bank's employees collected funds to support the Odesa Region Clinical Hospital, while the Bank paid for the electric materials and electric assembly works carried out at the Danube Regional Hospital of the city of Izmail.

For several years now, Pivdenny Bank has been helping Odesa kindergarten No. 13 to improve its facilities and to repair its premises.

Donorship

The Bank's employees donate blood for the benefit of patients of Odesa Clinic Hospital and for those of "Water-Transport Workers Hospital". The Bank arranged 6 blood donation sessions at its Head Office, during which 25–30 volunteers donated circa 67 litres of blood during 2018. The Bank covers the blood test costs for the donors and the costs of purchasing the required equipment.

There are 150 active blood donors among the employees of Pivdenny Bank.

Industry-specific and educational events

The Bank took part in 32 industry-specific events, having, in particular, organized three discussions of business financing, currency regulation, financial monitoring, cyber security and data protection issues, and acted as general partner of the CFOs Forum.

Jointly with Odesa Wave Business School, the Bank arranged and held three meetings with students of the department of finance and economics of Odesa National Economic University to discuss:

- relations between banks and business segment customers;
- secure use of payment cards;
- NFC technology.

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Звіт щодо аудиту окремої фінансової звітності

Думка

Ми провели аудит окремої фінансової звітності ПУБЛІЧНОГО АКЦІОНЕРНОГО ТОВАРИСТВА АКЦІОНЕРНИЙ БАНК «ПІВДЕННИЙ» (надалі – Банк), представленої на сторінках 77—153, що складається з окремого звіту про фінансовий стан на 31 грудня 2018 року, та окремого звіту про сукупний дохід, окремого звіту про зміни у власному капіталі та окремого звіту про рух грошових коштів за рік, що закінчився зазначеною датою, та приміток до окремої фінансової звітності, включаючи стислий виклад значущих облікових політик.

На нашу думку, окрема фінансова звітність, що додається, відображає достовірно, в усіх суттєвих аспектах фінансовий стан Банку на 31 грудня 2018 року, та її фінансові результати і грошові потоки за рік, що закінчився зазначеною датою, відповідно до Міжнародних стандартів фінансової звітності («МСФЗ») та відповідає вимогам Закону України «Про бухгалтерський облік та фінансову звітність в Україні» No 996-XIV щодо складання фінансової звітності.

Основа для думки

Ми провели аудит відповідно до Міжнародних стандартів аудиту («МСА»). Нашу відповідальність згідно з цими стандартами викладено в розділі «Відповідальність аудитора за аудит окремої фінансової звітності» нашого звіту. Ми є незалежними по відношенню до Банку згідно з Кодексом етики професійних бухгалтерів Ради з міжнародних стандартів етики для бухгалтерів («Кодекс РМСЕБ») та етичними вимогами, застосовними в Україні до нашого аудиту окремої фінансової звітності, а також виконали інші обов'язки з етики відповідно до цих вимог та Кодексу РМСЕБ. Ми вважаємо, що отримані нами аудиторські докази є достатніми і прийнятними для використання їх як основи для нашої думки.

Ключові питання аудиту, що охоплюють найбільш значущі ризики суттєвих викривлень, включно з оціненими ризиками суттєвих викривлень внаслідок шахрайства

Ключові питання аудиту – це питання, які на наше професійне судження, були найбільш значущими під час нашого аудиту окремої фінансової звітності за поточний період. Ці питання розглядались в контексті нашого аудиту окремої фінансової звітності в цілому та враховувались при формуванні думки щодо неї, при цьому ми не висловлюємо окремої думки щодо цих питань. Щодо кожного питання, описаного нижче, наш опис того, як відповідне питання розглядалось під час нашого аудиту, наведено в цьому контексті.

Ми виконали обов'язки, що описані в розділі «Відповідальність аудитора за аудит окремої фінансової звітності» нашого звіту, в тому числі щодо цих питань. Відповідно, наш аудит включав виконання процедур, розроблених у відповідь на нашу оцінку ризиків суттєвого викривлення окремої фінансової звітності. Результати наших аудиторських процедур, в тому числі процедур, що були виконані під час розгляду зазначених нижче питань, служать основою для висловлення нашої аудиторської думки щодо окремої фінансової звітності, що додається.

Ключове питання аудиту	Як відповідне ключове питання було розглянуто під час нашого аудиту
Резерв під зменшення корисності кредитів та авансів клієнтам	
У зв'язку з суттєвістю резерву під зменшення корисності кредитів та авансів клієнтам для фінансового стану Банку, а також у зв'язку зі складністю і необхідністю застосування суджень щодо оцінки очікуваних кредитних збитків відповідно до нового стандарту МСФЗ 9 «Фінансові інструменти» («МСФЗ 9») дане питання є ключовим питанням аудиту. Оцінка значного зростання кредитного ризику з дати первісного визнання вимагає застосування судження і заснована на відносній зміні в кредитних рейтингах, кількості днів прострочення заборгованості та інших об'єктивних і суб'єктивних факторах. Розрахунок очікуваних кредитних збитків («ОКЗ») включає методики оцінки, в яких використовуються істотні неспостережувані вхідні дані і фактори, такі як внутрішні кредитні рейтинги, а також складне статистичне моделювання та експертне судження.	В ході нашого аудиту ми приділили особливу увагу: оцінці моделей кредитного ризику і припущень, що використовуються для визначення ключових параметрів резервування, і визначення очікуваних кредитів збитків на портфельній основі; оцінці припущень керівництва щодо виявлення значного зростання кредитного ризику на індивідуальній і портфельній основі, з використанням кількісних і якісних критеріїв; тестуванню очікуваних майбутніх грошових потоків, у тому числі грошових потоків, пов'язаних із реалізацією забезпечення, по суттєвих кредитах на індивідуальній основі. Наші аудиторські процедури включали оцінку методології розрахунку очікуваних кредитних збитків, розробленої Банком для оцінки резервів під зменшення корисності кредитів і авансів клієнтам.

У зв'язку з суттєвістю резерву під зменшення корисності кредитів та авансів клієнтам для фінансового стану Банку, а також у зв'язку зі складністю і необхідністю застосування суджень щодо оцінки очікуваних кредитних збитків відповідно до нового стандарту МСФЗ 9 «Фінансові інструменти» («МСФЗ 9») дане питання є ключовим питанням аудиту. Оцінка значного зростання кредитного ризику з дати первісного визнання вимагає застосування судження і заснована на відносній зміні в кредитних рейтингах, кількості днів прострочення заборгованості та інших об'єктивних і суб'єктивних факторах. Розрахунок очікуваних кредитних збитків («ОКЗ») включає методики оцінки, в яких використовуються істотні неспостережувані вхідні дані і фактори, такі як внутрішні кредитні рейтинги, а також складне статистичне моделювання та експертне судження. Ці методики використовуються з метою визначення ймовірності дефолту, прогнозованої величини кредитної заборгованості, схильної до ризику дефолту, і рівня втрат у разі дефолту на підставі наявних історичних даних і зовнішньої інформації, скоригованих з урахуванням прогнозної інформації, включаючи прогнозні макроекономічні змінні. Для розрахунку ОКЗ щодо суттєвих фінансових активів на індивідуальній основі потрібен аналіз фінансової та нефінансової інформації та значне використання припущень. Оцінка майбутніх грошових потоків грунтується на таких істотних неспостережуваних вхідних даних, як поточні і прогнозні фінансові показники позичальника, вартість забезпечення та оцінка ймовірності можливих сценаріїв. Використання інших методик моделювання, припущень і прогнозів може привести до суттєво інших оцінок резерву під очікувані кредитні збитки. Інформація про резерв під очікувані кредитні збитки за кредитами та авансами клієнтам представлена в примітці 8 та примітці 29 до окремої фінансової звітності.	В ході нашого аудиту ми приділили особливу увагу: оцінці моделей кредитного ризику і припущень, що використовуються для визначення ключових параметрів резервування, і визначення очікуваних кредитів збитків на портфельній основі; оцінці припущень керівництва щодо виявлення значного зростання кредитного ризику на індивідуальній і портфельній основі, з використанням кількісних і якісних критеріїв; тестуванню очікуваних майбутніх грошових потоків, у тому числі грошових потоків, пов'язаних із реалізацією забезпечення, по суттєвих кредитах на індивідуальній основі. Наші аудиторські процедури включали оцінку методології розрахунку очікуваних кредитних збитків, розробленої Банком для оцінки резервів під зменшення корисності кредитів і авансів клієнтам. Ми оцінили розумність чинників кредитного ризику та порогових значень, обраних для виявлення значного зростання кредитного ризику на індивідуальній і портфельній основі. Ми оцінили послідовність застосування критеріїв, обраних керівництвом, на звітну дату. При тестуванні зменшення корисності, розрахованого на портфельній основі, ми проаналізували внутрішні кредитні рейтинги і статистичні моделі, що лежать в основі, ключові вхідні дані та припущення, а також прогнозну інформацію, використовувану при розрахунку очікуваних кредитних збитків. Для відібраних суттєвих кредитів, ми провели перевірку чинників кредитного ризику і класифікацію за стадіями. Стосовно відібраних нами суттєвих корпоративних кредитів ми проаналізували припущення щодо майбутніх грошових потоків, включаючи вартість забезпечення та ймовірність можливих сценаріїв. Ми також оцінили розкриття у окремій фінансовій звітності Банку щодо резерву під очікувані кредитні збитки за кредитами і авансами клієнтам.
Оцінка приміщень та землі, та інвестиційної нерухомості	
Балансова вартість приміщень та землі, а також інвестиційної нерухомості, складала станом на 31 грудня 2018 року 600 283 тис. грн. і 1 101 189 тис. грн., відповідно, що становить 7% від загальних активів Банку на цю дату. Оцінка цих активів вимагає від управлінського персоналу Банку здійснення суттєвих припущень та застосування суджень. З огляду на значущість суджень, застосованих у ході оцінки приміщень, землі та інвестиційної нерухомості, і враховуючи їхню величину, ми вважаємо це питання ключовим питанням аудиту.	Наші процедури, серед іншого, включали: Ми отримали розуміння підходу управлінського персоналу до обліку та оцінки ринкової вартості відповідних активів на звітну дату. Ми отримали та ознайомилися зі звітами про оцінку відповідних активів, які було підготовлено незалежними сертифікованими оцінювачами. Ми оцінили незалежність, компетенцію та досвід залучених оцінювачів. Ми залучили внутрішніх спеціалістів з оцінки для допомоги нам у аналізі звітів оцінки вибраних найбільших об'єктів майна. Наші внутрішні спеціалісти з оцінки ознайомилися

Ключове питання аудиту	Як відповідне ключове питання було розглянуто під час нашого аудиту
Оцінка приміщень та землі, та інвестиційної нерухомості	
	з та проаналізували ключові припущення та методологію, які було застосовано для визначення ринкової вартості станом на 31 грудня 2018 року для відібраних об'єктів. Ми також проаналізували розкриття у окремій фінансовій звітності.

Інша інформація, що включена до Річної інформації емітента цінних паперів за 2018 рік

Інша інформація складається зі Звіту про управління (Звіту керівництва) (що включає Звіт про корпоративне управління, але не включає окрему фінансову звітність та наш звіт аудитора щодо неї), який ми отримали до дати цього звіту аудитора, та іншої інформації, що включається до Річної інформації емітента цінних паперів, яку ми очікуємо отримати після цієї дати. Управлінський персонал несе відповідальність за іншу інформацію.

Наша думка щодо окремої фінансової звітності не поширюється на іншу інформацію та ми не робимо висновок з будь-яким рівнем впевненості щодо цієї іншої інформації.

У зв'язку з нашим аудитом окремої фінансової звітності нашою відповідальністю є ознайомитися з іншою інформацією та при цьому розглянути, чи існує суттєва невідповідність між іншою інформацією та окремою фінансовою звітністю або нашими знаннями, отриманими під час аудиту, або чи ця інша інформація виглядає такою, що містить суттєве викривлення. Якщо, на основі проведеної нами роботи щодо іншої інформації, отриманої до дати цього звіту аудитора, ми доходимо висновку, що існує суттєве викривлення цієї іншої інформації, ми зобов'язані повідомити про цей факт. Ми не виявили таких фактів, які б необхідно було включити до звіту.

Відповідальність управлінського персоналу та Наглядової ради за окрему фінансову звітність

Управлінський персонал несе відповідальність за складання і достовірне подання окремої фінансової звітності відповідно до МСФЗ та за таку систему внутрішнього контролю, яку управлінський персонал визначає потрібною для того, щоб забезпечити складання окремої фінансової звітності, що не містить суттєвих викривлень внаслідок шахрайства або помилки.

При складанні окремої фінансової звітності управлінський персонал несе відповідальність за оцінку здатності Банку продовжувати свою діяльність на безперервній основі, розкриваючи, де це застосовно, питання, що стосуються безперервності діяльності, та використовуючи припущення про безперервність діяльності як основи для бухгалтерського обліку, окрім випадків, коли управлінський персонал або планує ліквідувати Банк чи припинити діяльність, або не має інших реальних альтернатив цьому.

Наглядова рада несе відповідальність за нагляд за процесом фінансового звітування Банку.

Відповідальність аудитора за аудит окремої фінансової звітності

Нашими цілями є отримання обґрунтованої впевненості, що окрема фінансова звітність в цілому не містить суттєвого викривлення внаслідок шахрайства або помилки, та випуск звіту аудитора, що містить нашу думку. Обґрунтована впевненість є високим рівнем впевненості, проте не гарантує, що аудит, проведений відповідно до МСА, завжди виявить суттєве викривлення, коли воно існує. Викривлення можуть бути результатом шахрайства або помилки; вони вважаються суттєвими, якщо окремо або в сукупності, як обґрунтовано очікується, вони можуть впливати на економічні рішення користувачів, що приймаються на основі цієї окремої фінансової звітності.

Виконуючи аудит відповідно до вимог МСА, ми використовуємо професійне судження та професійний скептицизм протягом всього завдання з аудиту. Окрім того, ми:

• ідентифікуємо та оцінюємо ризики суттєвого викривлення окремої фінансової звітності внаслідок шахрайства чи помилки, розробляємо та виконуємо аудиторські процедури у відповідь на ці ризики, та отримуємо аудиторські докази, що є достатніми та прийнятними для використання їх як основи для нашої думки. Ризик невиявлення суттєвого викривлення внаслідок шахрайства є вищим, ніж для викривлення внаслідок помилки, оскільки шахрайство може включати змову, підробку, навмисні пропуски, невірні твердження або нехтування заходами внутрішнього контролю;

• отримуємо розуміння заходів внутрішнього контролю, що стосуються аудиту, для розробки аудиторських процедур, які б відповідали обставинам, а не для висловлення думки щодо ефективності системи внутрішнього контролю Банку;

• оцінюємо прийнятність застосованих облікових політик та обґрунтованість облікових оцінок і відповідних розкриттів інформації, зроблених управлінським персоналом;

• доходимо висновку щодо прийнятностівикористання управлінським персоналом припущення про безперервність діяльності як основи для бухгалтерського обліку та, на основі отриманих аудиторських доказів, доходимо висновку, чи існує суттєва невизначеність щодо подій або умов, що може поставити під значний сумнів здатність Банку продовжувати свою діяльність на безперервній основі. Якщо ми доходимо висновку щодо існування такої суттєвої невизначеності, ми повинні привернути увагу в нашому звіті аудитора до відповідних розкриттів інформації у окремій фінансовій звітності або, якщо такі розкриття інформації є неналежними, модифікувати свою думку. Наші висновки ґрунтуються на аудиторських доказах, отриманих до дати нашого звіту аудитора. Тим не менш, майбутні події або умови можуть примусити Банк припинити свою діяльність на безперервній основі;

• оцінюємо загальне подання, структуру та зміст окремої фінансової звітності включно з розкриттями інформації, а також те, чи показує окрема фінансова звітність операції та події, що лежать в основі її складання, так, щоб досягти достовірного подання.

Ми повідомляємо Наглядовій раді разом з іншими питаннями інформацію про запланований обсяг та час проведення аудиту та суттєві аудиторські результати, включаючи будь-які суттєві недоліки системи внутрішнього контролю, виявлені нами під час аудиту.

Ми також надаємо Наглядовій раді твердження, що ми виконали відповідні етичні вимоги щодо незалежності, та повідомляємо їм про всі стосунки й інші питання, які могли б обґрунтовано вважатись такими, що впливають на нашу незалежність, а також, де це застосовно, щодо відповідних застережних заходів.

З переліку всіх питань, інформація щодо яких надавалась Наглядовій раді, ми визначили ті, що були найбільш значущими під час аудиту окремої фінансової звітності поточного періоду, тобто ті, які є ключовими питаннями аудиту.

Звіт у відповідності до вимог Розділу IV параграфа 11 «Інструкції про порядок складання та оприлюднення фінансової звітності банків України», затвердженої постановою Правління Національного банку України №373 від 24 жовтня 2011 року (зі змінами)

У відповідності до вимог Розділу IV параграфа 11 «Інструкції про порядок складання та оприлюднення фінансової звітності банків України», затвердженої постановою Правління Національного банку України №373 від 24 жовтня 2011 року (зі змінами) («Інструкція №373), ми звітуємо наступне:

На нашу думку, на основі проведеної роботи під час нашого аудиту окремої фінансової звітності Банку, Звіт про управління (Звіт керівництва) складено відповідно до вимог Розділу IV Інструкції №373 та інформація у Звіті про управління (Звіті керівництва) відповідає окремій фінансовій звітності.

Ми маємо звітувати у разі, якщо ми визначимо, що Звіт про управління (Звіт керівництва) містить суттєві викривлення в світлі наших знань та розуміння Банку, які ми отримали під час нашого аудиту окремої фінансової звітності Банку. Ми не виявили таких фактів, які б необхідно було включити до звіту.

Звіт щодо вимог інших законодавчих і нормативних актів

Додатково до вимог Міжнародних стандартів аудиту, у звіті незалежного аудитора ми надаємо також інформацію відповідно до ч. 4 ст. 14 Закону України «Про аудит фінансової звітності та аудиторську діяльність» № 2258-VIII («Закон № 2258-VIII»):

Призначення аудитора та загальна тривалість продовження повноважень

20 жовтня 2017 року нас було вперше призначено Наглядовою радою Банку в якості незалежних аудиторів для проведення обов'язкового аудиту окремої фінансової звітності Банку. Наше призначення щорічно поновлюється Наглядовою радою Банку. Загальна тривалість безперервного виконання наших повноважень із проведення обов'язкового аудиту Банку становить два років.

Щодо узгодження звіту незалежного аудитора з додатковим звітом для аудиторського комітету

Ми підтверджуємо, що наш звіт незалежного аудитора узгоджується з додатковим звітом для аудиторського комітету Банку, який ми випустили 5 квітня 2019 року відповідно до вимог ст. 35 Закону № 2258-VIII.

Надання неаудиторських послуг

Ми заявляємо, що неаудиторські послуги, на які встановлено обмеження у ч. 4 ст. 6 Закону № 2258-VIII, нами не надавались. Також, ми не надавали Банку або контрольованим ним суб'єктам господарювання жодних неаудиторських послуг, окрім тих, що розкриті в окремій фінансовій звітності або Звіті про управління (Звіті керівництва).

Партнером завдання з аудиту, результатом якого єцей звіт незалежного аудитора, є Студинська Ю.С.

Від імені ТОВ « Ернст енд Янг Аудиторські послуги»:

Свістіч О.М.
Генеральний директор

Номер запису в Реєстрі аудиторів та
суб'єктів аудиторської діяльності 101250

Студинська Ю.С.
Партнер

Номерзапису в Реєстрі аудиторів та
суб'єктів аудиторської діяльності 101256

Сироткін В.о.
Аудитор
Номер запису в Реєстрі аудиторів
та суб'єктів аудиторської діяльності 101252

м. Київ, Україна
12 квітня 2019 року

ТОВ « Ернст енд Янг Аудиторські послуги» включено до Реєстру аудиторів та суб'єктів аудиторської діяльності, який веде Аудиторська палата України. Номер реєстрації у Реєстрі: 3516

Public Company Joint-stock

Bank «Pivdennyi»

SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS
YEAR ENDED 31 DECEMBER 2018 TOGETHER
WITH INDEPENDENT AUDITOR'S REPORT

TRANSLATION FROM UKRAINIAN ORIGINAL

Pivdennyi Bank
Separate Statement of Financial Position as at 31 December 2018

In thousands of hryvnia	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	6	2,795,701	3,493,693
Due from other banks	7	806,248	470,763
Loans and advances to customers	8	15,665,416	15,855,112
Investment securities	9	3,402,851	3,343,441
Investment in subsidiary	10	42,423	42,423
Investment properties	11	1,101,189	34,397
Current income tax prepayment		–	146
Intangible assets	12	49,546	75,052
Premises and equipment	12	825,739	816,290
Non-current assets held for sale	13	33,322	1,067,983
Other financial and non-financial assets	14	211,992	229,786
TOTAL ASSETS		**24,934,427**	**25,429,086**
LIABILITIES			
Due to other banks	15	1,528,297	3,374,326
Customer accounts	16	17,614,125	16,638,369
Other borrowed funds	17	2,383,051	2,593,509
Current income tax liability		18,591	–
Provisions for liabilities and charges and other liabilities	18	704,353	400,320
Deferred income tax liability	26	37,674	46,184
Subordinated debt	19	136,755	104,407
TOTAL LIABILITIES		**22,422,846**	**23,157,115**
EQUITY			
Share capital	20	1,339,051	1,339,051
Share premium		335,564	335,564
Revaluation reserve for premises		243,821	287,648
Revaluation reserve for investment securities		1,366	794
Retained earnings		591,779	308,914
TOTAL EQUITY		**2,511,581**	**2,271,971**
TOTAL LIABILITIES AND EQUITY		**24,934,427**	**25,429,086**

Pivdennyi Bank
Separate Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

In thousands of hryvnia	Note	2018	2017
Interest income	21	2,421,438	2,077,533
Interest expense	21	(1,158,392)	(1,089,917)
NET INTEREST INCOME		**1,263,046**	**987,616**
Credit loss expense	22	(372,576)	(633,415)
Fee and commission income	23	862,144	706,172
Fee and commission expense	23	(275,719)	(201,391)
Gains less losses from operations with foreign currencies	24	83,399	71,389
Losses from disposal of debt securities at fair value through other comprehensive income		(554)	–
Losses less gains from disposal of investment securities available-for-sale		–	(5,643)
Loss from change in fair value of investment property	11	(6,483)	(14,713)
Gains/(losses) from disposal of non-current assets held for sale	11	763	(31,235)
Other operating income	11	151,608	167,055
Administrative and other operating expenses	25	(1,363,708)	(976,713)
PROFIT BEFORE TAX		**341,920**	**69,122**
Income tax expense	26	(67,431)	(17,231)
PROFIT FOR THE YEAR		**274,489**	**51,891**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Debt securities at fair value through other comprehensive income:			
Net change in fair value		3,122	–
Changes in allowance for expected credit losses		(289)	–
Reclassification of cumulative gain/(loss) on disposal		(830)	–
Investment securities available-for-sale:			
Losses less gains from change in fair value		–	(6,675)
Losses less gains reclassified to profit or loss upon disposal		–	5,643
Items that will not be reclassified to profit or loss:			
Equity securities at fair value through other comprehensive income:			
Gains less losses from change in fair value		168	–
Premises:			
Revaluation	12	(36,567)	5,258
Income tax recorded directly in other comprehensive income	26	6,886	(1,022)
Other comprehensive (expense)/income for the year		**(27,510)**	**3,204**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**246,979**	**55,095**
Earning per share (expressed in UAH per share)	**27**	**0.38**	**0.08**

Pivdennyi Bank
Separate Statement of Changes in Equity for the year ended 31 December 2018

In thousands of hryvnia	Note	Share capital	Share premium	Revaluation reserve for premises	Revaluation reserve for investment securities	Retained earnings	Total Equity
Balance at 1 January 2017		**956,894**	**335,564**	**292,576**	**1,826**	**500,014**	**2,086,874**
Investment securities available-for-sale:							
Losses less gains from change in fair value		–	–	–	(6,675)	–	**(6,675)**
Losses less gains reclassified to profit or loss upon disposal		–	–	–	5,643	–	**5,643**
Premises:							
Revaluation	12	–	–	5,258	–	–	**5,258**
Income tax recorded in equity	26	–	–	(1,022)	–	–	**(1,022)**
Other comprehensive income/(expense) for the year		–	–	4,236	(1,032)	–	**3,204**
Profit for the year		–	–	–	–	51,891	**51,891**
Total comprehensive income/(expense) for 2017		–	–	4,236	(1,032)	51,891	**55,095**
Issue of shares	20	130,002	–	–	–	–	**130,002**
Transfer of part retained earnings to share capital	20	252,155	–	–	–	(252,155)	**–**
Transfer of premises revaluation reserves to retained earnings		–	–	(9,164)	–	9,164	**–**
Balance at 31 December 2017		**1,339,051**	**335,564**	**287,648**	**794**	**308,914**	**2,271,971**

Pivdennyi Bank
Separate Statement of Changes in Equity for the year ended 31 December 2018 (Continued)

In thousands of hryvnia	Note	Share capital	Share premium	Revaluation reserve for premises	Revaluation reserve for investment securities	Retained earnings	Total Equity
Balance at 1 January 2018		**1,339,051**	**335,564**	**287,648**	**794**	**308,914**	**2,271,971**
Impact of adopting IFRS 9	3	–	–	–	(1,627)	(5,742)	**(7,369)**
Balance at 1 January 2018, restated under IFRS 9		**1,339,051**	**335,564**	**287,648**	**(833)**	**303,172**	**2,264,602**
Debt securities at fair value through other comprehensive income:							
Net change in fair value		-	-	-	3,122	-	**3,122**
Changes in allowance for expected credit losses		-	-	-	(289)	-	**(289)**
Reclassification of cumulative gain/(loss) on disposal		-	-	-	(830)	-	**(830)**
Equity securities at fair value through other comprehensive income:							
Gains less losses from change in fair value		-	-	-	168	-	**168**
Premises:							
Revaluation	12	-	-	(36,567)	-	-	**(36,567)**
Income tax recorded in equity	26	-	-	6,886	-	-	**6,886**
Other comprehensive income/(expense) for the year		-	-	(29,681)	2,171	-	**(27,510)**
Profit for the year		-	-	-	-	274,489	**274,489**
Total comprehensive income/(expense) for 2018		-	-	(29,681)	2,171	274,489	**246,979**
Transfer of premises revaluation reserves to retained earnings		-	-	(14,146)	-	14,146	**-**
Transfer of equity securities reserves to retained earnings		-	-	-	28	(28)	**-**
Balance at 31 December 2018		**1,339,051**	**335,564**	**243,821**	**1,366**	**591,779**	**2,511,581**

Pivdennyi Bank
Separate Statement of Cash Flows for the year ended 31 December 2018 (direct method)

In thousands of hryvnia	Note	2018	2017
Cash flows from operating activities			
Interest received		2,265,405	2,001,113
Interest paid		(1,129,377)	(1,137,580)
Fees and commissions received		862,996	708,969
Fees and commissions paid		(275,683)	(201,795)
Income/(expense) from trading in foreign currencies		183,274	(1,277)
Other operating income received		150,093	141,716
Staff costs paid		(645,484)	(439,900)
Administrative and other operating expenses paid		(453,285)	(326,566)
Income tax paid		(50,318)	(23,142)
Cash flows from operating activities before changes in operating assets and liabilities		**907,621**	**721,538**
Net decrease in mandatory reserves		-	283,526
Net (increase)/decrease in due from other banks		(342,353)	98,005
Net increase in loans and advances to customers		(313,891)	(2,394,241)
Net (increase)/decrease in other financial and non-financial assets		(31,787)	19,809
Net decrease in due to other banks		(1,767,427)	(236,841)
Net increase in customer accounts		1,197,616	4,134,207
Net (decrease)/increase in provisions for liabilities and charges and other liabilities		(77,686)	155,189
Net cash (used in)/from operating activities		**(427,907)**	**2,781,192**
Cash flows from investing activities			
Purchase of investment securities		(20,820,363)	(33,628,923)
Proceeds from sale of investment securities		20,806,349	30,985,923
Purchase of premises, equipment and intangible assets	12	(191,864)	(149,323)
Proceeds from sale of premises and equipment		4,512	4,460
Proceeds from sale of investment properties	11	134,409	18,000
Proceeds from sale of non-current assets held for sale	13	6,493	332,859
Net cash used in investing activities		**(60,464)**	**(2,437,004)**
Cash flows from financing activities			
Sale of non-controlling interest in subsidiary	10	-	3,185
Issue of ordinary shares	20	-	130,002
Proceeds from other borrowed funds	17, 36	308,264	924,620
Repayment of other borrowed funds	17, 36	(491,712)	(923,295)
Proceeds from subordinated debt	19, 36	33,674	-
Proceeds from sale of subordinated debt issued		-	39,392
Net cash (used in)/from financing activities		**(149,774)**	**173,904**
Effect of exchange rate changes on cash and cash equivalents		**(57,494)**	**152,147**
Effect of ECL allowances for cash and cash equivalents	6	**(2,353)**	**-**
Net (decrease)/increase in cash and cash equivalents		**(697,992)**	**670,239**
Cash and cash equivalents at the beginning of the year		3,493,693	2,823,454
Cash and cash equivalents at the end of the year	6	**2,795,701**	**3,493,693**

Pivdennyi Bank
Notes to the Separate Financial Statements – 31 December 2018

1. Introduction

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS") for the year ended 31 December 2018, for Public Company Joint-stock Bank "Pivdennyi" (the "Bank", "Pivdennyi Bank") in addition to the Bank's consolidated financial statements in accordance with IFRS, for submission to the National Bank of Ukraine (hereinafter – "NBU") as required by paragraph 8.1 of Section III of the Instruction "On the procedure for preparation and publication of financial statements of the Ukrainian banks" approved by the NBU Board Resolution No 373 dated 24 October 2011 (as amended). These separate financial statements should be considered together with the consolidated financial statements, which can be obtained on the official website of the Bank (http://bank.com.ua/ua/).

The Bank was founded in 1993. The Bank is registered in Ukraine to carry out banking and foreign exchange activities and operates under a banking license, issued by the National Bank of Ukraine. The Bank is a public joint stock company limited by shares and was set up in accordance with Ukrainian regulations. As at 31 December 2018, the major shareholders of the Bank who individually own over 5% of the outstanding shares are one Ukrainian company who own over 6% and three individuals who collectively own over 57% of the outstanding shares (31 December 2017: one Ukrainian and one foreign company who collectively own over 11% and three individuals who collectively own over 54% of the outstanding shares). As at 31 December 2018 and 2017, the main shareholder and the ultimate controlling party of the Bank was Ukrainian national, Mr Y.O. Rodin.

Principal activity.
The Bank's principal business activity is commercial and retail banking operations within Ukraine. The Bank participates in the State deposit guarantee scheme (registration # 016 dated 16 October 2012), which operates according to the Law №4452-VI "On Individuals Deposits Guarantee System" dated 23 February 2012 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand (31 December 2017: UAH 200 thousand) per individual in case bank liquidation procedure is started.

Supervision over the Bank is performed by the National Bank of Ukraine on the basis of the provisions of the Constitution of Ukraine, the Law of Ukraine "On Banks and Banking", the Law of Ukraine "On the National Bank of Ukraine" and other legislative acts of Ukraine and regulations of the National Bank of Ukraine.

The Bank has 95 (31 December 2017: 107) outlets within Ukraine.

Registered address and place of business. The Bank's registered address and principal place of business is:

6/1, Krasnova str.
65059, Odessa
Ukraine

Presentation currency.
These separate financial statements are presented in thousands of hryvnia ("UAH"), unless otherwise stated.

2. Operating Environment of the Bank

The Bank conducts its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, certain structural imbalances, low capital market liquidity, relatively high inflation and a significant level of domestic and foreign state debt.

Following the significant decline in 2014-2016, the Ukrainian economy started to demonstrate certain signs of recovery and growth. Main risks affecting the sustainability of the emerging economic trends are represented by the continuing tensions in geopolitical relations with the Russian Federation; lack of the clear consensus as to the directions of the institutional reforms, including public administration, judiciary system and reforms in core sectors of the economy; acceleration of labor emigration and low level of capital inflow.

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3. Summary of Significant Accounting Policies

Changes in accounting policies

In 2018 the Bank applied IFRS 9 and IFRS 15 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

The Bank also applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a “solely payment of principal and interest” (hereinafter – "SPPI") criterion, are classified at initial recognition as fair value through profit or loss (hereinafter – "FVPL"). Under this criterion, debt instruments that do not correspond to a “basic lending arrangement”, such as instruments containing embedded conversion options or “non-recourse” loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

• Instruments that are managed on a “hold to collect” basis are measured at amortised cost;

• Instruments that are managed on a “hold to collect and for sale” basis are measured at fair value through other comprehensive income (hereinafter – "FVOCI");

• Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Bank’s accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (hereinafter – "ECL") approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (hereinafter – "POCI"), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank’s impairment method are disclosed in Note 29. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

(c) Effect of transition to IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018.

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	IAS 39 measurement		Remeasure-ment/ ECL	IFRS 9 measurement	
In thousands of hryvnia	Category	Amount		Amount	Category
Assets					
Cash and cash equivalents	L&R*	3,493,693	(1,231)	3,492,462	Amortised cost
Due from other banks	L&R	470,763	(155)	470,608	Amortised cost
Loans and advances to customers	L&R	15,855,112	37,776	15,892,888	Amortised cost
Investment securities	AFS**	3,337,319	(184)	3,337,135	FVOCI (debt)
Investment securities	AFS	6,122	-	6,122	FVOCI (equity)
Derivative financial instruments	FVPL	-	-	-	FVPL (mandatory)
Other financial assets	L&R	39,313	439	39,752	Amortised cost
Total assets, on which had an impact of IFRS 9		**23,202,322**	**36,645**	**23,238,967**	
Liabilities					
Allowance for credit related commitments		7,571	44,014	51,585	
Total liabilities, on which had an impact of IFRS 9		**7,571**	**44,014**	**51,585**	

*L&R: Loans and receivables;
**AFS: Available-for-sale.

The Bank has elected the option to irrevocably designate its previous AFS equity instruments as Equity instruments at FVOCI.

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

In thousands of hryvnia	Reserves and retained earnings
Retained earnings under IAS 39 (31 December 2017)	**308,914**
Effect of reclassification of equity investment securities to FVOCI	1,627
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	(7,369)
Retained earnings under IFRS 9 (1 January 2018)	**303,172**
Revaluation reserve for investment securities under IAS 39 (31 December 2017)	**794**
Effect of reclassification of equity investment securities to FVOCI	(1,627)
Revaluation reserve for investment securities under IFRS 9 (1 January 2018)	**(833)**

The following table reconciles the aggregate opening loan loss allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9.

In thousands of hryvnia	Note	Provision under IAS 39 / IAS 37 at 31 December 2017	Reclassification of interest accrued on impaired loans to impairment allowance	Remeasure-ment	ECL under IFRS 9 at 1 January 2018
Impairment allowance for:					
Cash and cash equivalents	6	-	-	1,231	1,231
Due from other banks	7	-	-	155	155
Loans and advances to customers	8	1,637,403	106,127	(37,776)	1,705,754
Debt securities at fair value through other comprehensive income	9	-	-	184	184
Other financial assets	14	9,602	-	(439)	9,163
Credit related commitments	31	7,571	-	44,014	51,585
Total		**1,654,576**	**106,127**	**7,369**	**1,768,072**

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 Financial Instruments and IAS 16 Leases). As a result, the application of this standard does not have affect much of the Bank's revenue.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non- monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Bank's separate financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Bank's separate financial statements.

Amendments to IAS 28 Investments in Associates and Joint Ventures — Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These amendments do not have any impact on the Bank's separate financial statements.

Basis of preparation.
These separate financial statements have been prepared in accordance with International Financial Reporting Standards under the historical cost convention with adjustments for initial recognition of financial instruments at fair value, and revaluation of premises, investment property, financial assets available-for-sale, financial assets at FVOCI and financial instruments at FVPL. These policies have been consistently applied to all the periods presented, unless otherwise.

Preparation of separate financial statements in accordance with IFRS requires making estimates and assumptions. Also, it requires the Bank's management to use it's professional judgmenet in the process of applying the Bank's accounting policies. Those areas that require more judgment or complexity or where judgments and estimates have a greater impact on these separate financial statements are disclosed in Note 4. Actual results may differ from these estimates.

Going concern.
Management prepared these separate financial statements on a going concern basis. For the consideration of compliance with regulatory matters please refer to Notes 30 and 35.

Fair value measurement

The Bank measures financial instruments carried at FVPL and FVOCI and non-financial assets such as investment property, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

• In the principal market for the asset or liability; or

• In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities to which the Bank has access at the valuation date;

• Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

• Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition
All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

• Amortised cost;

• FVOCI;

• FVPL.

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale (fair value) or held-to-maturity (amortised cost).

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Due from other banks, loans and advances to customers, investments securities at amortised cost

Before 1 January 2018, due from other banks and loans and advances to customers, included non- derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

• That the Bank intended to sell immediately or in the near term;

• That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale;

• For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, the Bank only measures due from other banks, loans and advances to customers and investments securities at amortised cost if both of the following conditions are met:

• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

• How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

• The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;

• How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);

• The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

From 1 January 2018, the Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

• The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;

• The contractual terms of the financial asset meet the SPPI test.

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

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

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

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the separate financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the separate statement of profit or loss and other comprehensive income , and – under IAS 37 (before 1 January 2018) – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 (from 1 January 2018) – an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

Held-to-maturity investments

Before 1 January 2018, non-derivative financial assets with fixed or determinable payments and fixed maturity were classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period were not included in this classification. Held-to-maturity investments were subsequently measured at amortised cost. Gains and losses were recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

Loans and receivables

They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or designated as investment securities available-for-sale. Such assets were carried at amortised cost using the effective interest method. Gains and losses were recognised in profit or loss when the loans and receivables were derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Before 1 January 2018, available-for-sale financial assets were those non-derivative financial assets that were designated as available-for-sale or were not classified in any of the three preceding categories. After initial recognition available-for sale financial assets were measured at fair value with gains or losses being recognised in other comprehensive income until the investment was derecognised or until the investment was determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income was reclassified to the separate statement of profit or loss. However, interest calculated using the effective interest method was recognised in profit or loss.

Reclassification of financial assets and liabilities.

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2018.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost. Cash and cash equivalents include balances on correspondent accounts and overnight placements with other banks, cash hands, ATMs and in transit, and cash balances with the National Bank of Ukraine.

Renegotiated loans.
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

From 1 January 2018, the Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

• Change in currency of the loan;

• Change in counterparty;

• If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, presented within [interest revenue calculated using EIR] in the separate statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period in accordance with the modified payment schedule.

Impairment of financial assets carried at amortised cost (policy used by the Bank before 1 January 2018).

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

• any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

• the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;

• the borrower considers bankruptcy or a financial reorganisation;

• there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or

• the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Information on impairment assessment under IFRS 9 is presented in Note 29.

Derecognition of financial assets and liabilities

Financial assets

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

• The rights to receive cash flows from the asset have expired;

• The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and

• The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Write-off

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount of asset. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

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

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

Repossessed collateral.
Repossessed collateral represents non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at lower of cost and net realisable value when acquired and included in premises and equipment, investment property, non- current assets held for sale, other assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Investments in a subsidiary.
Investments in subsidiary include investments in the Regional Investment Bank ("RIB", "Subsidiary"). These investments are stated at cost less accumulated impairment losses.

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

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period.

Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. Fair value of the Bank's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Premises and equipment.
Premises are recorded under the revaluation model and equipment

is stated at cost less accumulated depreciation and provision for impairment, where required.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. However, this increase should be recognized in profit or loss unless it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year.

The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the premises and equipment, or as the asset is used by the Bank. In the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Management has updated the carrying value of land and premises measured in accordance with the revaluation model as at the end of the reporting period using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Land and construction in progress are not depreciated. Depreciation charge for other components of premises and equipment begins on the month following the month in which the asset was put into operation. Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Premises	50
Furniture and equipment	5
Motor vehicles	5
Computers	5
Other	12
Leasehold improvements	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets.
The Bank's intangible assets have definite useful life and primarily include capitalised computer software.

Computer software licences acquired are capitalised on the basis of the costs incurred to acquire and bring them to use. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads.

All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 2 to 10 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term and included into other operating income. Initial direct costs, related to leased out assets, are added to the carrying amount of such assets.

Non-current assets held for sale.
Non-current assets are classified in the separate statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Held for sale premises and equipment, investment properties and intangible assets are not depreciated or amortised. Reclassified non-current financial instruments, deferred taxes, and investment properties held at fair value are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Other borrowed funds.
Other borrowed funds include borrowings from banking and non-banking financial institutions, and are stated at amortised cost.

Subordinated debt. Subordinated debt represents long-term borrowing agreements that, in case of the borrower's default, would be secondary to the creditor's primary debt obligations. Subordinated debt is carried at amortised cost.

Derivative financial instruments.
Derivative financial instruments, including foreign exchange contracts, are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the separate financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period.

The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if separate financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions.
The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues.

Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the separate financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Ukrainian legislation identifies the basis of distribution as retained earnings.

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

Interest and similar revenue and expense

From 1 January 2018, the Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets (before 1 January 2018: by applying EIR to the amortized cost of financial assets). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

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

For POCI financial assets, the Bank calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest revenue" in the separate statement of profit or loss.

Fee and commission income

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

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

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Bank's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Dividend income

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

Foreign currency translation. The functional currency of Bank is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank is the national currency of the Ukraine, hryvnia ("UAH").

The principal rates of exchange used for translating foreign currency balances were as follows:

	31 December 2018, UAH	*31 December 2017, UAH*
1 US dollar (USD)	27.688264	28.067223
1 euro (EUR)	31.714138	33.495424

Earnings per share. Basic earnings per share are calculated by dividing the net profit or loss for the year by the weighted average number of ordinary shares that were outstanding during the year. The Bank does not have convertible preferred shares or convertible bonds, therefore, diluted earnings per share equals basic earnings per share. The Bank did not carry out transactions with shares and potential shares that could affect the amount of earnings per share as at the reporting date.

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

Staff costs and related contributions. Wages, salaries, contributions to State pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments other than the payments to the statutory defined contribution scheme.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision maker. Segments whose revenue, result or assets are 10% or more of all the segments are reported separately. Segments analyses are disclosed in Note 28.

Presentation of separate statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the separate statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. The following table provides information for each line item in the separate statement of financial position which combines amounts expected to be recovered or settled before and after twelve months after the reporting period.

	31 December 2018			31 December 2017		
	Amounts expected to be recovered or settled			Amounts expected to be recovered or settled		
In thousands of hryvnia	Within 12 months after the reporting period	After 12 months after the reporting period	Total	Within 12 months after the reporting period	After 12 months after the reporting period	Total
ASSETS						
Cash and cash equivalents	2,795,701	-	2,795,701	3,493,693	-	3,493,693
Due from other banks	712,596	93,652	806,248	470,743	20	470,763
Loans and advances to customers	10,944,199	4,721,217	15,665,416	7,328,713	8,526,399	15,855,112
Investment securities	3,393,562	9,289	3,402,851	3,326,322	17,119	3,343 ,441
Investment in subsidiary	-	42,423	42,423	-	42,423	42,423
Investment property	1,060,944	40,245	1,101,189	-	34,397	34,397
Current income tax prepayment	-	-	-	146	-	146
Intangible assets	-	49,546	49,546	-	75,052	75,052
Premises and equipment	-	825,739	825,739	-	816,290	816,290
Non-current assets held for sale	33,322	-	33,322	1,067,983	-	1,067,983
Other financial and non-financial assets	211,986	6	211,992	205,025	24,761	229,786
TOTAL ASSETS	**19,152,310**	**5,782,117**	**24,934,427**	**15,892,625**	**9,536,461**	**25,429,086**
LIABILITIES						
Due to other banks	454,347	1,073,950	1,528,297	979,078	2,395,248	3,374,326
Customer accounts	9,482,949	8,131,176	17,614,125	10,783,777	5,854,592	16,638,369
Other borrowed funds	1,720,896	662,155	2,383,051	2,593,509	-	2,593,509
Current income tax liability	18,591	-	18,591	-	-	-
Provisions for liabilities and charges and other liabilities	703,833	520	704,353	400,160	160	400,320
Deferred income tax liability	-	37,674	37,674	-	46,184	46,184
Subordinated debt	454	136,301	136,755	204	104,203	104,407
TOTAL LIABILITIES	**12,381,070**	**10,041,776**	**22,422,846**	**14,756,728**	**8,400,387**	**23,157,115**

Changes in presentation for credit loss expense. In 2018 with the introduction of IFRS 9 the Bank changed its approach to presentation for credit loss expense for financial instruments.

This change had no impact on the net profit of the Bank for 2017 shown in the separate statement of profit or loss and other comprehensive income.

The effect of these changes on the separate statement of profit and loss and other comprehensive income of the Bank for 2017 is disclosed in the table below:

In thousands of hryvnia	2017 (before changes)	Effect of changes in representation on reporting	2017 (after changes)
Credit loss expense	-	(633,415)	(633,415)
Allowance for impairment of loans to customers	(624,768)	624,768	-
Administrative and other operating expenses (reclassification of allowance for impairment of other financial assets and for credit related commitments)	(985,360)	8,647	(976,713)

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the separate financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgements that have the most significant effect on the amounts recognised in the separate financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on financial assets

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

• The Bank's internal credit grading model, which assigns PDs to the individual grades;

• The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life-time ECL basis and the qualitative assessment;

• The segmentation of financial assets when their ECL is assessed on a collective basis;

• Development of ECL models, including the various formulae and the choice of inputs;

• Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;

• Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

More details of ECL are provided in Notes 6, 7, 8, 9, 14, 29 and 31.

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 and IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining whether control or significant influence over counterparties is in place, if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 35.

Valuation of investment properties. The Bank determined the market value of investment properties based on reports issued by independent appraisers dated from September to December 2018. Valuation was conducted using an income and a comparative approaches (31 December 2017: comparative approach). Certain judgements and estimates are applied by the valuers in determination of the comparison of premises to be used in a comparison approach.

Valuation of own use premises. As stated in Note 3, premises of the

Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for their work for the premises is a sales comparison approach. When performing a revaluation, certain judgements and estimates are applied by the valuers in determination of the comparison of premises to be used in a comparison approach.

Control over Subsidiary. In December 2015 and in July 2017, the Bank sold its shares in RIB. Following the disposal, the Bank's remaining share in Subsidiary is 14%. The Bank considers RIB to remain its Subsidiary and continues consolidating its results. This judgement is based on the fact that under the agreement with shareholders the Bank obtained voting rights attached to the shares that it may use indefinitely at its discretion. As a result, the Bank obtained the power over the majority of voting rights and the ability to continue directing operations of RIB and making significant decisions to affect its relevant activities and, consequently, the returns from such activities.

5. New and Revised Standards

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Bank plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application.

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Bank has leases of certain office equipment (i.e., printing and photocopying machines) that are considered of low value.

Preliminary estimated effect of adoption of IFRS 16 on Bank's separate statement of financial position is as follows:

In thousands of hryvnia	1 January 2019
Assets	
Property and equipment (right of use assets):	160,340
include guarantees payments and prepayment	5,968
Total assets	**160,340**
Liabilities	
Other liabilities (lease liabilities)	154,372
Total liabilities	**154,372**
Net impact on equity	**-**

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re- insurance), regardless of the type of entity that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank will assess the potential effect of IFRS 17 on its separate financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

• Whether an entity considers uncertain tax treatments separately;

• The assumptions an entity makes about the examination of tax treatments by taxation authorities;

• How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;

• How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The Bank will apply interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the Interpretation may affect its financial statements and the required disclosures. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

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

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

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The Bank does not expect a material effect from application of these amendments.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

• Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;

• Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Bank does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its separate financial statements.

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Bank.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Bank but may apply to future transactions.

IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity

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

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its separate financial statements.

IAS 23 Borrowing Costs – borrowing costs eligible for capitalization

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The Bank applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the Bank first applies those amendments. The Bank applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its separate financial statements.

6. Cash and Cash Equivalents

In thousands of hryvnia	31 December 2018	31 December 2017
Cash on hand	1,045,654	1,661,112
Cash balances with the NBU	673,930	796,484
Correspondent accounts and overnight placements with other banks:		
Ukraine	18,673	16,904
other countries	1,059,797	1,019,193
Total cash and cash equivalents before impairment	**2,798,054**	**3,493,693**
Less: Allowance for impairment	(2,353)	-
Total cash and cash equivalents	**2,795,701**	**3,493,693**

As at 31 December 2018, mandatory reserve balance with the NBU is calculated on the basis of a simple average over a period of the reserve base (31 December 2017: a period of the reserve base) and should be maintained at the level of 3 to 6.5 percent (31 December 2017: 3 to 6.5 percent) of certain obligations of the Bank. As such, the balance can vary from day to day.

An analysis of changes in the ECL allowances for cash and cash equivalents during 2018 is, as follows:

In thousands of hryvnia	Stage 1 - collective basis	Stage 2 - collective basis	Total
ECL allowance as at 1 January 2018	**1,112**	**119**	**1,231**
New assets originated	525	-	525
Transfers to Stage 1	4	(4)	-
Transfers to Stage 2	(21)	21	-
Impact of transfers between stages	(3)	(6)	(9)
Assets repaid	(124)	-	(124)
Other changes	603	176	779
Foreign exchange adjustments	(52)	3	(49)
ECL allowance as at 31 December 2018	**2,044**	**309**	**2,353**

Geographical, currency, interest rate and credit quality analyses of cash and cash equivalents are disclosed in Note 29.

As at 31 December 2018, the Bank had balance with one counterparty bank with total aggregate amount before impairment was UAH 1,002,595 thousand or 36% of the total amount due from other banks. As at 31 December 2017, the Bank had balances with two counterparty banks with aggregated amounts above UAH 165,428 thousand, the total aggregate amount of these deposits before impairment was UAH 882,420 thousand or 21% of the total amount due from other banks.

7. Due from Other Banks

In thousands of hryvnia	31 December 2018	31 December 2017
Term placements with other banks	415,438	146
Guarantee deposits with other banks	390,974	470,617
Total due from other banks before impairment	**806,412**	**470,763**
Less: Allowance for impairment	(164)	-
Total due from other banks	**806,248**	**470,763**

An analysis of changes in the ECL allowances for due from other banks during 2018 is, as follows:

In thousands of hryvnia	Stage 1 - collective basis	Stage 2 - collective basis	Total
ECL allowance as at 1 January 2018	**155**	**-**	**155**
New assets originated	310	4	314
Transfers to Stage 1	88	(88)	-
Transfers to Stage 2	(356)	356	-
Impact of transfers between stages	(57)	(221)	(278)
Assets repaid	(39)	(2)	(41)
Other changes	28	(13)	15
Foreign exchange adjustments	(3)	2	(1)
ECL allowance as at 31 December 2018	**126**	**38**	**164**

As at 31 December 2018, the Bank had balances with three counterparty banks (31 December 2017: three counterparty banks) with aggregated amounts above UAH 75,065 thousand (31 December 2017: UAH 66,411 thousand). The total aggregate amount of these deposit before impairment was UAH 743,986 thousand (31 December 2017: UAH 441,206 thousand) or 92% (31 December 2017: 94%) of the total amount due from other banks.

Refer to Note 34 for the estimated fair value of each class of amounts due from other banks. Interest rate and credit quality analysis of due from other banks are disclosed in Note 29.

8. Loans and Advances to Customers

In thousands of hryvnia	31 December 2018	31 December 2017
Corporate loans	17,100,456	17,092,931
Loans to individuals - consumer loans	169,660	145,787
Loans to individuals - mortgage loans	166,792	193,526
Loans to individuals - entrepreneurs	56,183	60,271
Total loans and advances to customers before impairment	**17,493,091**	**17,492,515**
Less: Allowance for impairment	(1,827,675)	(1,637,403)
Total loans and advances to customers	**15,665,416**	**15,855,112**

As at 31 December 2018, loans and advances to customers in the amount of UAH 688,626 thousand (31 December 2017: UAH 496,093 thousand) were collateralised by deposits of customers in the amount of UAH 879,540 thousand (31 December 2017: UAH 624,739 thousand). Refer to Note 16.

An analysis of changes in gross carrying value for corporate loans during 2018 is, as follows:

In thousands of hryvnia	Stage 1 - collective basis	Stage 1 - individual basis	Stage 2 - collective basis	Stage 2 - individual basis	Stage 3 - collective basis	Stage 3 - individual basis	Total
Gross carrying value as at 1 January 2018	**1,771,683**	**-**	**10,836,989**	**3,046,115**	**842,563**	**595,581**	**17,092,931**
New assets originated	5,634,419	-	14,458,233	899,561	47,175	63,146	21,102,534
Transfers to Stage 1	6,791,541	6,102	(6,638,162)	(99,264)	(20,078)	(40,139)	-
Transfers to Stage 2	(8,796,600)	(6,003)	8,821,228	191,363	(38,171)	(171,817)	-
Transfers to Stage 3	(62,023)	-	(158,323)	(609,582)	153,793	676,135	-
Transfers between the bases of measurement	-	-	(471,117)	471,117	(300,447)	300,447	-
Assets repaid	(4,805,684)	(6,202)	(16,000,344)	(1,544,440)	(388,517)	(189,289)	(22,934,476)
Other changes	597,486	6,103	735,224	303,473	259,903	172,523	2,074,712
Amounts written off	-	-	(3,909)	(3,046)	(8,092)	(220,198)	(235,245)
Gross carrying value as 31 December 2018	**1,130,822**	**-**	**11,579,819**	**2,655,297**	**548,129**	**1,186,389**	**17,100,456**

An analysis of changes in the ECL allowances for corporate loans during 2018 is, as follows:

In thousands of hryvnia	Stage 1 - collective basis	Stage 1 - individual basis	Stage 2 - collective basis	Stage 2 - individual basis	Stage 3 - collective basis	Stage 3 - individual basis	Total
ECL allowance as at 1 January 2018	**13,111**	**-**	**134,039**	**725,086**	**480,837**	**217,771**	**1,570,844**
New assets originated	28,717	-	82,298	38,274	26,174	17,893	193,356
Transfers to Stage 1	96,810	585	(66,554)	(14,478)	(11,250)	(5,113)	-
Transfers to Stage 2	(40,535)	-	51,475	62,787	(10,940)	(62,787)	-
Transfers to Stage 3	(1)	-	(13,108)	(240,783)	7,172	246,720	-
Transfers between the bases of measurement	-	-	10,168	(10,168)	(308,658)	308,658	-
Interest income adjustment	(623)	-	(274)	(8,022)	4,670	14,226	9,977
Impact of transfers between stages	(58,630)	(9)	21,930	8,009	18,561	41,722	31,583
Assets repaid	(15,201)	(576)	(60,338)	(65,758)	(26,188)	(5,527)	(173,588)
Other changes	(15,791)	-	(59,265)	230,671	151,711	16,040	323,366
Amounts written off	-	-	(3,909)	(3,046)	(8,092)	(220,198)	(235,245)
Foreign exchange adjustments	(556)	-	(2,269)	(6,182)	(217)	1,221	(8,003)
ECL allowance as at 31 December 2018	**7,301**	**-**	**94,193**	**716,390**	**323,780**	**570,626**	**1,712,290**

An analysis of changes in the ECL allowances for consumer loans to individuals during 2018 is, as follows:

In thousands of hryvnia	Stage 1 - collective basis	Stage 2 - collective basis	Stage 3 - collective basis	Stage 3 - individual basis	Total
ECL allowance as at 1 January 2018	**1,341**	**2,127**	**35,840**	**24,069**	**63,377**
New assets originated	3,246	224	17,768	-	21,238
Transfers to Stage 1	51,303	(13,549)	(37,690)	(64)	-
Transfers to Stage 2	(1,575)	11,745	(10,110)	(60)	-
Transfers to Stage 3	(553)	(8,660)	9,069	144	-
Transfers between the bases of measurement	-	-	3,804	(3,804)	-
Interest income adjustment	(41)	(16)	1,817	178	1,938
Impact of transfers between stages	(49,419)	7,719	51,713	(22)	9,991
Assets repaid	(1,171)	(2,343)	(17,454)	-	(20,968)
Other changes	(2,254)	3,923	(8,166)	(100)	(6,597)
Amounts written off	-	-	(5,536)	(8,742)	(14,278)
Foreign exchange adjustments	-	(8)	(932)	506	(434)
ECL allowance as at 31 December 2018	**877**	**1,162**	**40,123**	**12,105**	**54,267**

An analysis of changes in the ECL allowances for mortgage loans to individuals during 2018 is, as follows:

In thousands of hryvnia	Stage 1 - collective basis	Stage 2 - collective basis	Stage 3 - collective basis	Stage 3 - individual basis	Total
ECL allowance as at 1 January 2018	**1,783**	**263**	**27,909**	**37,103**	**67,058**
New assets originated	230	-	-	-	230
Transfers to Stage 1	17,680	(485)	(15,642)	(1,553)	-
Transfers to Stage 2	(74)	18,914	(18,840)	-	-
Transfers to Stage 3	(1,292)	(66)	635	723	-
Transfers between the bases of measurement	-	-	19,943	(19,943)	-
Interest income adjustment	(25)	(32)	340	(79)	204
Impact of transfers between stages	(15,841)	(16,986)	19,020	(509)	(14,316)
Assets repaid	(54)	-	(2,588)	(5,558)	(8,200)
Other changes	(1,541)	(1,498)	20,150	(4,448)	12,663
Amounts written off	-	-	(12)	(196)	(208)
Foreign exchange adjustments	(137)	680	(1,204)	261	(400)
ECL allowance as at 31 December 2018	**729**	**790**	**49,711**	**5,801**	**57,031**

An analysis of changes in the ECL allowances for loans to individual entrepreneurs during 2018 is, as follows:

In thousands of hryvnia	Stage 1 - collective basis	Stage 2 - collective basis	Stage 3 - collective basis	Total
ECL allowance as at 1 January 2018	**168**	**187**	**4,120**	**4,475**
New assets originated	253	155	-	408
Transfers to Stage 1	142	(142)	-	-
Transfers to Stage 2	(165)	165	-	-
Interest income adjustment	-	-	366	366
Impact of transfers between stages	14	(15)	-	(1)
Assets repaid	(69)	(205)	(437)	(711)
Other changes	(154)	(93)	220	(27)
Amounts written off	-	-	(423)	(423)
ECL allowance as at 31 December 2018	**189**	**52**	**3,846**	**4,087**

The ECL allowance for impairment during 2018, differs from the amount presented in separate statement of profit or loss and other comprehensive income for the year due to UAH 35 thousand recovery of amounts previously written off as uncollectible. These amounts were credited directly to the provisions line in separate statement of profit or loss and other comprehensive income for the year.

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2018 would have been higher by:

In thousands of hryvnia	2018
Corporate loans	607,094
Loans to individuals - consumer loans	2,450
Loans to individuals - mortgage loans	1,896
Total	**611,440**

Movements in the allowance for loan impairment during 2017, are as follows:

In thousands of hryvnia	Corporate loans	Loans to individuals-mortgage loans	Loans to individuals-consumer loans	Loans to individuals-entrepreneurs	Total
Allowance for impairment at 1 January 2017	**1,341,816**	**58,096**	**37,482**	**3,613**	**1,441,007**
Allowance for impairment during the year	602,782	20,162	1,826	13	624,783
Amounts written off during the year as uncollectible	(425,624)	(38,691)	-	-	(464,315)
Currency translation difference	33,935	940	1,053	-	35,928
Allowance for impairment at 31 December 2017	**1,552,909**	**40,507**	**40,361**	**3,626**	**1,637,403**

The allowance for impairment during 2017, differs from the amount presented in separate statement of profit or loss and other comprehensive income for the year due to UAH 15 thousand recovery of amounts previously written off as uncollectible. These amounts were credited directly to the provisions line in separate statement of profit or loss and other comprehensive income for the year.

The table below includes Stage 2 and 3 assets that were modified during the year, with the related modification loss suffered by the Bank.

In thousands of hryvnia	2018
Loans modified during the year	
Amortised cost before modification	9,675,947
Net modification loss	(57,681)
Loans modified since initial recognition	
Gross carrying amount at 1 January 2019 of loans for which loss allowance has change to 12 month measurement during the year	218

Economic sector risk concentrations within the customer loan portfolio are as follows:

In thousands of hryvnia	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Trade and commerce	8,077,671	46	8,665,397	50
Construction and real estate	2,799,738	16	3,051,313	17
Agricultural, fishing and food industry	2,719,108	15	2,362,412	13
Manufacturing	1,128,799	6	1,122,386	6
Finance and investment	855,974	5	802,607	5
Transport and communication	820,813	5	852,016	5
Individuals	336,452	2	339,313	2
Tourism, hotel services, restaurant business, culture and recreation activities	106,492	1	23,498	0
Other	648,044	4	273,573	2
Total loans and advances to customers (before impairment)	**17,493,091**	**100**	**17,492,515**	**100**

As at 31 December 2018, the total aggregate amount of loans before impairment to the largest 10 borrower groups of the Bank was UAH 4,809,068 thousand (31 December 2017: UAH 5,439,935 thousand) or 27% of the gross loan portfolio (31 December 2017: 31%).

As at 31 December 2018, loans and advances to the largest 10 borrower groups of the Bank were partially collateralised by customer deposits in the amount of UAH 126,658 thousand (31 December 2017: UAH 162,040 thousand).

As at 31 December 2018, the total aggregate amount of exposures, which individually for each borrower exceed 10% of equity of the Bank, was UAH 6,338,789 thousand (31 December 2017: UAH 8,807,416 thousand).

Collateral and other credit enhancements

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

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

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 31 December 2018:

In thousands of hryvnia	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	14,344,723	28,926,229	2,755,733	1,693,039
Loans to individuals - consumer loans	44,583	111,041	125,077	19,662
Loans to individuals - entrepreneurs	51,317	139,151	4,866	-
Loans to individuals - mortgage loans	149,779	312,628	17,013	13,545
Total	**14,590,402**	**29,489,049**	**2,902,689**	**1,726,246**

The effect of collateral at 31 December 2017:

In thousands of hryvnia	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	13,800,469	26,304,427	3,292,462	1,762,019
Loans to individuals - consumer loans	38,502	139,231	107,285	20,189
Loans to individuals - entrepreneurs	57,080	136,968	3,191	-
Loans to individuals - mortgage loans	171,379	346,655	22,147	19,446
Total	**14,067,430**	**26,927,281**	**3,425,085**	**1,801,654**

Fair value of collateral is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. This amount excludes potential expenses associated with collection of debt through foreclosure of collateral, and the time value of money related to discounting of expected cash flows from the sale of collateral. Net value of collateral after litigation costs, selling expenses and other costs from collection of debt through foreclosure of collateral may differ from its fair value.

Fair values of real estate properties were estimated by management based on market prices for similar assets adjusted, where appropriate, for differences in location, quality and other relevant characteristics.

Refer to Note 34 for the estimated fair value of each class of loans and advances to customers. Interest rate and credit quality analysis of loans and advances to customers are disclosed in Note 29. Information on related party balances is disclosed in Note 35.

9. Investment Securities

In thousands of hryvnia	31 December 2018	31 December 2017
Investment securities available-for-sale		
NBU deposit certificates	-	2,804,453
Ukrainian government bonds	-	532,866
Corporate shares	-	6,122
Total investment securities available-for-sale	**-**	**3,343,441**
Debt securities at fair value through other comprehensive income		
Ukrainian government bonds	1,759,241	-
NBU deposit certificates	1,001,973	-
Total debt securities at fair value through other comprehensive income before impairment	**2,761,214**	**-**
Less: Allowance for impairment	(463)	-
Total debt securities at fair value through other comprehensive income after impairment	**2,760,751**	**-**
Debt securities at amortised cost		
NBU deposit certificates	635,835	-
Total debt securities at amortised cost	**635,835**	**-**
Equity securities at fair value through other comprehensive income		
Corporate shares	6,265	-
Total equity securities at fair value through other comprehensive income	**6,265**	**-**
Total investment securities	**3,402,851**	**3,343,441**

As at 31 December 2018, the Bank received the National Bank of Ukraine 1,635 certificates of deposit (31 December 2017: 2,800 certificates of deposit)the nominal value UAH 1,000 thousand each (31 December 2017: UAH 1,000 thousand each). Maturity of certificates - in January 2019 (31 December 2017: January 2018), coupon rate – 16%-18% per annum (31 December 2017: 12.5%-14.5% per annum). Deposit certificates of the National Bank of Ukraine were fully repaid at maturity.

Ukrainian government debt securities are listed on the Ukrainian trading system – PFTS and Perspektiva Stock Exchange (31 December 2017: Ukrainian trading system – PFTS, Ukrainian Stock Exchange and Perspektiva Stock Exchange). These bonds mature from January 2019 to June 2021 (31 December 2017: January 2018 to September 2019), have a coupon rate of 0%-16.75% per annum (31 December 2017: 0%-19.7% per annum) and yield to maturity of 4.63%-21.45% per annum (31 December 2017: 3.79%-16.99% per annum). The bonds that mature in January-April 2019, were repayment in January-April 2019.

In November 2018 the Bank entered into the general loan agreement with the NBU, according to which the NBU may provide the Bank with overnight loans, refinancing loans to support the liquidity for a period of 14 to 90 days (short-term refinancing loans) and for a period of 1 to 5 years (long-term refinancing loans) secured by the property identified by the NBU (T-bills, NBU deposit certificates, bonds of international financial organizations, foreign currency). As at 31 December 2018 Ukrainian government bonds in the amount of UAH 983,388 thousand were pledged as collateral. Refer to Note 31.

An analysis of changes in the ECL allowances for investment securities during 2018 is, as follows:

In thousands of hryvnia	Stage 1 - collective basis	Total
ECL allowance as at 1 January 2018	**184**	**184**
New assets purchased	1,515	1,515
Assets repaid or sold	(282)	(282)
Other changes	(944)	(944)
Foreign exchange adjustments	(10)	(10)
ECL allowance as at 31 December 2018	**463**	**463**

Currency, interest rate, maturity and credit quality analysis of investment securities is disclosed in Note 29. Refer to Note 34 for the disclosure of the fair value of investment securities. Information on related party investment securities is disclosed in Note 35.

10. Investment in Subsidiary

	Nature of business	Country of registration	Percentage of ownership	
In thousands of hryvnia			31 December 2018	31 December 2017
Regional Investment Bank (Riga, Latvia)	Banking	Latvia	14%	14%

In July 2017, Bank sold to a related party 323 thousand shares of its Subsidiary with the nominal amount EUR 323 thousand (equivalent of UAH 9,575 thousand at the exchange rate at the date of sale). After this transaction Bank's percentage of ownership in RIB decreased from 15% to 14%. The Bank has actual control over its Subsidiary under agreements with shareholders of Subsidiary.

Information of cash from the sale of Subsidiary is disclosed in Separate Statement of Cash Flows.

In August 2016, the Bank's Subsidiary established a 100% subsidiary company with EUR 6,600 thousand registered capital – a SIA "Grunewald Residence" which intends to operate in the area of real estate.

In December 2018 RIB sold part of shares (8%) of SIA "Grunewald Residence".

In March 2019 the Bank obtained the subsidiary held for sale. The Bank received corporate rights in the amount of UAH 146,687 thousand on a 100% interest in the capital of this company in settlement of impaired loans. The Bank plans to sell this company in 2019.

11. Investment Properties

In thousands of hryvnia	Note	2018	2017
The fair value of investment property as of January 1		**34,397**	**74,430**
Additions related to reclassification of assets	13	1,073,275	-
Additions related to foreclosure of collateral on impaired corporate loan		-	2,450
Disposal		-	(25,320)
Loss from change in fair value of investment property		(6,483)	(14,713)
Transfer to non-current assets held for sale	13	-	(2,450)
The fair value of investment property at 31 December		**1,101,189**	**34,397**

As at 31 December 2018, investment property primarily represents shopping mall which was transferred from non-current assets held for sale (Note 13).

As at 31 December 2017, investment property represented premises and land.

Board of Directors approved the plan to sell the shopping mall located in Kiev on 20 December 2016.

On 24 February 2017, the Bank sold part of the shopping mall in the amount UAH 352,132 thousand. Loss from the sale amounted to UAH 30,653 thousand.

On 28 December 2018 and 12 March 2019, the Bank received a prepayments for other part of the shopping mall in the amount UAH 140,000 thousand (including VAT UAH 5,591 thousand) and UAH 50,000 thousand (including VAT UAH 1,997 thousand) respectively. Under the terms agreement other part of the shopping mall is expected to be sold by May 2019. Refer to Note 18.

Total contingent payments receivable recognised as other operating income of the shopping mall in 2018, under the Bank's operating leases were UAH 101,033 thousand (2017: UAH 154,206 thousand).

Investment property is subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Investment property has been revalued in 2018, by an independent firm of valuers, which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar category. The purpose of the valuation was fair value assessment. Fair values were estimated using comparative approach. Information on principal assumptions underlying the estimation is disclosed in Note 4.

Where the Bank is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, are as follows:

In thousands of hryvnia	2018	2017
Not later than 1 year	1,151	868
Later than 1 year and not later than 5 years	1,557	-
Total operating lease payments receivable	**2,708**	**868**

12. Premises, Equipment and Intangible Assets

In thousands of hryvnia	Note	Premises and land	Furni-ture and equip ment	Computers	Motor vehicles	Other	Construction in progress and assets under development	Total premises and equipment	Intangible assets	Total
Carrying amount at 1 January 2017		**679,819**	**16,107**	**81,350**	**12,427**	**120**	**25,028**	**814,851**	**77,879**	**892,730**
Additions		578	7,989	52,487	17,601	2,160	8,393	89,208	56,238	145,446
Disposals		(4,240)	(90)	(105)	(326)	-	(19,574)	(24,335)	(797)	(25,132)
Transfers		-	68	5,284	-	18	(5,370)	-	-	-
Depreciation charge	25	(13,500)	(4,753)	(39,564)	(6,821)	(2,184)	-	(66,822)	(58,268)	(125,090)
Impairment charge to profit or loss		(1,870)	-	-	-	-	-	(1,870)	-	(1,870)
Revaluation		5,258	-	-	-	-	-	5,258	-	5,258
Carrying amount at 31 December 2017		**666,045**	**19,321**	**99,452**	**22,881**	**114**	**8,477**	**816,290**	**75,052**	**891,342**
Cost or valuation at 31 December 2017		667,146	56,143	257,673	48,874	11,659	8,477	1,049,972	157,562	1,207,534
Accumulated depreciation		(1,101)	(36,822)	(158,221)	(25,993)	(11,545)	-	(233,682)	(82,510)	(316,192)
Carrying amount at 31 December 2017		**666,045**	**19,321**	**99,452**	**22,881**	**114**	**8,477**	**816,290**	**75,052**	**891,342**
Additions		-	17,009	109,638	16,691	7,971	9,792	161,101	44,164	205,265
Disposals		(16,219)	(159)	(31)	(35)	-	-	(16,444)	-	(16,444)
Transfers		-	2,621	5,490	-	57	(8,168)	-	-	-
Depreciation charge	25	(12,976)	(7,501)	(64,291)	(8,734)	(5,139)	-	(98,641)	(69,670)	(168,311)
Revaluation		(36,567)	-	-	-	-	-	(36,567)	-	(36,567)
Carrying amount at 31 December 2018		**600,283**	**31,291**	**150,258**	**30,803**	**3,003**	**10,101**	**825,739**	**49,546**	**875,285**
Cost or valuation at 31 December 2018		601,280	74,098	365,167	62,033	19,250	10,101	1,131,929	201,120	1,333,049
Accumulated depreciation		(997)	(42,807)	(214,909)	(31,230)	(16,247)	-	(306,190)	(151,574)	(457,764)
Carrying amount at 31 December 2018		**600,283**	**31,291**	**150,258**	**30,803**	**3,003**	**10,101**	**825,739**	**49,546**	**875,285**

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises and equipment.

As stated in Note 3, premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Premises have been revalued at fair value at 1st December 2018. The valuation was carried out by an independent firms, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar category. Information on principal assumptions underlying the estimation is disclosed in Note 4.

Included in the above carrying amount is UAH 325,654 thousand (31 December 2017: UAH 362,221 thousand) representing revaluation reserve for premises of the Bank. At 31 December 2018, the carrying amount of premises would have been UAH 307,829 thousand (31 December 2017: UAH 336,151 thousand) had the assets been carried at cost less depreciation.

13. Non-current Assets Held for Sale

At the 31 December 2018, non-current assets held for sale included premises and land.

As at 31 December 2017, non-current assets held for sale primarily represented shopping mall, taken over by the Bank as a result of foreclosure of collateral on an impaired loan exposure. Shopping mall is located in Kyiv and is fully occupied. In 2018, shopping mall was transferred to investment property (Note 11).

14. Other Financial and Non-financial Assets

In thousands of hryvnia	31 December 2018	31 December 2017
Other financial assets		
Amounts in settlements	19,425	35,085
Accrued income, including rental income	12,715	13,299
Purchase and sale of foreign currency	270	529
Other financial assets	-	2
Allowance for impairment other financial assets	(8,999)	(9,602)
Total other financial assets	23,411	39,313
Other non-financial assets		
Repossessed collateral	127,074	142,880
Prepayments for services and assets	31,801	39,940
Other assets	34,312	8,429
Allowance for impairment other non-financial assets	(4,606)	(776)
Total other non-financial assets	188,581	190,473
Total other financial and non-financial assets	**211,992**	**229,786**

Movements in the allowance for other financial assets impairment during 2018 and 2017, are as follows:

In thousands of hryvnia	2018	2017
Allowance for other financial assets impairment at 1 January	**9,163**	**8,127**
Allowance for the financial assets impairment during the year	277	1,586
Amounts written off during the year as uncollectible	(472)	(110)
Currency translation difference	31	(1)
Allowance for other financial assets impairment at 31 December	**8,999**	**9,602**

From 1 January 2018 the Bank calculates allowance for financial assets impairment in accordance with IFRS 9. The reconciliation between the opening allowance for impairment calculated in accordance with IAS 39 to the allowance for ECL calculated in accordance with IFRS 9 is disclosed in Note 3.

According to IFRS 9 the Bank applies simplified approach for the assessment of ECL for trade receivables and operational lease receivables. The Bank measures the loss allowance at an amount equal to lifetime expected credit losses without applying criteria for assessing if there has been a significant increase in credit risk. Allowance for impairment mainly consists of allowance for receivables from one counteragent. There were no significant transfers between stages, modifications and other changes, that influence allowance for impairment during the year 2018.

Refer to Note 34 for the disclosure of the fair value of other financial assets. Information on related party balances is disclosed in Note 35.

15. Due to Other Banks

In thousands of hryvnia	31 December 2018	31 December 2017
Term placements of other banks	1,265,011	1,393,009
Correspondent accounts and overnight placements of other banks	263,286	1,981,317
Total due to other banks	**1,528,297**	**3,374,326**

Term placements of other banks at 31 December 2018, in the amount of UAH 33,300 thousand were pledged as collateral under guarantees (31 December 2017: UAH 35,170 thousand). Refer to Note 31.

Refer to Note 34 for the disclosure of the fair value of due to other banks. Currency, interest rate and maturity analysis of due to other banks is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

16. Customer Accounts

In thousands of hryvnia	31 December 2018	31 December 2017
Legal entities		
Current/settlement accounts	7,538,670	6,976,514
Term deposits	1,612,855	1,687,055
Individuals		
Term deposits	5,177,440	5,157,468
Current/demand accounts	3,285,160	2,817,332
Total customer accounts	**17,614,125**	**16,638,369**

Economic sector concentrations within customer accounts are as follows:

	31 December 2018		31 December 2017	
In thousands of hryvnia	Amount	%	Amount	%
Individuals	8,462,600	48	7,974,800	48
Trade and commerce	2,610,621	15	3,449,863	21
Manufacturing	1,496,993	8	1,757,143	10
Transport and communication	1,330,769	8	1,213,809	7
Construction and real estate	1,315,199	7	1,250,065	8
Agriculture and food industry	679,829	4	342,981	2
Finance and insurance	649,835	4	264,438	2
Local state authorities	1,840	0	4,284	0
Other	1,066,439	6	380,986	2
Total customer accounts	**17,614, 125**	**100**	**16,638,369**	**100**

At 31 December 2018, the aggregate balance on accounts of 10 largest customers of the Bank was UAH 2,146,399 thousand (31 December 2017: UAH 2,364,344 thousand) or 12% (31 December 2017: 14%) of total customer accounts.

At 31 December 2018, term deposits included deposits in the amount of UAH 879,540 thousand (31 December 2017: UAH 624,739 thousand) pledged as collateral for loans and advances to customers in the amount of UAH 688,626 thousand (31 December 2017: UAH 496,093 thousand). Refer to Note 8.

Balances on customer accounts at 31 December 2018, in the amount of UAH 495,752 thousand were pledged as collateral under guarantees and avals (31 December 2017: UAH 710,380 thousand). Refer to Note 31.

Refer to Note 34 for the disclosure of the fair value of each class of customer accounts. Currency, interest rate and maturity analysis of customer accounts is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

17. Other Borrowed Funds

In thousands of hryvnia	31 December 2018	31 December 2017	Amount received in 2018	Amount repaid in 2018	Maturity	Curren-cy of loan	% rate
Company non-resident 1	1,582,633	1,609,358	-	-	March 2019	USD	0.1%
Company non-resident 2	662,155	661,378	-	-	February 2019	USD	6.0%
Company non-resident 3	138,263	-	308,264	183,448	June 2019	USD	4.0%
Company non-resident 3	-	322,773	-	308,264	March 2018	USD	4.7%
Total other borrowed funds	**2,383,051**	**2,593,509**	**308,264**	**491,712**			

In January 2019, a loan from company non-resident 1 was prolonged until September 2019.

In February 2019, a loan from company non-resident 2 was prolonged until February 2020.

Refer to Note 34 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 29.

18. Provisions for Liabilities and Charges and Other Liabilities

In thousands of hryvnia	Note	31 December 2018	31 December 2017
Other financial liabilities			
Amounts in settlements		318,984	299,577
Provision for credit related commitments	31	52,484	7,571
Accounts payable on documentary transactions		724	960
Fair value of derivatives	32, 33	-	920
Other financial liabilities		299	229
Total other financial liabilities		372,491	309,257
Other non-financial liabilities			
Accrued employee benefit costs		143,943	46,399
Prepayments received	11	136,529	2,435
Taxes payable other than on income		17,592	13,337
Amounts payable to Deposits Guarantee Fund		17,486	17,585
Deferred income		12,682	9,276
Other liabilities		3,630	2,031
Total other non-financial liabilities		331,862	91,063
Total provisions for liabilities and charges and other liabilities		**704,353**	**400,320**

As at 31 December 2018, prepayments received are included prepayments for other part of the shopping mall in the amount UAH 134,409 thousand. Refer to Note 11.

Included in funds in settlements are payables on transfers and payments, plastic cards payables, payables on received revenue, payables on settlements with banks.

19. Subordinated Debt

In thousands of hryvnia	31 December 2018	31 December 2017	Amount received in 2018	Maturity	Currency	% rate
Individual 1	83,066	84,203	-	March 2021	USD	9
Legal entity	20,204	20,204	-	August 2021	UAH	12
Individual 2	19,533	-	19,643	January 2024	USD	11
Individual 3	13,952	-	14,031	January 2024	USD	11
Total subordinated debt	**136,755**	**104,407**	**33,674**			

The debt ranks after all other creditors in case of liquidation.

Refer to Note 34 for disclosure of the fair value of each class of subordinated debt. Information on transactions with related parties is disclosed in Note 35.

20. Share Capital

In thousands of hryvnia except for number of shares	Number of outstanding ordinary shares	Nominal amount
At 1 January 2017	**646,550,000**	**956,894**
Increase in the nominal value of shares	-	252,155
New shares issued for cash	69,520,000	130,002
At 31 December 2017	**716,070,000**	**1,339,051**
At 31 December 2018	**716,070,000**	**1,339,051**

At 31 December 2018 and 2017, all of the Bank's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of UAH 1.87 per share (31 December 2017: UAH 1.87 per share) and rank equally. Each share carries one vote.

On 8 November 2017, shareholders of the Bank took a decision to increase the share capital of the Bank by private placement of additional ordinary registered shares of the existing nominal value by means of additional contributions in the amount of UAH 130,002 thousand. On 15 December 2017, the National Bank of Ukraine approved the new edition of the Bank's Charter. In December 2017, National securities and stock market commission registered these changes.

On 21 April 2016, shareholders of the Bank took a decision to increase the share capital of the Bank by increasing the nominal value of shares from UAH 1.48 per share to UAH 1.87 per share through allocation of UAH 252,155 thousand of retained earnings to share capital. On 16 December 2016, the National Bank of Ukraine approved the new edition of the Bank's Charter. In July 2017, National securities and stock market commission registered these changes.

21. Interest Income and Expense

In thousands of hryvnia	2018	2017
Interest income		
Loans and advances to legal entities	2,078,714	1,578,386
Securities	142,973	120,142
Interest income on impaired loans and advances to customers	136,870	342,818
Loans and advances to individuals	44,903	28,916
Due from other banks	17,978	4,911
Subordinated debt	-	2,360
Total interest income	**2,421,438**	**2,077,533**
Interest expense		
Term deposits of individuals	(428,035)	(475,316)
Current/settlement accounts	(408,589)	(285,492)
Term deposits of legal entities	(119,815)	(103,428)
Placements of other banks	(102,919)	(182,954)
Other borrowed funds	(58,193)	(33,309)
Due to the NBU	(30,040)	(460)
Subordinated debt	(10,801)	(8,958)
Total interest expense	**(1,158,392)**	**(1,089,917)**
Net interest income	**1,263,046**	**987,616**

All interest income and expenses are calculated using effective interest rate.

Information on interest income and expense from transactions with related parties is disclosed in Note 35.

22. Credit loss expense

In thousands of hryvnia	Note	2018	2017
Credit loss expense			
Cash and cash equivalents	6	(1,171)	-
Due from other banks	7	(10)	-
Loans and advances to customers	8	(368,392)	(624,768)
Investment securities	9	(289)	-
Other financial assets	14	(277)	(1,586)
Credit related commitments	31	(2,437)	(7,061)
Total credit loss expense		**(372,576)**	**(633,415)**

23. Fee and Commission Income and Expense

In thousands of hryvnia	2018	2017
Fee and commission income		
Cash and settlement transactions with customers	600,182	486,784
Purchase and sale of foreign currency	143,261	116,838
Guarantees, avals and letters of credit issued	72,235	62,994
Cash and settlement transactions with other banks	21,026	18,498
Transactions with securities	229	530
Other	25,211	20,528
Total fee and commission income	**862,144**	**706,172**
Fee and commission expense		
Cash and settlement transactions with customers and other banks	(269,929)	(195,103)
Other	(5,790)	(6,288)
Total fee and commission expense	**(275,719)**	**(201,391)**
Net fee and commission income	**586,425**	**504,781**

Information on fee and commission income from transactions with related parties is disclosed in Note 35.

24. Operations with Foreign Currencies

In thousands of hryvnia	2018	2017
Operations with foreign currencies		
Gains less losses from trading in foreign currencies	12,071	10,527
Foreign exchange translation gains less losses	127,119	108,311
Losses less gains from derivative financial instruments	(55,791)	(47,449)
Gains less losses from operations with foreign currencies	**83,399**	**71,389**

Losses less gains from derivative financial instruments are mainly represented by foreign currency swaps.

Foreign exchange translation gains less losses include the amount of unrealized result of revaluation of assets and liabilities of the Bank denominated in foreign currency.

25. Administrative and Other Operating Expenses

In thousands of hryvnia	Note	2018	2017
Staff costs		**743,031**	**456,332**
Maintenance of premises and equipment		108,743	72,997
Depreciation of premises and equipment	12	98,641	66,822
Amortisation of intangible assets	12	69,670	58,268
Contributions to Deposits Guarantee Fund		65,500	59,454
Operating lease expense		44,600	30,000
Professional services		39,532	26,943
Mail and telecommunications		22,956	16,937
Utilities		20,548	15,443
Security services		18,909	16,174
Taxes, other than on income		14,517	13,554
Impairment of repossessed collateral		13,572	42,959
Advertising and marketing services		8,264	7,132
Insurance		2,431	2,566
Other		92,794	91,132
Total administrative and other operating expenses		**1,363,708**	**976,713**

Included in staff costs are social security and pensions contributions of UAH 108,702 thousand (2017: UAH 72,525 thousand).

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 35.

26. Income Taxes

(a) Components of income tax expense

Income tax expense recorded in separate statement of comprehensive income comprises the following:

In thousands of hryvnia	2018	2017
Current tax charge	69,055	16,992
Change in deferred tax	(1,624)	239
Income tax expense for the year	**67,431**	**17,231**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Bank's income is 18% (2017: 18%). The reconciliation between the expected and the actual taxation charge provided below.

In thousands of hryvnia	2018	2017
Profit before tax	**341,920**	**69,122**
Theoretical tax charge at statutory rate (2018: 18%; 2017: 18%)	61,546	12,442
Tax effect of items which are not deductible or assessable for taxation purposes	5,885	4,789
Income tax expense for the year	**67,431**	**17,231**

A deferred tax of UAH 6,886 thousand (2017: UAH 1,022 thousand) related to revaluation reserve of the Bank premises has been recorded directly in equity.

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Ukraine and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

In thousands of hryvnia	31 December 2017	Credited/ (charged) to profit or loss	Credited directly to equity	31 December 2018
Tax effect of deductible/(taxable temporary differences				
Investment securities	1,023	215	-	1,238
Premises and equipment	(4,207)	(580)	6,886	(40,901)
Differences that reduce the financial result before taxation in accordance with the transitional provisions of the Tax Code of Ukraine	-	1,989	-	1,989
Net deferred tax liability	**(46,184)**	**1,624**	**6,886**	**(37,674)**
Deferred tax asset	1,023	2,204	-	3,227
Deferred tax liability	(47,207)	(580)	6,886	(40,901)
Net deferred tax liability	**(46,184)**	**1,624**	**6,886**	**(37,674)**

In thousands of hryvnia	31 December 2016	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2017
Tax effect of deductible/(taxable) temporary differences				
Correspondent accounts and overnight placements in other banks	(653)	653	-	-
Investment securities	(638)	1,661	-	1,023
Premises and equipment	(44,270)	(1,915)	(1,022)	(47,207)
Allowance for impairment of loans	685	(685)	-	-
Allowance for impairment of other assets	57	(57)	-	-
Other liabilities	(104)	104	-	-
Net deferred tax liability	**(44,923)**	**(239)**	**(1,022)**	**(46,184)**
Deferred tax asset	742	281	-	1,023
Deferred tax liability	(45,665)	(520)	(1,022)	(47,207)
Net deferred tax liability	**(44,923)**	**(239)**	**(1,022)**	**(46,184)**

(d) Current and deferred tax effects relating to each component of other comprehensive income

Current and deferred tax effects relating to each component of other comprehensive income are as follows:

In thousands of hryvnia	2018 Before-tax amount	2018 Income tax benefit	2018 Net-of-tax amount	2017 Before-tax amount	2017 Income tax benefit	2017 Net-of-tax amount
Revaluation of premises	(36,567)	6,886	(29,681)	5,258	(1,022)	4,236
Other comprehensive income	**(36,567)**	**6,886**	**(29,681)**	**5,258**	**(1,022)**	**4,236**

27. Earnings per Share

Basic earning or loss per share is calculated by dividing the net profit or loss for the year attributable to owners of the Bank by the weighted average number of ordinary shares that were outstanding during the year, excluding shares repurchased from shareholders. The Bank does not have no convertible preferred shares, thus diluted earnings per share equals basic earnings per share.

In thousands of hryvnia	2018	2017
Earning for the year	274,489	51,891
Weighted average of ordinary shares (thousands)	716,070	644,721
Earning per share, basic (expressed in UAH per share)	**0.38**	**0.08**

28. Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by Assets and Liabilities Management Committee (the "ALMC") of the Bank.

(a) Description of products and services from which each operating segment derives its revenue

The Bank is organised on the basis of the following business segments:

• Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;

• Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products;

• Treasury – interbank loans and deposits, structured financing and derivative products; and

• Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.

(b) Factors that management used to identify the reportable segments

The Bank's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service levels.

(c) Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;

(ii) income taxes are not allocated to segments;

(iii) capital investments are not allocated to segments.

The CODM evaluates performance of each segment based on profit before tax.

(d) Information about reportable segments profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2018, is set out below:

In thousands of hryvnia	Retail banking	Corporate banking	Treasury	Investment banking	Total
Cash and cash equivalents	116,763	928,891	1,752,401	-	2,798,055
Due from other banks	-	-	803,895	-	803,895
Loans and advances to customers	225,156	15,440,260	-	-	15,665,416
Investment securities	-	-	-	3,402,851	3,402,851
Investment properties	11,769	1,089,420	-	-	1,101,189
Intangible assets	19,818	27,250	495	248	47,811
Premises and equipment	330,295	454,156	8,257	4,129	796,837
Other financial and non-financial assets	43,612	123,230	148	74	167,064
Non-current assets held for sale	7,228	26,094	-	-	33,322
Investment in subsidiary	-	-	-	42,423	42,423
Total segment assets	**754,641**	**18,089,301**	**2,565,196**	**3,449,725**	**24,858,863**
Due to other banks	-	-	1,528,297	-	1,528,297
Customer accounts	8,462,666	9,151,459	-	-	17,614,125
Other borrowed funds	-	-	2,383,051	-	2,383,051
Provisions for liabilities and charges and other liabilities	80,839	481,540	1,439	720	564,538
Subordinated debt	116,551	20,204	-	-	136,755
Total segment liabilities	**8,660,056**	**9,653,203**	**3,912,787**	**720**	**22,226,766**

In thousands of hryvnia	Retail banking	Corporate banking	Treasury	Investment banking	Total
2018					
External interest income	64,158	2,196,329	17,978	142,973	2,421,438
External interest expense	(477,392)	(490,450)	(249,283)	-	(1,217,125)
Internal funding income/(expense)	1,080,071	(1,166,600)	230,683	(144,154)	-
Net interest income/(expense)	**666,837**	**539,279**	**(622)**	**(1,181)**	**1,204,313**
Fee and commission income	257,376	578,133	21,026	5,609	862,144
Fee and commission expense	(247,501)	(19,134)	(7,318)	(155)	(274,108)
Trading income/(expense)	22,722	62,571	57,441	(1,529)	141,205
Other operating income	743	113,981	-	29,991	144,715
Operating income before impairment and general and administrative expenses	**700,177**	**1,274,830**	**70,527**	**32,735**	**2,078,269**
General and administrative expenses	(579,932)	(668,938)	(12,029)	(6,014)	(1,266,913)
Allowance/(reversal of allowance) for assets impairment	5,988	(376,818)	(1,181)	(519)	(372,530)
Segment result before tax	**126,233**	**229,074**	**57,317**	**26,202**	**438,826**

Segment information for the reportable segments for the year ended 31 December 2017, is set out below:

In thousands of hryvnia	Retail banking	Corporate banking	Treasury	Investment banking	Total
Cash and cash equivalents	79,310	1,581,802	1,832,727	-	3,493,839
Due from other banks	-	-	470,617	-	470,617
Loans and advances to customers	258,445	15,596,667	-	-	15,855,112
Investment securities	-	-	-	3,343,441	3,343,441
Investment properties	17,133	17,264	-	-	34,397
Intangible assets	30,021	41,279	751	375	72,426
Premises and equipment	326,516	448,959	8,163	4,081	787,719
Other financial and non-financial assets	43,199	140,549	264	132	184,144
Non-current assets held for sale	1,620	1,066,363	-	-	1,067,983
Investment in subsidiary	-	-	-	42,423	42,423
Total segment assets	**756,244**	**18,892,883**	**2,312,522**	**3,390,452**	**25,352,101**
Due to other banks	-	-	3,374,326	-	3,374,326
Customer accounts	7,974,866	8,663,503	-	-	16,638,369
Other borrowed funds	-	-	2,593,509	-	2,593,509
Provisions for liabilities and charges and other liabilities	37,380	250,731	1,711	232	290,054
Subordinated debt	84,203	20,204	-	-	104,407
Total segment liabilities	**8,096,449**	**8,934,438**	**5,969,546**	**232**	**23,000,665**

In thousands of hryvnia	Retail banking	Corporate banking	Treasury	Investment banking	Total
2017					
External interest income	39,417	1,868,754	7,270	120,142	2,035,583
External interest expense	(515,579)	(357,970)	(262,739)	-	(1,136,288)
Internal funding income/(expense)	892,876	(1,017,226)	228,199	(103,849)	-
Net interest income/(expense)	**416,714**	**493,558**	**(27,270)**	**16,293**	**899,295**
Fee and commission income	209,035	475,434	18,498	3,205	706,172
Fee and commission expense	(175,899)	(17,123)	(7,021)	(100)	(200,143)
Trading income/(expense)	20,034	57,492	39,878	(5,586)	111,818
Other operating income	704	163,400	-	12	164,116
Operating income before impairment and general and administrative expenses	**470,588**	**1,172,761**	**24,085**	**13,824**	**1,681,258**
General and administrative expenses	(393,602)	(547,321)	(8,224)	(4,112)	(953,259)
Allowance/(reversal of allowance) for assets impairment	(17,199)	(572,680)	-	-	(589,879)
Segment result before tax	**59,787**	**52,760**	**15,861**	**9,712**	**138,120**

(e) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

In thousands of hryvnia	2018	2017
Total revenues for reportable segments	**3,428,297**	**2,905,871**
Reclassifications and netting, which are used for the preparation of separate financial statements and unallocated items	6,893	44,889
Total revenues	**3,435,190**	**2,950,760**

Total revenue consists of interest income, fee and commission income and other operating income.

In thousands of hryvnia	2018	2017
Total reportable segment result	**438,826**	**138,120**
Reclassifications and netting, which are used for the preparation of separate financial statements and unallocated items	(96,906)	(68,998)
Profit before tax	**341,920**	**69,122**

Items reconciling the difference between segment assets and liabilities and total assets and liabilities recognized in separate financial statements are as follows:

In thousands of hryvnia	2018	2017
Segment assets	**24,858,863**	**25,352,101**
Reclassifications and netting, which are used for the preparation of separate financial statements and unallocated items	75,564	76,985
Total assets	**24,934,427**	**25,429,086**
Segment liabilities	**22,226,766**	**23,000,665**
Reclassifications and netting, which are used for the preparation of separate financial statements and unallocated items	196,080	156,450
Total liabilities	**22,422,846**	**23,157,115**

Reconciliation of other material items of income or expenses for the year ended 31 December 2018, is as follows:

In thousands of hryvnia	Interest income	Fee and commission income	Interest expense	Allowance for assets impairment	Other operating income
Total amount for all reportable segments	**2,421,438**	**862,144**	**(1,217,125)**	**(372,530)**	**144,715**
Reclassification of result from operations with derivatives	-	-	58,130	-	-
Netting of accrued expenses on deposits withdrawn ahead of schedule	-	-	603	-	(603)
Reclassification of result from disposal of non-current assets held for sale	-	-	-	-	(763)
Other adjustments	-	-	-	(3,876)	8,259
As reported under IFRS	**2,421,438**	**862,144**	**(1,158,392)**	**(376,406)**	**151,608**

Reconciliation of material assets and liabilities at 31 December 2018, is as follows:

In thousands of hryvnia	Total amount for all reportable segments	Reclassification of assets to respective category	As reported under IFRS
Assets at 31 December 2018			
Premises and equipment	**796,837**	28,902	**825,739**
Intangible assets	**47,811**	1,735	**49,546**
Other financial and non-financial assets	**167,064**	44,928	**211,992**

In thousands of hryvnia	Total amount for all reportable segments	Reclassification of assets to respective category	As reported under IFRS
Liabilities at 31 December 2018			
Provisions for liabilities and charges and other liabilities	**564,538**	139,815	**704,353**

Reconciliation of other material items of income or expenses for the year ended 31 December 2017, is as follows:

In thousands of hryvnia	Interest income	Fee and commission income	Interest expense	Allowance for assets impairment	Other operating income
Total amount for all reportable segments	**2,035,583**	**706,172**	**(1,136,288)**	**(589,879)**	**164,116**
Increase in interest income to the amount recovered	41,950	-	-	(41,950)	-
Reclassification of result from operations with derivatives	-	-	46,015	-	-
Netting of accrued expenses on deposits withdrawn ahead of schedule	-	-	356	-	(356)
Other adjustments	-	-	-	(2,038)	3,295
As reported under IFRS	**2,077,533**	**706,172**	**(1,089,917)**	**(633,867)**	**167,055**

Reconciliation of material assets and liabilities at 31 December 2017, is as follows:

In thousands of hryvnia	Total amount for all reportable segments	Reclassification of assets to respective category	As reported under IFRS
Assets at 31 December 2017			
Premises and equipment	**787,719**	28,571	**816,290**
Intangible assets	**72,426**	2,626	**75,052**
Other financial and non-financial assets	**184,144**	45,642	**229,786**

In thousands of hryvnia	Total amount for all reportable segments	Reclassification of assets to respective category	As reported under IFRS
Liabilities at 31 December 2017			
Provisions for liabilities and charges and other liabilities	**290,054**	110,266	**400,320**

(f) Analysis of revenues by products and services

The Bank's revenues are analysed by products and services in Note 21 and in Note 23.

(h) Major customers

The Bank does not have customers with the revenues exceeding 10 % of the total revenue of the Bank.

29. Financial Risk Management

Risk management is a process used by the Bank's entities to identify, evaluate and perform monitoring of risks, to manage their risk exposures and to address interrelations between different categories (types) of risks. The primary objectives of the risk management are to ensure sustainable operation of the Bank and to prevent misallocation of resources and capital loss due to risk exposures.

The risk management process within the Bank covers all its structural levels – from the management level to the level that directly takes on exposure to and/or generates risks.

The Bank performs a comprehensive analysis of all risk exposures of the Bank's entities. The comprehensive risk assessment is performed to address effects on the Bank's income and capital. The Bank's entities regularly conduct stress testing of financial risk exposures under a variety of scenarios covering both normal and more severe market conditions.

The risk tolerance level is established by imposing a list of limits (restrictions) for each bank and the Bank taken as a whole, and the procedures on an individual transaction and portfolio basis. Two types of limits are determined to ensure effective operation of the internal control system. These include external limits (established by a regulator) and internal limits (established by the Bank's collegial bodies). Internal limits apply to all operations of the Bank and set at a level that does not contradict the level of external limits. The main body responsible for establishing and controlling the limits is the Assets and Liabilities Management Committee of the Bank.

The Bank is committed to support its ability to identify exceptional situations promptly and effectively and to address them appropriately. Internal regulations were developed to cover potential stress and extraordinary situations.

The Bank identified main risk categories comprising financial (credit risk, liquidity risk, market risks and operation process risk) and non-financial risks.

Credit risk. Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the separate statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the separate statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 8.

Impairment assessment

From 1 January 2018, the Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	*The Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	*The Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	*The Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Bank records an allowance for the LTECL.
POCI	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past du on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default;
- The borrower requesting emergency funding from the Bank;
- The borrower is deceased;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decrease in the borrower's turnover or the loss of a major customer;
- A covenant breach not waived by the Bank;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Internal rating and PD estimation process

The Bank's independent Credit Risk Department operates its internal rating models. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below.

Corporate and small business lending

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and residential mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with residential mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are GDP growth, unemployment rates, changes in personal income/salary levels, personal indebtedness, and, for residential mortgages, LTV ratios.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

Loss given default

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward- looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk

In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list. In certain cases, the Bank may also consider that events explained in "Definition of default" section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

• Stage 2 and Stage 3 loans and advances to customers;

• The treasury and interbank relationships (such as amounts due from banks, cash equivalents and debt securities at amortised cost and FVOCI);

• Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

Asset classes where the Bank calculates ECL on a collective basis include:

• The smaller and more generic balances of the Bank's small business lending;

• Stage 1, 2 and 3 mortgages and consumer lending and Stage 1 corporate loans;

• Loans to individuals - entrepreneurs;

• Purchased POCI exposures managed on a collective basis.

The Bank groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example internal grade, overdue bucket, product type, loan-to-value ratios, or borrower's industry.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

• GDP growth;
• Unemployment rates;
• NBU base rates;
• Consumer price rates;
• Foreign exchange rates.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Bank obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Bank's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "2019", "2020" and "2021" represent a long-term average and so are the same for each scenario as at 31 December 2018.

Key drivers	ECL scenario	Assigned probabilities, %	2019	2020	2021
Consumer price index, %					
	Upside	25	-31.16%	-28.29%	-
	Base case	50	-26.76%	-28.78%	-
	Downside	25	-20.75%	-30.61%	-
Changes in GDP in constant prices in 2010, %					
	Upside	25	4.15%	3.06%	6.00%
	Base case	50	1.31%	-2.58%	5.96%
	Downside	25	-3.98%	0.00%	5.19%

Credit quality per class of financial assets

The table below shows the credit quality by class of asset for loan-related lines in the separate statement of financial position, based on the Bank's credit rating system.

In thousands of hryvnia	Note		Standard	Watch	Substandard	Impairment	Total
Cash and cash equivalents	6		**2,778,178**	**19,876**	**-**	**-**	**2,798,054**
		Stage 1	2,752,350	19,876	-	-	2,772,226
		Stage 2	25,828	-	-	-	25,828
Due from other banks	7		**806,412**	**-**	**-**	**-**	**806,412**
		Stage 1	569,540	-	-	-	569,540
		Stage 2	236,872	-	-	-	236,872
Loans and advances to customers	8		**9,744,694**	**2,581,178**	**3,299,968**	**1,867,251**	**17,493,091**
- Corporate loans			**9,608,077**	**2,573,052**	**3,184,809**	**1,734,518**	**17,100,456**
		Stage 1	1,016,082	110,534	4,206	-	1,130,822
		Stage 2	8,591,995	2,462,518	3,180,603	-	14,235,116
		Stage 3	-	-	-	1,734,518	1,734,518
- Loans to individuals - consumer loans			**88,617**	**4,251**	**10,524**	**66,268**	**169,660**
		Stage 1	78,709	3,266	10,267	-	92,242
		Stage 2	9,908	985	257	-	11,150
		Stage 3	-	-	-	66,268	66,268
- Loans to individuals - mortgage loans			**16,926**	**1,851**	**85,396**	**62,619**	**166,792**
		Stage 1	16,719	1,851	62,556	-	81,126
		Stage 2	207	-	22,840	-	23,047
		Stage 3	-	-	-	62,619	62,619
- Loans to individuals - entrepreneurs			**31,074**	**2,024**	**19,239**	**3,846**	**56,183**
		Stage 1	1,781	-	17,514	-	19,295
		Stage 2	29,293	2,024	1,725	-	33,042
		Stage 3	-	-	-	3,846	3,846
Investment securities:	9		**3,397,049**	**-**	**-**	**-**	**3,397,049**
- Measured at FVOCI		Stage 1	2,761,214	-	-	-	2,761,214
- Measured at amortised cost		Stage 1	635,835	-	-	-	635,835
Irrevocable commitments to extend credit	31		**145,916**	**234**	**369**	**7,059**	**153,578**
		Stage 1	143,861	-	236	-	144,097
		Stage 2	2,055	234	133	-	2,422
		Stage 3	-	-	-	7,059	7,059
Financial guarantees	31		**2,283,964**	**573**	**1,684**	**19,852**	**2,306,073**
		Stage 1	1,043,354	-	-	-	1,043,354
		Stage 2	1,240,610	573	1,684	-	1,242,867
		Stage 3	-	-	-	19,852	19,852
Total financial assets and credit related commitments before allowance for impairment			**19,156,213**	**2,601,861**	**3,302,021**	**1,894,162**	**26,954,257**
Less: Allowance for impairment			**(145,289)**	**(36,760)**	**(676,078)**	**(1,025,012)**	**(1,883,139)**
Total financial assets and credit related commitments			**19,010,924**	**2,565,101**	**2,625,943**	**869,150**	**25,071,118**

The credit quality of cash and cash equivalents balances may be summarised based on lowest of Standard and Poor's, Fitch, Moody's ratings, using Standard and Poor's classification as follows at 31 December 2017:

In thousands of hryvnia	Cash on hand	Balances with the NBU	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired				
- Cash on hand	1,661,112	-	-	1,661,112
- National Bank of Ukraine	-	796,484	-	796,484
- AA- rated	-	-	716,992	716,992
- A+ rated	-	-	165,428	165,428
- BBB+ rated	-	-	110,065	110,065
- BB rated	-	-	26,676	26,676
- CCC- to CCC+ rated	-	-	11,731	11,731
- Unrated	-	-	5,205	5,205
Total cash and cash equivalents	**1,661,112**	**796,484**	**1,036,097**	**3,493,693**

Analysis by credit quality of amounts due from other banks may be summarised based on lowest of Standard and Poor's, Fitch, Moody's ratings, using Standard and Poor's classification as follows at 31 December 2017 is as follows:

In thousands of hryvnia	Term placements with other banks	Guarantee deposits with other banks	Total
- A+ rated	-	66,411	66,411
- BBB- to BBB+ rated	-	404,186	404,186
- B rated	146	-	146
- CCC rated	-	20	20
Total due from other banks	**146**	**470,617**	**470,763**

Analysis by credit quality of loans outstanding at 31 December 2017, is as follows:

In thousands of hryvnia	Corporate loans	Loans to individuals-mortgage loans	Loans to individuals-consumer loans	Loans to individuals-entrepreneurs	Total
Neither past due nor impaired					
Standard	7,442,526	21,812	64,694	40,333	7,569,365
Watch	4,837,639	15,593	1,798	-	4,855,030
Substandard	1,673,301	80,474	25,864	17,277	1 ,796,916
Total neither past due nor impaired	**13,953,466**	**117,879**	**92,356**	**57,610**	**14,221,311**
Past due but not impaired					
- less than 31 days overdue	573	-	6,484	-	7,057
- 31 to 90 days overdue	251,698	-	2,825	-	254,523
- 91 to 180 days overdue	-	139	-	-	139
Total past due but not impaired	**252,271**	**139**	**9,309**	**-**	**261,719**
Loans individually determined to be impaired (gross)					
- not yet due	2,405,853	5,016	1,065	-	2,411,934
- less than 31 days overdue	32,010	-	1,276	-	33,286
- 31 to 90 days overdue	3,286	-	118	203	3,607
- 91 to 180 days overdue	112,791	37,671	8,599	-	159,061
- 181 to 360 days overdue	29,166	-	1,578	-	30,744
- over 360 days overdue	304,088	32,821	31,486	2,458	370,853
Total individually impaired loans (gross)	**2,887,194**	**75,508**	**44,122**	**2,661**	**3,009,485**
Total loans and advances to customers (gross)	**17,092,931**	**193,526**	**145,787**	**60,271**	**17,492,515**
Less: Allowance for impairment	**(1,552,909)**	**(40,507)**	**(40,361)**	**(3,626)**	**(1,637,403)**
Total loans and advances to customers	**15,540,022**	**153,019**	**105,426**	**56,645**	**15,855,112**

As at 31 December 2017, allowance for loan impairment on an individual basis is UAH 1,355,147 thousand, on a portfolio basis is UAH 282,256 thousand.

Past due but not impaired loans include the whole amount of overdue exposures. Overdue instalments as at 31 December 2017, amounted to UAH 9,473 thousand.

Past due and impaired loans include the whole amount of overdue exposures. Overdue instalments on individually impaired loans as at 31 December 2017, amounted to UAH 588,904 thousand.

At 31 December 2018 the Bank classifies neither past due nor impaired loans and advances to customers (31 December 2017: neither past due nor impaired) by credit quality in accordance with the following credit risk characteristics and based on the internal classification:

• ***Standard loans.*** This category includes exposures with insignificant credit risk which is characterised by strong financial position of the borrower and good loan servicing;

• ***Watch loans.*** This category includes exposures with insignificant credit risk which however may increase as a result of unfavourable conditions; these are exposures to borrowers with good financial standing and good payment history or borrowers with strong financial position and payment history with delays not exceeding 90 days;

• ***Sub-standard loans.*** This category includes exposures with significant credit risk which is characterised by weak financial position of the borrower and good loan servicing or good financial position of the borrower and poor loan servicing.

Before 1 January 2018 the primary factors that the Bank considers in determining whether a loan is impaired are its overdue status, financial condition of the borrower and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are determined to be impaired at 31 December 2017.

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio allowance for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of the reporting period. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

Market risks. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements.

Price change risk of securities is the existing or potential risk to the Bank's cash inflows and capital due to adverse changes in prices of securities and commodities and in foreign currency exchange rates for instruments held in the Bank's trading portfolio and available-for-sale portfolio.

Operation process risk is the potential risk to the Bank existence due to weaknesses in its corporate governance and internal control system or inadequate IT systems and processes involved in data processing in terms of operational manageability, adaptability, reliability, controllability and continuity.

Currency risk is the existing or potential risk to the Bank's cash inflows and capital due to adverse changes in foreign currency exchange rates. The Bank and its entities perform regular monitoring of their open currency positions.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2018				At 31 December 2017			
In thousands of hryvnia	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
US Dollars	10,744,652	(10,688,411)	-	56,241	10,848,678	(10,771,214)	(58,236)	19,228
Euros	1,104,101	(1,107,871)	-	(3,770)	2,060,845	(2,063,491)	-	(2,646)
Total	**11,848,753**	**(11,796,282)**	**-**	**52,471**	**12,909,523**	**(12,834,705)**	**(58,236)**	**16,582**

The table above discloses only assets and liabilities denominated in the principal currencies other then reporting currency of the Bank.

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Bank's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 33.

The above analysis only includes monetary assets and liabilities.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in the principal exchange rates applied at the end of the reporting period relative to the functional currency of the respective Bank entities, with all other variables held constant:

	At 31 December 2018		At 31 December 2017	
In thousands of hryvnia	Impact on profit or loss (before tax)	Impact on equity	Impact on profit or loss (before tax)	Impact on equity
US Dollar strengthening by 15% (2017: strengthening by 15%)	8,436	8,436	2,884	2,884
US Dollar weakening by 10% (2017: weakening by 10%)	(5,624)	(5,624)	(1,923)	(1,923)
Euro strengthening by 20% (2017: strengthening by 20%)	(754)	(754)	(529)	(529)
Euro weakening by 10% (2017: weakening by 10%)	377	377	265	265

Interest rate risk is an existing or potential risk to the Bank's cash inflows and capital due to unfavourable changes in interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

As at 31 December 2018 the Bank does not hold (31 December 2017: does not hold) financial instruments with a variable interest rate.

The Bank monitors interest rates for its financial instruments. The table below summarises average interest rates for the year based on reports reviewed by key management personnel:

	2018			2017		
In % p.a.	UAH	USD	EUR	UAH	USD	EUR
Assets						
Cash and cash equivalents	0	1	0	0	0	0
Due from other banks	17	2	0	0	0	0
Loans and advances to individuals	27	9	4	22	10	7
Loans and advances to corporate customers	17	8	7	17	9	9
Investment securities	16	6	4	13	8	-
Subordinated debt issued	-	-	-	-	8	-
Liabilities						
Due to the National Bank of Ukraine	20	-	-	15	-	-
Due to other banks	12	4	3	6	6	4
Customer accounts						
- current and settlement accounts	7	0	1	6	1	1
- term deposits	15	4	3	17	6	4
Other borrowed funds	-	2	-	-	3	-
Subordinated debt	12	9	-	12	9	-

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2018, is set out below:

In thousands of hryvnia	Ukraine	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	1,737,446	1,039,861	18,394	2,795,701
Due from other banks	639	805,609	-	806,248
Loans and advances to customers	15,662,738	2,678	-	15,665,416
Investment securities	3,398,268	4,583	-	3,402,851
Other financial assets	23,331	67	13	23,411
Total financial assets	**20,822,422**	**1,852,798**	**18,407**	**22,693,627**
Financial liabilities				
Due to other banks	62,466	1,465,831	-	1,528,297
Customer accounts	17,008,257	390,556	215,312	17,614,125
Other borrowed funds	-	662,155	1,720,896	2,383,051
Other financial liabilities	369,597	2,867	27	372,491
Subordinated debt	136,755	-	-	136,755
Total financial liabilities	**17,577,075**	**2,521,409**	**1,936,235**	**22,034,719**
Net position in on-balance sheet financial instruments	**3,245,347**	**(668,611)**	**(1,917,828)**	**658,908**
Credit related commitments (Note 31)	**2,424,265**	**34,476**	**910**	**2,459,651**

The geographical concentration of the Bank's assets and liabilities at 31 December 2017, is set out below:

In thousands of hryvnia	Ukraine	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	2,474,500	992,484	26,709	3,493,693
Due from other banks	20	470,597	146	470,763
Loans and advances to customers	15,851,423	3,689	-	15,855,112
Investment securities	3,338,858	4,583	-	3,343,441
Other financial assets	39,311	-	2	39,313
Total financial assets	**21,704,112**	**1,471,353**	**26,857**	**23,202,322**
Financial liabilities				
Due to other banks	92,966	3,281,360	-	3,374,326
Customer accounts	16,493,405	82,150	62,814	16,638,369
Other borrowed funds	-	661,378	1,932,131	2,593,509
Other financial liabilities	308,119	1,118	20	309,257
Subordinated debt	104,407	-	-	104,407
Total financial liabilities	**16,998,897**	**4,026,006**	**1,994,965**	**23,019,868**
Net position in on-balance sheet financial instruments	**4,705,215**	**(2,554,653)**	**(1,968,108)**	**182,454**
Credit related commitments (Note 31)	**2,515,102**	**32,728**	**-**	**2,547,830**

Balances in column "Non-OECD" include the assets and liabilities in the temporarily occupied territory (Crimea).

Liquidity risk. Liquidity risk is the existing or potential risk to the Bank's cash inflows and capital due to its inability to meet its obligations as they fall due without incurring unacceptable losses.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits, debt securities. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. Banks calculate liquidity ratios in accordance with requirements of regulatory authorities. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the National Bank of Ukraine. These ratios are:

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 54.22% at 31 December 2018 (31 December 2017: 68.97%) with the required ratio being not less than 20%;
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 62.36% at 31 December 2018 (31 December 2017: 59.04%), with the required ratio being not less than 40%;
- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 84.70% at 31 December 2018 (31 December 2017: 82.36%), with the required ratio being not less than 60%.

With the goal of sustaining financial stability and financial system resilience to possible liquidity shocks on 15 February 2018 the NBU Board approved the new prudential requirement for Ukrainian banks – Liquidity Coverage Ratio or LCR.

LCR – Liquidity Coverage Ratio, which is calculated as the ratio of high quality liquid assets to cover increased total net cash outflows from a bank. At 31 December 2018 the ratio in all currencies was 111.72% with the required ratio being not less than 80%, in foreign currency – 128.82% with the required ratio being not less than 50%, in the national currency – 103.71% (currently, the NBU does not set normative value for the ratio in the national currency).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of liquid securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows liabilities at 31 December 2018, by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments and financial guarantees (or contractual amounts to be exchanged under gross settled currency swaps and gross loan commitments). Such undiscounted cash flows differ from the amount included in the separate statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Bank expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial instruments of the Bank at 31 December 2018, is as follows:

In thousands of hryvnia	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	975,393	196,102	308,227	67,167	-	1,546,889
Customer accounts – individuals	4,096,523	1,438,902	3,000,733	92,368	18	8,628,544
Customer accounts – legal entities	7,791,216	488,984	404,266	492,099	8,859	9,185,424
Other borrowed funds	3,910	2,270,652	139,457	-	-	2,414,019
Subordinated debt	1,149	2,187	10,194	130,629	33,626	177,785
Other financial liabilities	371,796	101	245	349	-	372,491
Total potential future payments for financial obligations	**13,239,987**	**4,396,928**	**3,863,122**	**782,612**	**42,503**	**22,325,152**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The maturity analysis of financial instruments of the Bank at 31 December 2017, is as follows:

In thousands of hryvnia	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	2,351,537	344,803	512,907	199,788	-	3,409,035
Customer accounts – individuals	3,637,850	1,528,672	2,794,138	198,745	592	8,159,997
Customer accounts – legal entities	7,693,185	418,548	425,579	141,805	-	8,679,117
Other borrowed funds	4,787	1,955,712	683,381	-	-	2,643,880
Subordinated debt	847	969	8,161	127,236	-	137,213
Gross settled swaps and forwards:						
- inflows	(57,316)	-	-	-	-	(57,316)
- outflows	58,236	-	-	-	-	58,236
Other financial liabilities	307,481	88	609	159	-	308,337
Total potential future payments for financial obligations	**13,996,607**	**4,248,792**	**4,424,775**	**667,733**	**592**	**23,338,499**

Payments in respect of gross settled swaps and forwards will be accompanied by related cash inflows. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity only in cases where it is stipulated in the contract of bank term deposits.

The table below shows the contractual expiry by maturity of the Bank's credit related commitments and contingencies.

Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In thousands of hryvnia	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
2018						
Gross loan commitments	153,578	-	-	-	-	153,578
Financial guarantees	2,306,073	-	-	-	-	2,306,073
2017						
Gross loan commitments	123,501	-	-	-	-	123,501
Financial guarantees	2,424,329	-	-	-	-	2,424,329

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

30. Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine to the Bank and (ii) to safeguard the Bank's ability to continue as a going concern. The Bank considers total capital under management to be equity as shown in the separate statement of financial position based. The amount of capital that the Bank managed as at 31 December 2018, was UAH 2,511,581 thousand (31 December 2017: UAH 2,271,971 thousand). Compliance with capital adequacy ratios (N2) set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Board and Chief Accountant.

Capital adequacy ratio (N2), which is calculated as the ratio of regulatory capital to risk weighted assets. The ratio was 12.14% as at 31 December 2018 (31 December 2017: 10.37%), with the required ratio being not less than 10%.

Regulatory capital is based on the Bank's daily reports prepared under regulatory requirements the data in which is before period-end adjustments and comprises:

In thousands of hryvnia	2018	2017
Primary capital	1,769,674	1,741,568
Additional capital	639,592	402,374
Deductions	(42,423)	(42,423)
Total regulatory capital	**2,366,843**	**2,101,519**

In 2015, the National Bank of Ukraine in accordance with the NBU regulation No 260 dated 15 April 2015 "On conducting the diagnostic study of banks" performed a diagnostic review and stress-testing of the Bank. As a result, the Bank submitted to the NBU an Action plan on the increase of the Bank's capital (improvement of capital adequacy) and remediation of compliance of its economic (prudential) ratios by 01 January 2019. In accordance with the capitalisation plan, the Bank had increase the regulatory capital by UAH 681,433 thousand by 01 January 2018, including the increase of the primary capital by UAH 383,436 thousand. The capitalisation plan also contains the list of actions for UAH 453,561 thousand, completed by the Bank at the date of submission of the capitalisation plan for approval to the NBU. At 31 December 2018 the Bank fulfilled the Action plan in full and complied with all economic (prudential) ratios.

In 2018 the National Bank of Ukraine in accordance with NBU regulation No 141 dated 22 December 2017 "On approval of regulation on assessing resilience of banks and banking system of Ukraine" performed assessment of the Bank's resilience as at 1 January 2018.

Assessment of the largest Ukrainian banks resilance was performed in three stages with the involvement of the independent auditor, according to the NBU requirements. During the first stage the independent auditor assessed quality of the banks' assets and sufficiency of collateral coverage for credit operations.

Then the NBU stress tested banks under two macroeconomic scenarios - baseline and adverse.

Stress test assumed calculation of impact of negative factors on banks' capital adequacy for risks coverage. Capital needs determined by the NBU on the basis of a baseline scenario had to be compensated by the end of the year 2018. On the basis of adverse scenario - by the end of the year 2019.

By the end of 2018 Pivdennyi Bank has performed all necessary actions in order to achieve the target capitalization level and to fulfill all the requirements established by the NBU. Thus, capital need determined on the basis of baseline scenario (UAH 33 million) was compensated by attraction in September 2018 additional subordinated debt in the amount of USD 1.2 million. Capital need determined on the basis of adverse scenario (UAH 2,280 million) was almost fully compensated as at 30 September 2018 by improvement of assets quality and increase of the Bank's capital. By the actions described above capital need was reduced by UAH 2,111 million (by 93%). The remaining part of capital need in the amount of UAH 169 million will be compensated by the end of 2019 by the settlement of loans in foreign currency in accordance with approved with the NBU schedule.

31. Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. In addition, the legal system to Ukraine is subject to frequent changes and inconsistent court decisions. As a result, title in assets repossessed by the Bank to recover its bad debts may be challenged. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these separate financial statements.

Tax legislation. Ukrainian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. The Ukrainian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Ukrainian tax legislation does not provide definitive guidance in certain areas. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. As noted above, such tax positions may come under heightened scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Capital expenditure commitments. At 31 December 2018, the Bank has contractual capital expenditure commitments in respect of equipment totalling UAH 903 thousand (31 December 2017: in respect of premises and motor vehicles totalling UAH 638 thousand). The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar commitments.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable leases are as follows:

In thousands of hryvnia	2018	2017
Not later than 1 year	27,377	5,849
Later than 1 year and not later than 5 years	36,856	5,391
Total operating lease commitments	**64,233**	**11,240**

Credit related commitments. he primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

In thousands of hryvnia	Note	2018	2017
Irrevocable commitments to extend credit		153,578	123,501
Guarantees issued		2,306,073	2,424,329
Less: Provision for credit related commitments	18	(52,484)	(7,571)
Less: Commitment collateralised by cash deposits	15.16	(529,052)	(745,550)
Total credit related commitments, net of cash covered exposures and provision		**1,878,115**	**1,794,709**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments are denominated in currencies as follows:

In thousands of hryvnia	2018	2017
Hryvnias	1,502,448	1,451,278
Euro	332,084	255,230
US Dollars	43,583	88,201
Total	**1,878,115**	**1,794,709**

An analysis of changes in the ECL allowances for guarantees during 2018 is, as follows:

In thousands of hryvnia	Stage 1 - collective basis	Stage 2 - collective basis	Stage 2 - individual basis	Stage 3 - collective basis	Stage 3 - individual basis	Total
ECL allowance as at 1 January 2018	**264**	**27,879**	**-**	**11,285**	**-**	**39,428**
New assets originated	2,145	6,718	-	83	155	9,101
Transfers to Stage 1	2,194	(2,151)	-	(43)	-	-
Transfers to Stage 2	(634)	2,900	-	(2,266)	-	-
Transfers to Stage 3	-	(2)	-	2	-	-
Transfers between the bases of measurement	-	(88)	88	-	-	-
Impact of transfers between stages	(1,056)	(1,273)	-	1,127	-	(1,202)
Assets repaid	(273)	(4,018)	(1,039)	(1,725)	(494)	(7,549)
Other changes	1,308	(11,454)	11,838	6,394	383	8,469
Foreign exchange adjustments	(15)	(928)	-	(595)	-	(1,538)
ECL allowance as at 31 December 2018	**3,933**	**17,583**	**10,887**	**14,262**	**44**	**46,709**

An analysis of changes in the ECL allowances for credit related commitments during 2018 is, as follows:

In thousands of hryvnia	Stage 1 - collective basis	Stage 2 - collective basis	Stage 3 - collective basis	Stage 3 - individual basis	Total
ECL allowance as at 1 January 2018	**1,310**	**483**	**10,352**	**12**	**12,157**
New assets originated	2,681	79	2,233	-	4,993
Transfers to Stage 1	10,053	(3,129)	(6,696)	(228)	-
Transfers to Stage 2	(358)	637	(279)	-	-
Transfers to Stage 3	(465)	(755)	1,220	-	-
Impact of transfers between stages	(9,460)	2,614	5,240	-	(1,606)
Assets repaid	(412)	(361)	(7,460)	(12)	(8,245)
Other changes	(2,394)	540	102	228	(1,524)
ECL allowance as at 31 December 2018	**955**	**108**	**4,712**	**-**	**5,775**

Movements in the allowance for credit related commitments impairment during 2017, are as follows:

In thousands of hryvnia	Guarantees issued	Irrevocable commitments to extend credit	Total
Allowance for credit related commitments impairment at 1 January 2017	**221**	**250**	**471**
Allowance for credit related commitments impairment during the year	6,076	985	7,061
Currency translation difference	39	-	39
Allowance for impairment at 31 December 2017	**6,336**	**1,235**	**7,571**

Assets pledged and restricted. As at 31 December 2018, guarantee deposits in the amount of UAH 390,818 thousand (31 December 2017: UAH 470,617 thousand) represent balances placed with other banks as collateral for guarantees, import letters of credit and plastic cards transactions. These are in nature restricted deposits, which are required to be maintained to complete the related trade financing activity. Refer to Note 7.

Assets pledged. In November 2018 the Bank entered into the general loan agreement with the NBU, according to which the NBU may provide the Bank with overnight loans, refinancing loans to support the liquidity for a period of 14 to 90 days (short-term refinancing loans) and for a period of 1 to 5 years (long-term refinancing loans) secured by the property identified by the NBU (T-bills, NBU deposit certificates, bonds of international financial organizations, foreign currency). As at 31 December 2018 Ukrainian government bonds in the amount of UAH 983,388 thousand were pledged as collateral.

32. Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2017:

In thousands of hryvnia	Gross amounts before offsetting in the separate statement of financial position (a)	Gross amounts set off in the separate statement of financial position (b)	Net amount after offsetting in the separate statement of financial position (c) = (a) - (b)
Liabilities			
Other financial liabilities			
- Fair value of derivatives	58,236	57,316	920
Total liabilities subject to offsetting, master netting and similar arrangement	**58,236**	**57,316**	**920**

The amount set off in the separate statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting.

33. Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature.

	Note	2018		2017	
In thousands of hryvnia		Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards: fair values, at the end of the reporting period, of					
- USD payable on settlement (-)		-	-	-	(58,236)
- UAH receivable on settlement (+)		-	-	-	57,316
Net fair value of foreign exchange forwards	**18**	**-**	**-**	**-**	**(920)**

Foreign exchange swaps are represented by interbank deals which contemplate each other and for the purposes of these separate financial statements are presented on a net basis.

Foreign exchange derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms.

The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

34. Fair Value Disclosures

Management applies judgement in categorising financial instruments using the fair value hierarchy. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Carrying amount is reasonable approximation of fair value for short term financial assets and liabilities.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the separate statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2018				31 December 2017			
In thousands of hryvnia	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Financial assets								
Investment securities								
Debt securities at fair value through other comprehensive income								
- Ukrainian government bonds	-	1,758,778	-	1,758,778	-	532,866	-	532,866
- NBU deposit certificates	-	1,001,973	-	1,001,973	-	2,804,453	-	2,804,453
- Corporate shares	238	-	6,027	6,265	1,225	-	4,897	6,122
Non-financial assets								
- Premises and land	-	-	600,283	600,283	-	-	666,045	666,045
- Investment properties	-	-	1,101,189	1,101,189	-	-	34,397	34,397
Total assets recurring fair value measurements	**238**	**2,760,751**	**1,707,499**	**4,468,488**	**1,225**	**3,337,319**	**705,339**	**4,043,883**

In thousands of hryvnia	31 December 2017 Level 1	Level 2	Level 3	Total
Liabilities carried at fair value				
Financial liabilities				
Other financial liabilities				
- Other derivative financial instruments	-	920	-	920
Total liabilities recurring fair value measurements	**-**	**920**	**-**	**920**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2018:

In thousands of hryvnia	Fair value	Valuation technique	Inputs used
Assets at fair value			
Financial assets			
Investment securities			
- Ukrainian government bonds	1,758,778	Market comparatives	Market prices and quotes
- NBU deposit certificates	1,001,973	Market comparatives	Market prices
Total recurring fair value measurements at level 2	**2,760,751**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2018.

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2017:

In thousands of hryvnia	Fair value	Valuation technique	Inputs used
Assets at fair value			
Financial assets			
Investment securities			
- NBU deposit certificates	2,804,453	Market comparatives	Market prices
- Ukrainian government bonds	532,866	Market comparatives	Market prices and quotes
Liabilities carried at fair value			
Financial liabilities			
Other financial liabilities			
Fair value of derivatives	920	Discounted cash flows	Market prices and % rates
Total recurring fair value measurements at level 2	**3,338,239**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2017.

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2018:

In thousands of hryvnia	Fair value	Valuation technique	Inputs used	Reasonable change	Sensitivity of fair value measurement
Assets at fair value					
Financial assets					
Investment securities					
Debt securities at fair value through other comprehensive income					
- Corporate shares	6,027	Market comparatives	Transaction price	+/-1%	60
Non-financial assets					
- Premises and land	600,283	Market comparatives	Transaction price	+/-1%	6,003
- Investment properties	1,101,189	Market comparatives	Market prices and % rates	+/-1%	11,012
Total recurring fair value measurements at level 3	**1,707,499**				

A reconciliation of movements in level 3 of the fair value hierarchy by class of assets for the year ended 31 December 2017, is as follows:

In thousands of hryvnia	Fair value	Valuation technique	Inputs used	Reasonable change	Sensitivity of fair value measurement
Assets at fair value					
Financial assets					
Investment securities					
- Corporate shares	4,897	Market comparatives	Transaction price	+/-1%	49
Non-financial assets					
- Premises and land	666,045	Market comparatives	Transaction price	+/-1%	6,660
- Investment properties	34,397	Market comparatives	Market prices and % rates	+/-1%	344
Total recurring fair value measurements at level 3	**705,339**				

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2018 (2017: none).

A reconciliation of movements in level 3 of the fair value hierarchy by class of assets for the year ended 31 December 2018, is as follows:

In thousands of hryvnia	Investment securities	Premises and land	Investment properties
Fair value at 1 January 2018	**4,897**	**666,045**	**34,397**
Losses recognised in profit or loss for the year	-	(12,976)	(6,483)
Gains or losses recognised in other comprehensive income	3	(36,567)	-
Disposals	-	(3,888)	-
Transfers into other category	-	(12,331)	1,073,275
Transfers to level 1	1,127	-	-
Fair value at 31 December 2018	**6,027**	**600,283**	**1,101,189**

A reconciliation of movements in level 3 of the fair value hierarchy by class of assets for the year ended 31 December 2017, is as follows:

In thousands of hryvnia	Investment securities	Premises and land	Investment properties
Fair value at 1 January 2017	**6,584**	**679,819**	**74,430**
Losses recognised in profit or loss for the year	-	(15,370)	(14,713)
Gains or losses recognised in other comprehensive income	(4)	5,258	-
Purchases	-	578	2,450
Disposals	(1,683)	(4,240)	(25,320)
Transfers into other category	-	-	(2,450)
Fair value at 31 December 2017	**4,897**	**666,045**	**34,397**

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2018			
In thousands of hryvnia	Level 1	Level 2	Level 3	Carrying value
Assets				
Cash and cash equivalents				
- Cash on hand	1,045,654	-	-	1,045,654
- Cash balances with the NBU	673,930	-	-	673,930
- Correspondent accounts and overnight placements	1,076,117	-	-	1,076,117
Due from other banks				
- Term placements with other banks	-	415,430	-	415,430
- Guarantee deposits with other banks	-	390,818	-	390,818
Loans and advances to customers				
- Corporate loans	-	-	16,015,861	15,388,166
- Loans to individuals - consumer loans	-	-	118,591	115,393
- Loans to individuals - entrepreneurs	-	-	54,079	52,096
- Loans to individuals - mortgage loans	-	-	118,404	109,761
Investment securities				
- NBU deposit certificates	-	635,835	-	635,835
Total	**2,795,701**	**1,442,083**	**16,306,935**	**19,903,200**

	31 December 2017			
In thousands of hryvnia	Level 1	Level 2	Level 3	Carrying value
Assets				
Cash and cash equivalents				
- Cash on hand	1,661,112	-	-	1,661,112
- Cash balances with the NBU	796,484	-	-	796,484
- Correspondent accounts and overnight placements	1,036,097	-	-	1,036,097
Due from other banks				
- Guarantee deposits with other banks	-	470,617	-	470,617
- Term placements with other banks	-	146	-	146
Loans and advances to customers				
- Corporate loans	-	-	15,994,091	15,540,022
- Loans to individuals - consumer loans	-	-	106,896	105,426
- Loans to individuals - entrepreneurs	-	-	58,047	56,645
- Loans to individuals - mortgage loans	-	-	161,135	153,019
Total	**3,493,693**	**470,763**	**16,320,169**	**19,819,568**

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	31 December 2018			
In thousands of hryvnia	Level 1	Level 2	Level 3	Carrying value
Financial liabilities				
Due to other banks				
- Correspondent accounts and overnight placements of other banks	263,286	-	-	263,286
- Term placements of other banks	-	-	1,265,011	1,265,011
Customer accounts				
- Current/settlement accounts of other legal entities	-	-	7,538,670	7,538,670
- Term deposits of other legal entities	-	-	1,616,050	1,612,855
- Current/demand accounts of individuals	-	-	3,285,160	3,285,160
- Term deposits of individuals	-	-	5,198,322	5,177,440
Other borrowed funds	-	-	2,383,051	2,383,051
Subordinated debt	-	-	132,093	136,755
Total	**263,286**	**-**	**21,418,357**	**21,662,228**

In thousands of hryvnia	31 December 2017			
	Level 1	Level 2	Level 3	Carrying value
Financial liabilities				
Due to other banks				
- Correspondent accounts and overnight placements of other banks	1,981,317	-	-	1,981,317
- Term placements of other banks	-	-	1,393,009	1,393,009
Customer accounts				
- Current/settlement accounts of other legal entities	-	-	6,976,514	6,976,514
- Term deposits of other legal entities	-	-	1,683,423	1,687,055
- Current/demand accounts of individuals	-	-	2,817,332	2,817,332
- Term deposits of individuals	-	-	5,195,971	5,157,468
Other borrowed funds	-	-	2,593,509	2,593,509
Subordinated debt	-	-	106,949	104,407
Total	**1,981,317**	**-**	**20,766,707**	**22,710,611**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique.

35. Related Party Transactions

Parties are considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

In 2015, the National Bank of Ukraine in accordance with the Regulation No 314 dated 12 May 2015 "On banks' measures on coming into compliance with regulatory requirements in respect of asset transactions with related parties" performed a diagnostic review of related parties transactions. As a result of the diagnostic study the Bank included into the list of related parties (defined under requirements of the Law of Ukraine "On Banks and Banking Activity" and Regulation "On Identification of the Bank's Related Parties" approved by the National Bank of Ukraine Board Resolution dated 12 May 2015, No 315 with amendments a number of entities, which were not considered previously as "related" by the Bank. This led to the breach of the NBU's economic (prudential) ratio of maximum exposure of the credit risk on transactions with the related parties of the Bank.

As a result, the Bank's management considered the results of the diagnostic review and compared the listing of related parties identified under Ukrainian legislation with the related parties under IFRS, to make sure that differences, if any, are due to the different definitions of related parties.

The Bank submitted an Action plan on remediation by 1 January 2017, of the economic (prudential) ratio of the maximum exposure of the credit risk on transactions with related parties of the Bank. This plan was approved by the NBU on 26 April 2016.

In December 2016, the Bank submitted to the NBU the updated Action plan on remediation of its economic (prudential) ratio of the maximum exposure of the credit risk on transactions with related parties of the Bank by 1 January 2019. New action plan was approved by the NBU on 28 December 2016. The Bank fulfilled the Action plan ahead of schedule and in full as at 30 September 2018.

The economic (prudential) ratio of the maximum exposure of the credit risk on transactions with the Bank's related parties was 10.02% at 31 December 2018, with the required ratio being not less than 25%.

At 31 December 2018, the outstanding balances with related parties were as follows:

In thousands of hryvnia	Main shareholder	Subsidiaries	Other sharehol-ders	Entities under control of main shareholder	Other related parties
Gross amount of loans and advances to customers (contractual interest rates: 13.5 – 18%)	-	-	37,309	63,057	-
Allowance for impairment for loans and advances to customers at 31 December	-	-	(2,569)	(3)	-
Investment securities available-for-sale:					
- Shares of SKY Investment Holding SIA (8.82% holding)	-	-	-	4,583	-
Investment in subsidiary	-	42,423	-	-	-
Other assets	-	-	497	3	-
Due to other banks	-	1,464,534	-	-	-
Customer accounts (contractual interest rates: 0 – 15%)	1,803	-	94,535	291,175	8,525
Provisions for liabilities and charges and other liabilities	-	-	1	-	1,438
Subordinated debt (contractual interest rates: 11 – 12%)	-	-	34,156	-	-

The income and expense items with related parties for 2018, were as follows:

In thousands of hryvnia	Main shareholder	Subsidiaries	Other sharehol-ders	Entities under control of main shareholder	Other related parties
Interest income	-	-	5,487	8,949	-
Interest expense	(4)	(93,145)	(12,926)	(16,236)	(259)
(Allowance)/reversal of allowance for loan impairment	-	-	(964)	25	-
Fee and commission income	31	519	202	3,395	108
Other operating income	722	30,530	360	12	2
Administrative and other operating expenses	-	-	(2,481)	(644)	(5,098)

At 31 December 2017, the outstanding balances with related parties were as follows:

In thousands of hryvnia	Main shareholder	Subsidiaries	Other shareholders	Entities under control of main shareholder	Other related parties
Gross amount of loans and advances to customers (contractual interest rates: 13.5 – 16%)	-	-	43,215	2,711	-
Allowance for impairment for loans and advances to customers at 31 December	-	-	(568)	(54)	-
Investment securities available-for-sale:					
- Shares of SKY Investment Holding SIA (8.82% holding)	-	-	-	4,583	-
Investment in subsidiary	-	42,423	-	-	-
Other assets	-	-	450	-	-
Due to other banks	-	3,279,380	-	-	-
Customer accounts (contractual interest rates: 0 – 20%)	2,589	-	106,842	81,918	8,053
Provisions for liabilities and charges and other liabilities	-	-	5	-	490
Subordinated debt (contractual interest rate 12%)	-	-	20,204	-	-

The income and expense items with related parties for 2017, were as follows:

In thousands of hryvnia	Main shareholder	Subsidiaries	Other shareholders	Entities under control of main shareholder	Other related parties
Interest income	-	2,360	6,829	478	59
Interest expense	(2)	(179,467)	(10,383)	(10,714)	(270)
Reversal of allowance for loan impairment	-	-	71	7	12
Fee and commission income	274	2,101	183	2,316	37
Losses less gain from disposal of investment securities available-for-sale	-	-	-	(1,511)	-
Other operating income	-	597	600	10	-
Administrative and other operating expenses	-	-	(2,385)	(535)	-

As at of 31 December 2018, the Bank's main shareholder is Mr. Y.O. Rodin (31 December 2017: Mr Y.O. Rodin).

Key management compensation is presented below:

	2018		2017	
In thousands of hryvnia	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
- Salaries	36,152	4,343	20,553	3,356
- Short-term bonuses	8,280	8,280	-	-
Post-employment benefits:				
- State pension and social security costs	1,406	74	917	58
Total	**45,838**	**12,697**	**21,470**	**3,414**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

36. Disclosure of Changes in Liabilities Arising from Financing Activities

In thousands of hryvnia	Other borrowed funds	Subordinated debt	Total
Carrying value as at 1 January 2017	**2,556,894**	**101,777**	**2,658,671**
Proceeds	924,620	-	924,620
Repayment	(923,295)	-	(923,295)
Other	(45,030)	-	(45,030)
Currency translation difference	80,320	2,630	82,950
Carrying value as at 31 December 2017	**2,593,509**	**104,407**	**2,697,916**
Proceeds	308,264	33,674	341,938
Repayment	(491,712)	-	(491,712)
Other	5,115	260	5,375
Currency translation difference	(32,125)	(1,586)	(33,711)
Carrying value as at 31 December 2018	**2,383,051**	**136,755**	**2,519,806**

Other includes interest, discount and premium.

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