PJSC "BANK VOSTOK"

International Financial Reporting Standards
Financial Statements and
Independent Auditor's Report

Management Report

31 December 2018

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MANAGEMENT REPORT OF PJSC "BANK VOSTOK" FOR 2018

Welcoming statement of the Management Board's Chairman

Dear shareholders, customers, and partners,

We do believe that the most important thing in banking is reliability. The reliability of our financial position, the reliability of our team. To date, all personnel of the Bank are challenged with a high task – to be a reliable partner to all our partners. All our experience evidences that we have reasonably accumulated liquidity, a qualitative portfolio, and stability. This means that you can always rely on us. We support a whole range of social projects, but I would like to dwell here more on those that help our young generation develop intellectually – international chess tournaments, scholarship allowances for students of economics, assistance to young talents in varied spheres. We provide support to Charitable Foundation "Myloserdia Viktor".

One of the best advantages of our employees in the market is a profound expertise in in the industries in which our customers operate. Key industries we are specializing in include food processing, retail operations, all sea-related areas, and agribusiness. We are trying to focus on those industries where we can be of the greatest expert assistance to our customers. Our employees provide maximum assistance in both development and expertise of those industries.

A basis for our development is corporate business, and not just corporate business in a broad meaning of the word, but industry-oriented corporate business. Our main advantage here is thorough understanding of subtleties of our customers' business development. We also work with a great number of individuals and provide to them a comprehensive range of services. We would like to be as simple and modern bank as we can.

Therefore, we study each our customer in detail and try to become not only its financial partner, but a strategic partner as well who will be able to suggest how to develop business.

Yours kindly,

V. V. Morokhovskyi

Chairman of the Management Board of

PJSC "BANK VOSTOK"

Nature of business

PUBLIC JOINT STOCK COMPANY "BANK VOSTOK" was established on 23 April 2002 and registered by the National Bank of Ukraine on 17 October 2002 as CJSC "Agrobank". In December 2006, the Bank became a part of Home Credit Group. The Bank is a legal successor of all rights and obligations of Joint Stock Company "Agrobank" and PUBLIC JOINT STOCK COMPANY "HOME CREDIT BANK".

The Bank's policies presuppose rendering a broad range of banking services that are based on quality and corporate identity of services and trust-based relationships of partnership with customers.

For the years of its operations, the Bank has successfully displayed its economic and management potential in ensuring a stable growth in financial performance, shaping a stable business reputation among customers and business partners, and strengthening a competitive ability in the market of banking services.

In its activities, the Bank adheres to the requirements of the effective legislation, ethical and moral standards and business rules, undoubtedly fulfills its obligations, and relishes its reputation and reputation of its customers and shareholders.

As at 31 December 2018, 100% of the Bank's shares were held by LLC "Vostok Capital".

Ultimate beneficiary owners of the Bank are Mr. V. M. Kostelman, Mr. V. V. Morokhovskyy, and Ms. L. S. Morokhovska.

The Bank's registered address is at: 24 Kursantska Street, Dnipro, Ukraine. The Bank's head office units are located at 1B Kanatna Street, Odesa, Ukraine and 12 Krutohirnyi Uzviz, Dnipro, Ukraine.

The business model of PJSC "BANK VOSTOK" is defined as corporate because a major portion of its assets consist of loans to legal entities and liabilities comprise funds attracted from legal entities.

The Bank's operations are geographically based on the regional network consisting of 36 outlets in Dnipropetrovska, Odeska, Khersonska, Mykolaivska, Lvivska, Cherkaska, Kyivska, Kharkivska, Poltavska, Zaporizka, and Sumska regions. A special attention in the Bank's activities is given to the quality of services to customers that are based on decades of experience and timely implementation of innovating banking technologies.

The Bank is a participant of Individual Deposit Guarantee Fund (registration certificate # 157 dated 19 November 2012), which operates under the Law of Ukraine "On Individual Deposit Guarantee System" # 4452-VI dated 23 February 2012. Individual Deposit Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual.

To date, the Bank is actively integrated in international information and payment systems. PJSC "BANK VOSTOK" is a member of the international payment system of S.W.I.F.T. and a user of international dealing systems of REUTERS and Bloomberg, a principal member of the international payment system of Master Card and, effective from 21 August 2015, a principal member of the international payment system of VISA.

PJSC "BANK VOSTOK" is an active participant of the Ukrainian stock market and depository system, in particular:

- A client of the National Depository of Ukraine;
- A client of the Depository of the National Bank of Ukraine;
- A participant in tenders of PJSC "Stock Exchange "PFTS";
- A participant in tenders of PJSC "Ukrainian Exchange";
- A member of the Professional Association of Capital and Derivative Market Participants.

The Bank sees itself as a participant and integral member of the global banking system and a reliable bridge between our country, representatives of Ukrainian business and foreign partners.

A special attention in the Bank's activities is given to documentary operations, modern procedures for settlement of accounts which allow domestic entities performing settlements with foreign companies. In turn, the Bank's work with documentary operations ensures for reliability of conducting business by foreign companies in this country.

In 2018, the Bank joined the system of BankID of the NBU, by using which our customers are able to order electronic administrative services.

The Bank should be simple and understandable for its foreign partners, therefore, it is internationally audited by PJSC "Deloitte & Touche USC".

On the basis of Banking License # 204 issued on 18 October 2011 by the National Bank of Ukraine, the Bank is entitled to render the following banking services:

- Attract as deposits funds and investment metals from an unlimited range of legal entities and individuals;
- Open and maintain current (correspondent) accounts of customers, including in investment metals, and escrow accounts;
- Invest the funds and investment metals attracted as deposits, including on current accounts, on its behalf, on own terms, and at its sole risk.

In accordance with the legislation of Ukraine, the Bank provides to its customers the following financial services:

- Issue payment documents, payment cards, traveler checks and/or service them, other forms of supporting settlements;
- Ensure trust management of financial assets;
- Engage in foreign exchange operations;
- Attract financial assets with obligation of their subsequent return;
- Conduct finance leasing operations;
- Lend funds, including on financial lending terms;
- Issue guarantees and sureties;
- Transfer funds;
- Provide insurance services and cumulative pension benefit services;
- Conduct professional activities in the market of securities subject to licensing;
- Conduct factoring operations, in particular, administering financial assets on the purchases of goods in groups;
- Manage properties in the course of financing construction items and/or transacting in real estate in accordance with the Law of Ukraine "On Financial and Lending Mechanisms and Property Management in Housing Construction and Real Estate";
- Perform operations with mortgage assets to issue mortgage securities;
- Provide banking and financial services in accordance with the Law of Ukraine "On Banks and Banking".

In 2018, the Bank conducted foreign exchange operations based on the General License issued by the National Bank of Ukraine to perform foreign exchange operations # 204-3 dated 22 May 2017.

In addition, the Bank is also entitled to perform the following activities:

- Make investments;
- Issue own securities;
- Issue, promote, and arrange lotteries;
- Store valuables or rent individual banking safes;
- Collect cash and transfer currency valuables;
- Maintain registers of holders of registered securities (other than treasury shares);
- Render consulting and information services in respect of banking and other financial services.

Also, the Bank has the following licenses on conducting the following types of activities:

License Series AE # 263292 issued by the National Commission for Securities and Stock Market of Ukraine on 10 September 2013, with a perpetual life, on conducting professional activities in the stock market – depository activities. Depository activities of a depository institutions;

License Series AE # 263291 issued by the National Commission for Securities and Stock Market of Ukraine on 10 September 2013, with a perpetual life, on conducting professional activities in the stock market – depository activities. Activities on storing assets of joint investment institutions;

License Series AE # 286862 issued by the National Commission for Securities and Stock Market of Ukraine on 8 May 2014, with a perpetual life, on conducting professional activities in the stock market – trading in securities. Brokerage activities;

License Series AE # 286863 issued by the National Commission for Securities and Stock Market of Ukraine on 8 May 2014, with a perpetual life, on conducting professional activities in the stock market – trading in securities. Dealer's activities.

A major segment of the Bank's customers is medium and small business. The Bank pays special attention in its work with corporate customers to the following industry sectors: trade (especially, retail), agriculture, and transport and shipping, as an industry component. The regional presence of the Bank in major port centers of the country allows the Bank to be a single settlement center in the industry. An important place in the Bank's strategies is given to supporting and developing businesses of customers and their interests in the market of transportation services.

The Bank offers to its customers services on implementing and servicing payroll projects of any complexity both on the basis of MasterCard WorldWide payment cards, including on the basis of co-brand "Vlasnyi Rakhunok (Own Account)" cards, and on the basis of cards of Visa International payment system. For own payroll project card holders, the Bank has implemented a possibility of free withdrawal of cash from ATMs in the whole territory of Ukraine.

The Bank's achievements

PJSC "BANK VOSTOK" obtained an international borrowing under the support of OPIC.

The Bank received USD 8 million for the period of nine years from the finance company of World Business Capital. The borrowing is secured by the guarantee from the US government organization of OPIC (Overseas Private Investments Corporation) that supports US private business investments abroad.

In 2018, PJSC "BANK VOSTOK" received income from Mastercard Europe SA as a support of marketing initiatives in order to increase MasterCard brand awareness and increase the use of cards, as well as support the increased use and activation of Mastercard payment cards with the Bank and increased volume of processed transactions. Total income from Mastercard Europe SA for 2018 amounted to the equivalent of UAH 20.9 million.

PJSC "BANK VOSTOK" and Mastercard implemented the first project on contactless fare payment in Odesa.

The Bank pays a special attention to innovation technologies. Contactless fare payments become more and more important in the fast pace of life and meet the needs of a modern consumer. Therefore, we are pleased to provide to Odesa residents and guests of the city this highly technological and convenient service. The project has been implemented in partnership with Mastercard, PJSC "BANK VOSTOK" and with the support of ME "Odesmiskelektrotrans".

PJSC "BANK VOSTOK" is the first bank that has made it possible to its customers to add cards to Masterpass digital wallet directly from Internet Banking.

Based on the voting results, PJSC "BANK VOSTOK" was ranked third in the category of the Best Mobile Payment Service among Ukrainian banks.

On 11 December 2018, Grand Hall Khreschatyk witnessed an official ceremony of awarding the best players in the Ukrainian market of FinTech and e-commerce. The contest, for the third year in a row, was held by an expert finance and technologies periodical, the PaySpace Magazine. This year, 189 companies and experts participated in the annual PSM Awards 2018. Winners were selected by readers, the jury of experts, and the magazine staff. In total, companies and experts received 68 thousand votes. Based on the voting results, PJSC "BANK VOSTOK" was ranked third in the category of the Best Mobile Payment Service.

In the annual contest of "BANK OF THE YEAR 2018", PJSC "BANK VOSTOK" became a winner in the nomination of "THE MOST RELIABLE BANK FOR BUSINESS".

International Financial Club of "Bankir" (the "Banker") and the University of Banking determined winners of the Tenth All-Ukrainian Contest "Bank of the Year 2018". The best banking institutions in Ukraine were determined based on the surveys of Ukrainian banks, their clients, thoughts of competent experts of the National Bank of Ukraine, the University of Banking, the League of Insurance Companies of Ukraine, the National Commission for Financial Services, rating agencies, and business media partners.

PJSC "BANK VOSTOK" was included to the best TOP 5 banks for individuals.

The project of the Ukrainian Interbank Association of Payment System Members (EMA) called "# Yavnyi_Pokupatel" ("Explicit Buyer") determined leaders in the banking market. Based on the survey, PJSC "BANK VOSTOK" appeared among TOP-5 banks by taking the fourth place.

The project's task was to assess by different categories the ease of using online- and mobile-banking by individuals, as well as quality and number of offered services. Also, the survey was aimed at finding out what products and services related to the so called "must have" categories. In 2018, the Bank implemented many services, including the connection of cards to services of SMS-notification and 3D-Secure, payment through Google Pay and Masterpass, management of card limits, expense analytics, cash transfers by phone numbers, and many other.

PJSC "BANK VOSTOK" confirmed its margin of sustainability based on the valuation held by the National Bank of Ukraine.

The National Bank of Ukraine published the results of sustainability study by banking institutions. The sustainability study presupposes an asset quality review (AQR) and, for the largest banks, stress testing. Of 24 banks subject to stress testing, thirteen banks had needs in capital for the total amount of UAH 42.1 billion. Four banks succeeded in covering the need in capital under an unfavorable scenario, including PJSC "BANK VOSTOK".

In 2018, PJSC "BANK VOSTOK" improved its credit rating to the level of uaAA.

The rating agency of "Credit Rating" announced the improvement in the Bank's long-term credit rating to the level of uaAA. The rating's outlook is stable.

PJSC "BANK VOSTOK" joined the payment system of Google Pay.

In October 2018, the Bank was the fourth bank to launch Apple Pay digital wallet in Ukraine.

PJSC "BANK VOSTOK" won a tender on the co-branding project with PAYCELL.

Composition of the Supervisory Board of PJSC "BAN VOSTOK" at the end of 2018:

No.	Full name	Position
1	Kostelman, Volodymyr Mykhailovych, born in 1972 Education: The State Metallurgical Academy of Ukraine, with the major in Automated Technological Processes and Productions; The Central Institute of Postgraduate Pedagogical Education at the Academy of Pedagogical Sciences, with the major in Management of Organizations	Chairman of the Supervisory Board, representative of the Bank's shareholder, LLC "VOSTOK CAPITAL". Member of Assignment and Remuneration Committee
2	Hnatenko, Yurii Petrovych, born in 1972 Education: The Dnipropetrovsk State University, with the major in Automated Data Processing and Management Systems; The Dnipropetrovsk State University, with the major in Law	Member of the Supervisory Board, representative of the Bank's shareholder, LLC "VOSTOK CAPITAL"
3	Morokhovska, Liudmyla Semenivna, born in 1946 Education: The Rostov-on-the-Don Institute of National Economy, with the major in Finance and Credit	Member of the Supervisory Board, representative of the Bank's shareholder, LLC "VOSTOK CAPITAL"
4	Likhota, Dmytro Serhiiovych, born in 1973 Education: The Odesa State Economic University, with the major in Banking	Member of the Supervisory Board, representative of the Bank's shareholder, LLC "VOSTOK CAPITAL". Member of Audit Committee
5	Kudynska, Svitlana Kostiantynivna, born in 1979 Education: The Odesa National University named after I. I. Mechnikov, with the major in Economic Theory	Independent member of the Supervisory Board (independent director), Member of Assignment and Remuneration Committee, Member of Audit Committee
6	Diachuk, Iryna Borysivna, born in 1986 Education: The Lviv National University named after Ivan Franko, with the major in Law	Member of the Supervisory Board, representative of the Bank's shareholder, LLC "VOSTOK CAPITAL"
7	Shevchenko, Nina Vitaliivna, born in 1958 Education: The Odesa State Economic University, with the major in Finance and Credit	Independent member of the Supervisory Board (independent director), Member of Audit Committee, Member of Assignment and Remuneration Committee

Effective from 30 January 2019:

8	Kuznietsova, Liudmyla Viktorivna, born in 1948 Academic title – Doctor of Economics, Professor Education: The Odesa State Institute of National Economy, with the major in Finance and Credit	Independent member of the Supervisory Board (independent director)

Composition of the Management Board of PJSC "BANK VOSTOK" at the end of 2018:

Chairman of the Management Board

Morokhovskyi,

Vadym Viktorovych

Born in 1971

Education: the Odesa State Institute of National Economy

Honored Economist of Ukraine

Experience in banking and financial institutions:

27 years

Deputy Chairman of the Management Board

Svoboda, Hanna Olehivna

Born in 1971

Education: the Odesa State Economic University

Experience in banking and financial institutions:

23 years

Deputy Chairman of the Management Board

Putria, Viktoriia Ivanivna

Born in 1967

Education: the Ternopil Academy of National Economy

Experience in banking and financial institutions:

22 years

Deputy Chairman of the Management Board

Morokhovska, Liia Semenivna

Born in 1975

Education: the Odesa State Economic University

Experience in banking and financial institutions:

23 years

Member of the Management Board/Finance Director

Panfilova, Tetiana Heorhiivna

Born in 1974

Education: the Odesa State Economic University

Experience in banking and financial institutions:

22 years

Member of the Management Board/Head of Active Operation Administering Department

Chekeres, Halyna Viktorivna

Born in 1966

Education: the Odesa State Institute of National Economy

Experience in banking and financial institutions:

31 years

Member of the Management Board/Head of Central Regional Department

Boravliova, Olena Leonidivna

Born in 1969

Education: the Voroshylovhrad Engineering Institute (with the major in Economics), the Donbas Mining and Metallurgical University (with the major in Banking)

Experience in banking and financial institutions:

26 years

Member of the Management Board/Head of Risk Management Department

Rodomanov, Vadym Vitaliiovych

Born in 1968

Education: the Kyiv State Economic University

Experience in banking and financial institutions:

23 years

Executives, not Members of the Management Board

Chief Accountant

Siuskova, Olena Petrivna

Born in 1969

Education: the Odesa Institute of Marine Engineers (with the major in Economics)

Experience in banking and financial institutions:

24 years

Deputy Chief Accountant

Yeriomenko, Viktoriia Viktorivna

Born in 1969

Education: the Moscow Geological Prospecting Institute named after S. Ordzhonikidze (winner of the Red Banner of Labor Award) (with the major in Economics)

Experience in banking and financial institutions:

24 years

Economic environment in which PJSC "BANK VOSTOK" operates

In 2018, the political and economic situation in Ukraine was mainly determined by the factors that had arisen in 2014-2015 and characterized by instability that resulted in the deteriorated state of public finance, volatility in financial markets, illiquidity of capital markets, accelerated inflation rates, and devaluation of the national currency against major foreign currencies.

In 2018, the Ukrainian economy began to demonstrate improvements. According to the data of the State Statistical Service of Ukraine, in 2018, gross domestic product ("GDP") increased by 3.4% compared to the similar period of the previous year (2017: increased by 2.5% during the year). In 2018, consumer inflation rate was 9.8%, according to the data of the State Statistical Service of Ukraine. High rates of UAH devaluation against major foreign currencies observed during 2014-2015 significantly decreased in 2018. As at 31 December 2018, the official exchange rate of the national currency against USD amounted to UAH 27.688264 per USD 1 compared to UAH 28.067223 per USD 1 as at 31 December 2017 and UAH 27.190858 per USD 1 as at 31 December 2016. To prevent further UAH devaluation, the NBU introduced a range of restrictions on foreign currency operations, including a temporary ban on dividend payment in foreign currencies, a temporary ban on early repayment of debt to non-residents, a mandatory sale of 50% of currency revenues, as well as other restrictions with regards to cash and non-cash transactions. The NBU continued the effect of those restrictions several times during the period from 2015 to 2018.

In the second half of 2018, significant changes occurred in the regulatory environment. A range of laws were adopted that accelerate currency liberalization, improve corporate governance in state-owned banks, reduce the value of loans, make bankruptcy procedures more effective, intensify control over the quality of audit services. Also, a new liquidity ratio was introduced.

The Law of Ukraine "On Currency and Currency Operations" has been adopted, which fundamentally changes the system of currency regulation. It introduces a principle of free capital flow. Available currency restrictions will be gradually cancelled when risks for the economy and financial stability decrease to the acceptable level. After that, currency operations will be performed using the principle of "everything which is not forbidden is allowed".

A principle of independent supervisory boards in state-owned banks has been introduced. Members of supervisory boards shall be elected on a competitive basis. Independent members of supervisory boards and representatives of the state shall meet a determined list of criteria. The term of office shall be three years.

Rights of lenders have been increased. The law has been adopted on renewal of lending under which a procedure with regards to bringing an unscrupulous debtor to civil liability is simplified, in particular, through improved tools of extra-judicial setting and inability to withdraw a collateral from encumbrance in contradiction to lending terms and conditions.

The Code of Ukraine has been adopted on a procedure of bankruptcy which enhances the procedure of corporate bankruptcy and introduces a procedure for debt restructuring and bankruptcy of individuals.

Tools of auditing activities have been improved in accordance with the Law of Ukraine "On Audit of Financial Statements and Auditing Activities". It introduces a new system of supervision over auditing activities that meet the EU requirements. In September 2018, an Agency for Supervision of Audit Activities was established. It will control the quality of work of auditing firms that conduct statutory audits of public interest entities and have authorities to apply sanctions to offending entities. During three years, after the law comes into effect, the NBU will have the right to dismiss an audit firm selected by a bank to conduct an external audit or remove from performing its activities. An intensified control over the quality of audit opinions will improve confidence in the sector.

Effective from 1 September 2018, banks have been provided with a free online access to the NBU's Loan Register. It contains data about debtors, terms and conditions of loan transactions, fulfillment of loan obligations.

Upon introduction of a remote identification of banks' customers, individuals may receive remotely not only administrative, but banking services as well. Effective from November 2018, clients are able to open an account remotely via the BankID system. To do this, a bank's customer will be obliged to go through identification procedure only once, after which banking services will be available on sites of other financial institutions switched on to BankID.

An important factor in 2018 was a transfer of Ukrainian banks to provisioning on loans using the principle of expected credit losses in compliance with the requirements of IFRS 9.

Resolution of the Board of the National Bank of Ukraine # 64 dated 11 June 2018 approved the Provision on Organization of Risk Management in Banks of Ukraine and Banking Groups which was designed to regulate key principles, requirements, and approaches to risk management systems in banks of Ukraine.

In 2018, a new liquidity coverage ratio ("LCR") was introduced designated to improve the capability of banks to absorb short-term liquidity shocks within one month.

In October 2018, the international rating agency of Standard & Poor's confirmed the credit rating of Ukraine at the level of "B-", with a stable outlook.

The government of Ukraine continues to cooperate with the International Monetary Fund (the "IMF"). In particular, in April 2017, the next tranche in the amount of USD 1 billion was received under the Extended Fund Facility as approved by the IMF's Executive Board of Governors on 11 March 2015. Further disbursement of the IMF's tranches will be dependable on implementation of government reforms in Ukraine, as well as other economic, legal, and political factors. The restructuring of a part of government debt, in particular, a loan in the amount of USD 3 billion granted by the Russian Federation, remains non-finalized.

On 18 December 2018, the IMF and the government of Ukraine agreed on a new cooperation program in a 'stand-by' format for the total amount of USD 3.9 billion. Ukraine received the first tranche in the amount of USD 1.4 billion under the new program on 20 December 2018.

The banking system remains weakened as a result of insufficient level of capital, low quality of assets caused by the economic situation, devaluation of currency, changes in the legislation, and other reasons. Based on the results of stress-testing, the NBU agreed with owners of the largest commercial banks plans of additional capitalization for the period of three years, however, not all banks are able to perform those programs. During the period from 2014 to 2018, more than 95 banks were recognized by the National Bank of Ukraine as insolvent due to different reasons, and the largest private bank was nationalized in December 2016.

As at the end of 2018, Ukraine had 77 operating banks. Two banks completed merges with other banks, one bank was turned into a financial company, and VTB Bank was recognized as insolvent. A market share of state-owned banks remained almost unchanged: 54.7% and 63.4% on net assets and deposits of individuals, respectively. In 2018, due to intensive lending to individuals, market shares of Privatbank and private banks in net assets grew to 20.7% and 14.8%, respectively. A degree of concentration in the sector has not changed for the recent two years: at the end of the previous year, 20 banks held 91% of net assets.

A conflict in the Eastern Part of Ukraine which had commenced in spring 2014 remains unresolved. Nevertheless, there was no significant escalation of the conflict since the agreement on fire cessation had been signed in February 2015. Relationships between Ukraine and the Russian Federation remained tense.

Clearing the commercial banking system creates a significant pressure on the state budget. During the period from 2014 to 2018, Individual Deposit Guarantee Fund returned to customers of insolvent banks about UAH 89 billion, and over UAH 150 billion was allocated for capitalization of state-owned and nationalized banks.

Effective from 1 January 2016, the Association Agreement between Ukraine and the EU on establishing the Deep and Comprehensive Free Trade Area came into force. Immediately after that, the government of Russia imposed a trade embargo on key Ukrainian export goods. In response, the Ukrainian government introduced similar measures in respect of Russian goods.

On 15 March 2017, the Council of National Security and Defense of Ukraine advised the NBU to undertake sanctions against the Ukrainian banks with Russian public capital. The effect of this resolution is difficult to predict.

Further economic and political developments in Ukraine and their consequences are currently difficult to predict, however, they may have a subsequent adverse effect on the economy of Ukraine and business of the Bank.

Objectives of management and strategies of their achievement

Fundamentals of the Bank's ideology include loyalty to its customers, mobility and flexibility in decision making, readiness to provide any types of banking services to legal entities and individuals with a maximum comfort and customer-specific service. The Bank represents a huge family for its customers and employees, any tasks in it are fulfilled promptly and efficiently.

In its activities, the Bank is interested to promote to a maximum degree a comprehensive cooperation of a customer with the Bank.

To achieve those goals, the Bank applies:

- Flexible tariff policies in comprehensive servicing;
- Developed cross-sales within one business (corporate or retail) and between business lines.

Corporate business is treated as one of sales channels for retail business and vice versa.

By having a highly professional team, the Bank renders to its customers a full range of banking services, from documentary to cash settlement services.

Development strategy in the segment of corporate customers envisages for considering specific needs of entities related to industry and other features of their operations. A special attention in the work with corporate customers is given to such industries as trade (especially retail), agriculture, and shipping. A key segment of the Bank's customers is medium and small business.

The Bank's retail business offers the services that help people, at minimum time spent, control, save, and invest funds. A key direction in the work of private banking is information and consulting support of customers, development of comprehensive financial solutions, and further rendering of banking products to implement the decisions taken.

A key direction of the Bank's development is a traditional classical banking, with a focus on business development by using banking payment cards on the basis of the shared project with the loyalty program of "Vlasnyi Rakhunok" ("Own Account"). New products and processes in servicing customers are implemented in the Bank via traditional and alternative channels of providing financial products and services. The Bank analyzes consistently and studies the peculiar features of activities and territorial location its customers in order to optimize to a maximum degree its services to satisfy the customer's needs.

A strategic goal of the Bank's development is to extend its operations to the territories of the country, develop actively new forms of servicing customers, and bring the Bank's services closer to customers.

The Bank has the following objectives:

- Achieve stable profitable operations in 2019;
- Attract for servicing partners of Fozzy Group;
- Implement a range of measures on realization of the co-brand project of BANK VOSTOK-Fozzy Group;
- Develop close relationships with international financial institutions and foreign bank-partners;
- Develop further own development of Internet-banking for individuals, work with mobile applications, and integrate with social networks;
- Create a single payment system.

Management bodies of the Bank and corporate governance

The document that defines and secures key principles and standards of the Bank's corporate governance, principles for protecting rights and interests of shareholders, depositors, and other stakeholders, tools of management and control, principles of openness and transparency in its activities is the Code of Corporate Governance of PUBLIC JOINT STOCK COMPANY "BANK VOSTOK".

You may refer to the Code placed on the Bank's site at: https://bankvostok.com.ua/public

Key principles of the Bank's corporate governance include the following:

- Clear segregation of authorities among management bodies and available adequate degree of authority, responsibility, accountability, and a system of control and counterbalance;
- Effective supervision on behalf of the Supervisory Board, efficient management of the current activities by the Management Board, severe risk management, strong measures of internal control, compliance with standards;
- Protection of interests of shareholders, depositors, and other stakeholders;
- Timely disclosure of complete and reliable information about the Bank, including its financial position, economic performance, significant events, ownership structure and its management with the purpose of ensuring a possibility of weighted decision making by the shareholder and customers of the Bank.

A supreme management body of the Bank is the General Shareholders' Meeting. Since PJSC "BANK VOSTOK" has only one shareholder owning 100% of the Bank's shares, decisions belonging to the competencies of the General Shareholders' Meeting are taken by the sole shareholder.

In 2018, there were no purchases of shares by the Bank. During 2018, the Bank did not repurchase its own shares.

The executive body of the Bank undertaking its current management is the Bank's Management Board responsible for the effective work of the Bank in compliance with the principles and procedures established by the Bank's Charter, decisions of the General Shareholders' Meeting and the Bank's Supervisory Board.

The Bank's Management Board has the committees created of its members for a preliminary consideration of the most important issues of the Bank's activities that are within the competencies of the Bank's Management Board and preparation of recommendations for the Bank's Management Board to take decisions:

- Credit Committee;
- Tariff Committee;
- Assets and Liabilities Management Committee;
- Information Security Committee;
- Crisis Management Committee.

Functions and authorities of standing and temporary committees, their structures, procedure for attracting other people for the work in committees, as well as other issues related to their activities are determined by Provisions on Committees approved by the Supervisory Board.

A body responsible for control over activities of the Bank's executive body, protection of rights of depositors, other lenders, and shareholders of the Bank is the Bank's Supervisory Board.

The Supervisory Board is the Bank's collegiate body responsible for determining strategic goals and corporate values of the Bank, monitoring the activities of the Bank's Management Board and state of affairs in the Bank taken as a whole, representing interests of the Bank's shareholders in the period between the General Shareholders' meetings, as well as protecting rights and economic interests of shareholders, depositors, and other lenders of the Bank, but does not participate in the current management of the Bank.

The Bank's Supervisory Board has the committees created of its members for a preliminary study and preparation for consideration by a meeting of the issues within its competencies: Audit Committee and Assignment and Remuneration Committee.

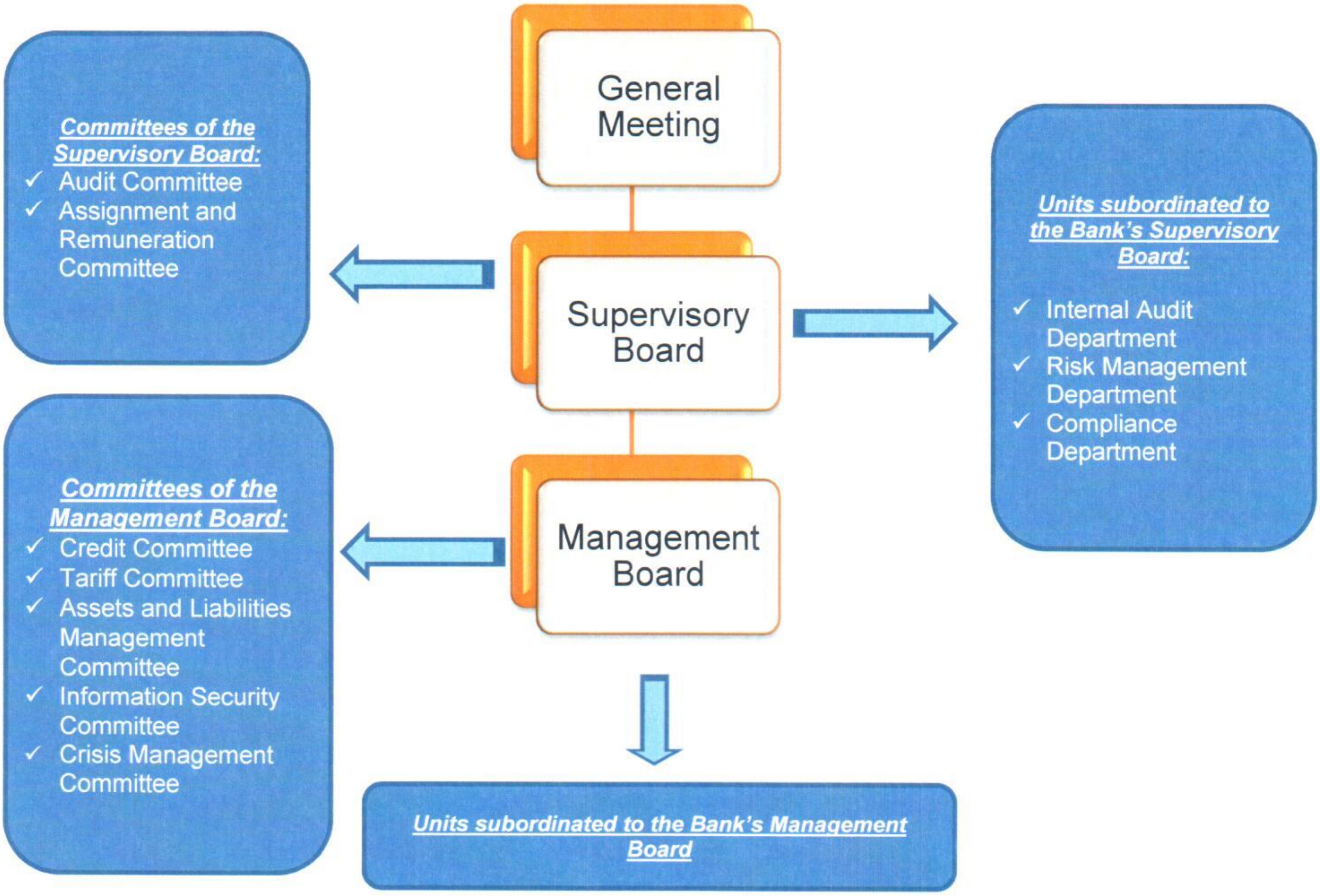
Each committee consists of three persons, two of which are independent members of the Supervisory Board.

Functions, authorities, responsibilities, and interaction of management bodies and their committees are described in the Bank's Charter and relevant Provisions that are reviewed at least on an annual basis.

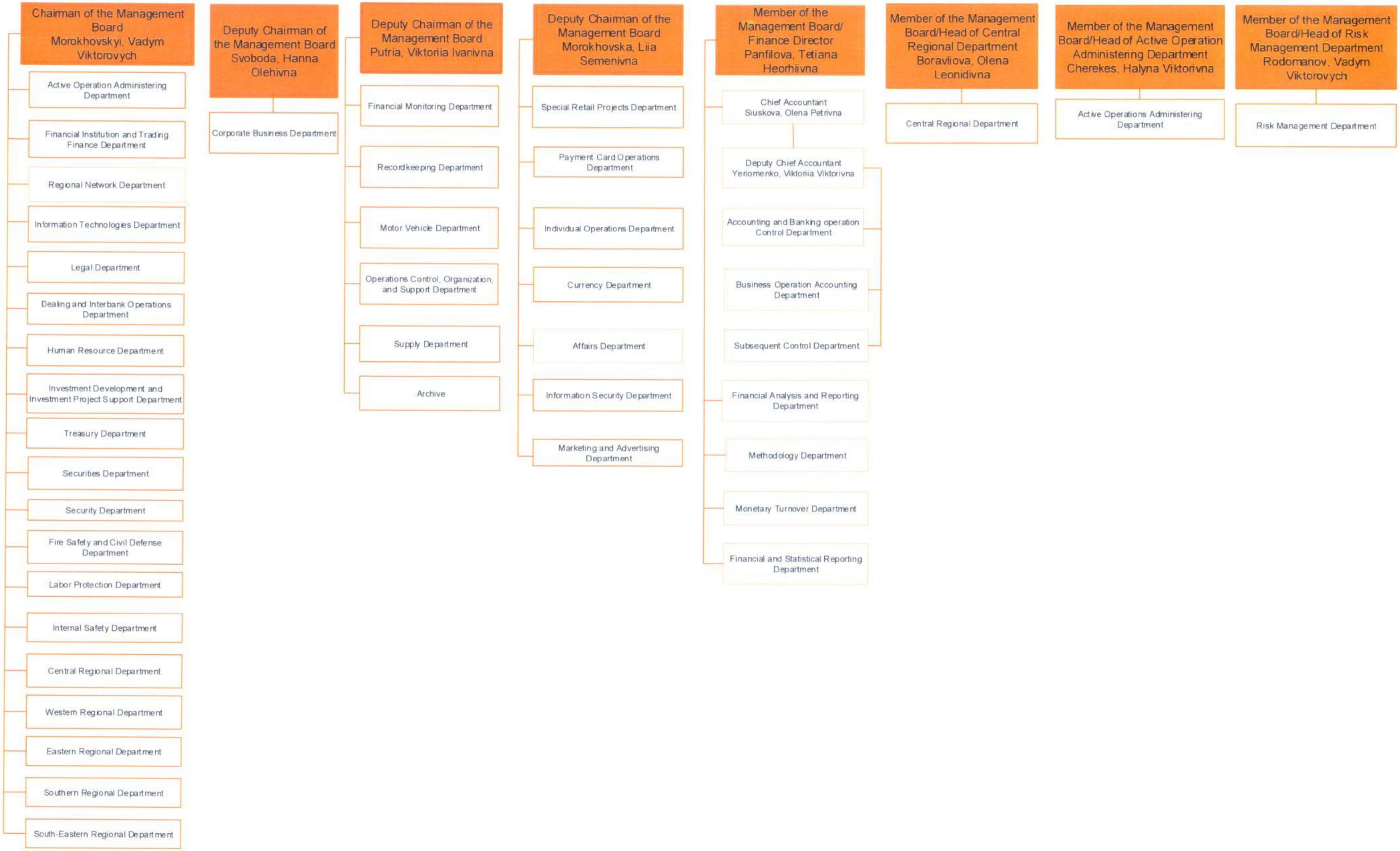
The Bank's Charter contains provisions that limit the authorities of the executive body in making decisions with regards to concluding agreements based on their amounts on behalf of the Joint Stock Company.

Also, the Bank's Charter and internal regulations contain provisions on a conflict of interests, i.e. contradiction between personal interests of an executive or his/her related persons and obligation to act in the interests of the Joint Stock Company.

The existing corporate governance model



The existing corporate governance model (continued)



Internal control system

Control over the Bank's activities should not only be external, but internal as well, which is an important component and basis of reliability and long-term functioning of the Bank and is intensified due to the present varied challenges of modern business.

In its activities regarding assessment and improvement of internal controls, the Bank supports and implements the concept of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) "Internal Control – Integrated Framework", the document of the Basel Committee on Banking Supervision (BCBS) "Framework for Internal Control Systems in Banking Organizations", as well as principles and standards generally accepted in international practice.

A concept of the Bank's internal control defined the internal control as a process performed by governing bodies, executive, management, and other employees aimed at ensuring the achievement of goals by the following criteria:

- Efficiency of operations, with reference to risk management system;
- Reliability of financial statements;
- Compliance with relevant legislative and regulatory acts.

Organization of the Bank's internal controls shall meet the following principles:

- Efficiency and effectiveness – organization of a consistent process of internal controls integrated in the Bank's current activities and understandable to the Bank's employees at all levels;
- Segregation of duties – ensuring the avoidance of situations when one person has complete control over a function or type of the Bank's activities;
- Thoroughness – coverage of all types of the Bank's activities and its units;
- Timeliness – creation of internal controls that make it possible to obtain information about a threat of losses to the Bank earlier than those losses may be incurred;
- Independence – separation of the function on assessing the efficiency of internal controls from the function of their organization and realization;
- Confidentiality – prevention of disclosing information to unauthorized parties.

Efficient measures of internal controls promote the realization of the Bank's major tasks, achievement of its strategic and operating objectives. In this respect, the efficient internal controls assist the Bank's management in making decisions with regards to risk levels the Bank is ready to accept in its efforts to achieve the planned results of its activities.

The system of internal controls implemented in the Bank ensures for reliability, effectiveness, validity, safety of banking transactions and activities taken as a whole, and protection from potential errors, losses, and varied deficiencies and helps in achieving the Bank's major objectives:

- Strategic goal – mission;
- Operating goal – ensuring the effective use of resources (current activities);
- Goals in preparing financial statements – ensuring the reliability of reporting;
- Goals in compliance with the legislation – the Bank's compliance with the requirements of the effective legislation.

Subjects of the Bank's internal controls are:

- The Bank's Supervisory Board that ensures functioning of internal controls and monitors their effectiveness within the authorities granted by the legislations, the Charter, and internal regulations;
- The Bank's Management Board that ensures the organization of internal controls;
- Internal Audit Department;
- Chief Accountant and his/her deputies;
- Heads of separate units;
- Risk Management Department;
- Compliance Department;
- Heads of units and employees responsible for internal control within their authorities defined by the Bank's internal regulations.

Procedures of internal controls envisage for:

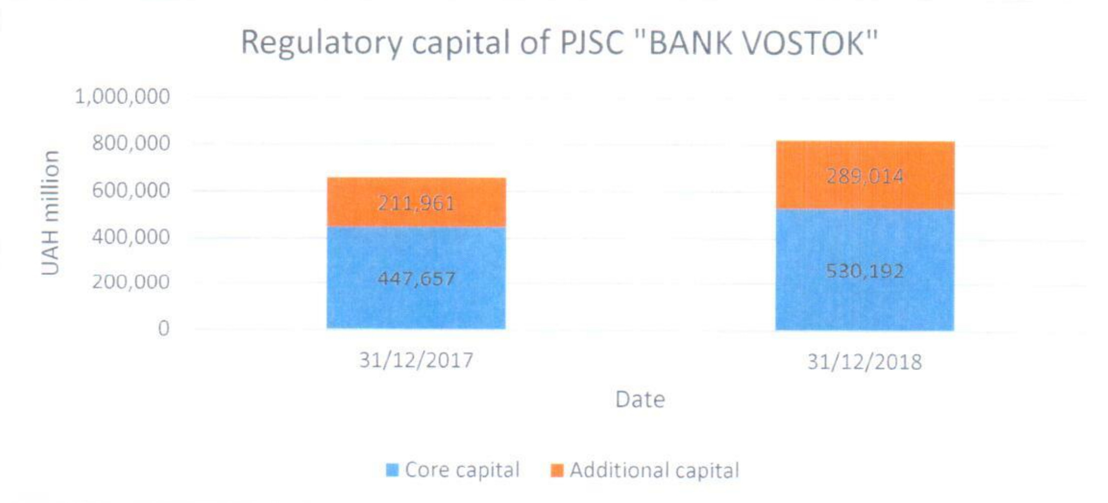
- Reporting to the Bank's Supervisory Board and the Bank's Management Board. The Bank's management, in accordance with their segregated functional duties, consistently obtain and analyze reports on fulfillment of the tasks set in order to determine the compliance of actual financial performance with planned indicators;
- Multi-level control over the Bank's activities;
- Monitoring the availability of the Bank's assets;
- Monitoring the access to electronic banking systems, databases, and software;
- Monitoring the access to confidential information containing banking secrets in accordance with internal procedures and granted authorities;
- Reflecting all transactions of the Bank in accounting;
- Controlling the completeness, reliability, and timeliness of preparing the financial, statistical, management, tax, and other reporting;
- Assessing on a consistent basis the adequacy and effectiveness of internal controls.

Resources, risks, and relationships

Key finance and non-finance resources

A key goal of the Bank in capital management is to ensure the sufficient volume of available capital at any time in order to realize its strategy. The Bank's requirements to capital are determined on the basis of the bank's strategies, risk appetite and exposures at the current moment and in the future. Considering an ambition to optimize the Bank's general value, we take into account the requirements of controlling bodies, expectations of rating agencies, and interest of customers and investors, as well as sufficient profitability to shareholders. We also apply internal goals to be performed. Those goals are reconciled with our objective to be a stable bank conducting its activities with a low risk profile.

The Bank's regulatory capital consists of the following components:

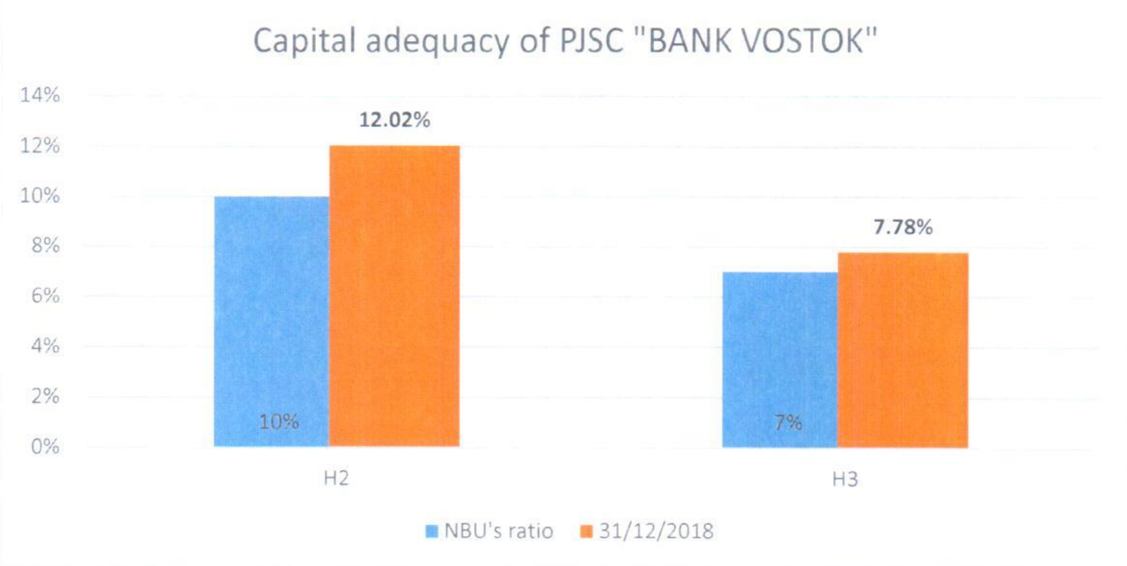


The Bank has a strong capital position considering the coverage adequacy of risk-weighted assets. This allows the Bank to continue to move on its road of development.

In 2018, the Regulator assessed the Bank's stability (stress testing of the Bank) by using baseline and negative scenarios. Under the baseline scenario, the Bank does not require any capitalization and, under the negative scenario, the Bank's need in capitalization amounted to UAH 294 million. To cover the above need, the Bank developed a restructuring plan and fulfilled it during 2018.

The share capital grew by UAH 78 million to UAH 523 million in 2018, in particular, as a result of contributions to the share capital of retained earnings of prior years.

The Bank is in compliance with adequacy requirements to core and regulatory capitals. Adequacy of core capital (H3 ratio) at the end of 2018 exceeded the regulator's statutory ratio of 7% and amounted to 7.78%. Adequacy of regulatory capital (H2 ratio) at the end of 2018 exceeded the regulator's statutory ratio of 10% and amounted to 12.02%.



The Bank has a strong liquid position which allows it always to meet its financial obligations. The Bank governs its own liquid position so that it would be able to absorb consequences of stress factors that are specific both to the Bank and the market (e.g., movements in trends in monetary and/or capital markets). Liquidity management supports the Bank's strategies within the framework of the risk appetite set. In financing its liquidity needs, the Bank strives to diversify its funding sources in accordance with its strategies.

In 2018, the Bank maintained its strong liquidity position that met both its internal goals and statutory requirements. The Bank calculates on a daily basis liquidity ratios in accordance with the requirements of the National Bank of Ukraine.

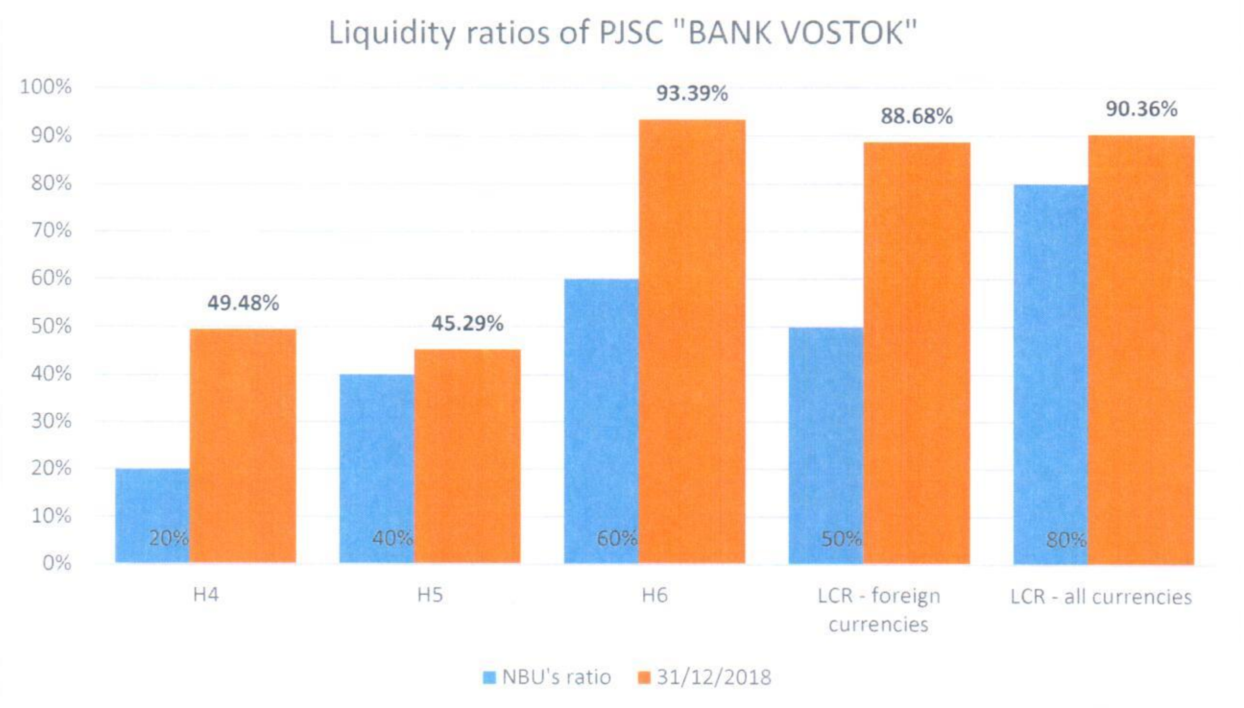
Those ratios include the following:

- Instant liquidity ratio (H4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. As at 31 December 2018, the Bank had this ratio at the level of 49.48%, with the statutory ratio set by the NBU at the level of not less than 20%;
- Current liquidity ratio (H5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. As at 31 December 2018, the Bank had this ratio at the level of 45.29%, with the statutory ratio set by the NBU at the level of not less than 40%;
- Short-term liquidity ratio (H6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. As at 31 December 2018, the Bank had this ratio at the level of 93.39%, with the statutory ratio set by the NBU at the level of not less than 60%.

In 2018, the Bank completed introducing liquidity coverage ratio (LCR) which is a liquidity ratio that sets a minimum required level of liquidity (liquidity buffer) to cover net expected cash outflows during 30 calendar days, with reference to the stress scenario.

At the end of 2018, the Bank was in compliance with LCR indicators:

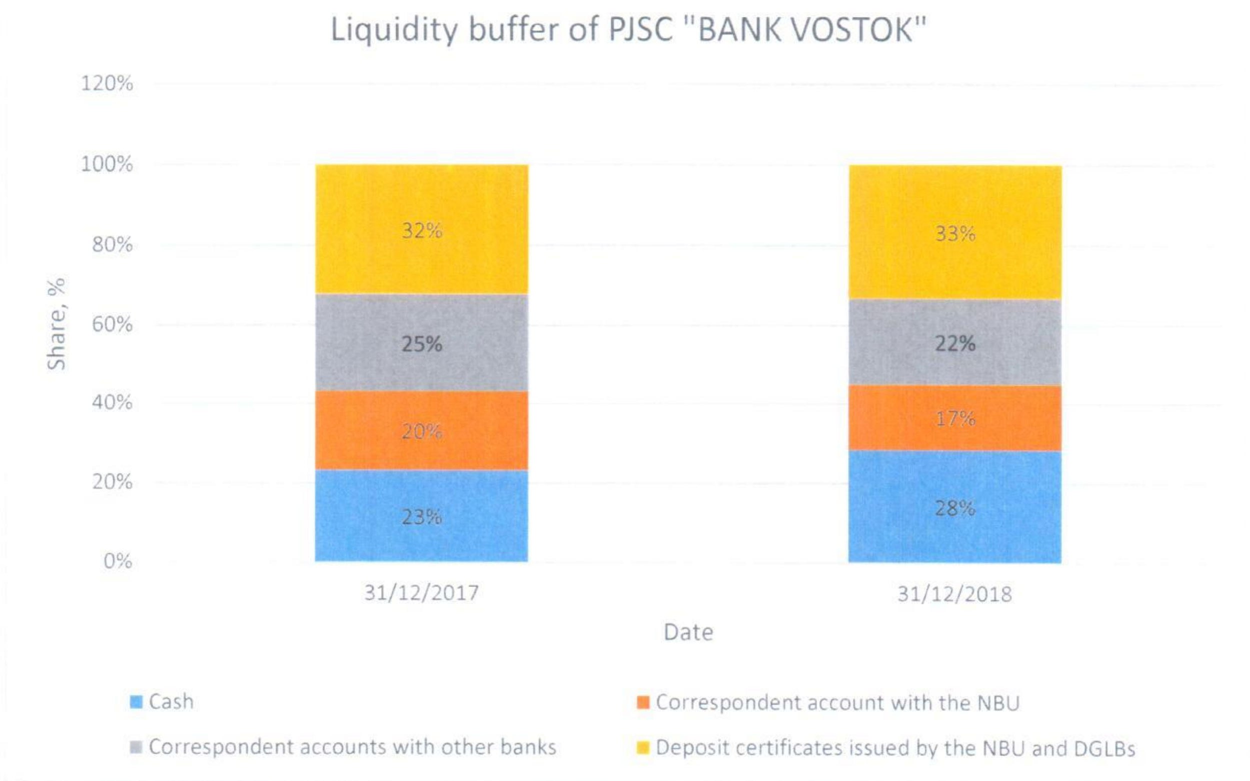
- LCR for all currencies as at 31 December 2018 amounted to 90.3623%, with the statutory ratio set by the NBU at the level of not less than 80%;
- LCR in foreign currency as at 31 December 2018 amounted to 88.6777%, with the statutory ratio set by the NBU at the level of not less than 50%.

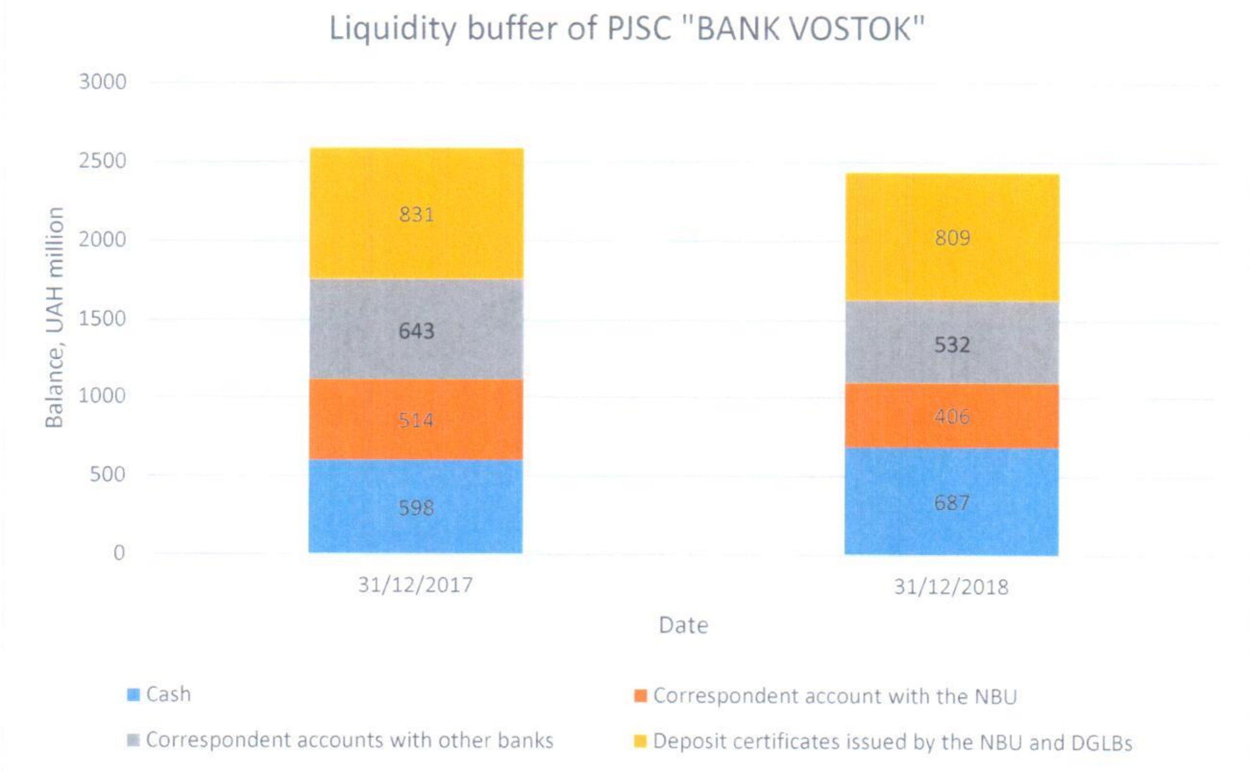


The Bank creates a liquidity buffer which comprises highly liquid assets intended to absorb an unexpected growth in liquidity needs, in particular:

- Cash at the end of 2018 amounted to UAH 687 million (at the end of 2017: UAH 598 million);
- Cash on correspondent account with the NBU at the end of 2018 amounted to UAH 406 million (at the end of 2017: UAH 514 million);
- Correspondent accounts with other banks at the end of 2018 amounted to UAH 532 million (at the end of 2017: UAH 643 million)
- Deposit certificates issued by the NBU and domestic government loans bonds ("DGLBs") at the end of 2018 amounted to UAH 808.9 million (at the end of 2017: UAH 830.5 million)

Liquidity buffer at the end of 2018 amounted to UAH 2,433 million (at the end of 2017: UAH 2,585.5 million) and had a significant portion of government bonds and deposit certificates issued by the NBU. This was more than enough to go through grave stress scenarios during certain period of time.





To manage liquidity risk, the Bank uses gap analysis between assets and liabilities in accordance with expected maturities.

In managing assets and liabilities, the Bank takes into account behavioral aspects, irrespective of short maturities for current customer accounts, considers a significant level of a stable part in those balances. The Bank's customers have a trend of holding cash on current accounts during a long period of time.

Strategies of funding support the Bank's strategy. In this connection, the Bank strives to optimize and ensure for access to diversified sources of funding to support a long-term position and liquidity profile of the Bank.

The Bank uses funds of legal entities and individuals as a key source of funding.

The Bank also attracts funding from international investors in order to diversify sources of funding. With this purposes, we uses different funding tools that cover varied terms, markets, regions, and types of investors.

The Bank attracts funds for the period of more than one year by:

- Attracting a subordinated debt. In September 2018, the Bank borrowed funds on subordinated debt terms in the amount of USD 2,000 thousand for the period up to 2024. As at 31 December 2018, the carrying value of the subordinated debt amounted to UAH 143.3 million (31 December 2017: UAH 85.7 million);

- Attracting long-term borrowings from international financial organizations. Based on the agreement entered into in November 2017 with WORLDBUSINESS CAPITAL, INC., USA, in December 2017, the Bank received a long-term borrowing for the period of 10 years in the amount of USD 8,000 thousand. In March 2019, the Bank received from WORLDBUSINESS CAPITAL, INC., the second long-term borrowing for the period of 9 years in the amount of USD 8,000 thousand.

Also, the Bank attracts funding from legal entities, individuals, and banks.

Managing people is one of the most important tasks in the effective staff policies in order to ensure for further development of the Bank.

As at the end of 2018, the number of the Bank's employees amounted to 936 persons, of which 70% were women and 30% – men. Almost 80% of the Bank's employees have complete higher education. Over 78% of employees have the age in the range from 25 to 49 years old, the average of age of employees is 40 years old.

Key tasks of the Bank's staff policies include the following:

- Optimize and stabilize staff composition of the Bank's key structural units;
- Create an effective system for motivating the Bank's employees;
- Create and support organization procedures within the Bank, strengthen diligence and responsibility of employees for the duties performed, strengthen labor and production discipline;
- Create and develop a system for training and improving the personnel qualifications;
- Create and strengthen the Bank's business corporate culture.

A high level of professional competencies of the Bank's employees is supported and developed through a process of consistent training and improving qualifications. This process is performed mainly by way of internal corporate training which is conducted in varied forms: training in the employment setting, mentoring, internal banking workshops and trainings. One of the forms of financial motivation presupposes external trainings – attending by the Bank's employees of varied trainings, conferences, lectures, annual expert meetings, etc. The Bank compensates for training of employees by directions that are required for the most efficient work of the Bank and meet the needs of units.

The Bank has a Collective Agreement in place which sets guarantees for the Bank's employees and relevant obligations on their behalf in respect of the Bank's management.

The Bank's success and development are achieved through efforts of all employees who promote strengthening the Bank's reputation, the performance of each employee has an impact on the work of the whole team and is a recipe of the Bank's success in performing its banking activities.

The Bank has developed and implemented the Corporate Code of PJSC "BANK VOSTOK" which sets principles and corporate values in terms of protection of rights of the Bank's employees and ensuring their equal rights through compliance with human rights and dignity, creation of equal possibilities for all employees.

The Bank values its employees, creates for them working conditions in accordance with the regulatory acts on labor protection, ensures for compliance with the legislation requirements to rights of employees in labor protection, provides incentives for their work successes.

Guarantees of equal relations between the Bank and employees are ensured by way of:

- The Bank's complying with general mandatory rules of conduct and corporate ethics of the Bank, recognizing a significant role of leaders and employees of the Bank in ensuring the success of the Bank's activities outlined in the Corporate Code;
- Maintaining staff policies that presuppose equal rights in the process of electing candidates to members of the Supervisory Board and the Management Board of the Bank, other executives and employees to occupy positions

in the Bank, possibilities for career growth, receiving remuneration with reference to professional achievements and personal contribution to the Bank's activities and, in the case of existence of the circumstances that lead to imposing penalties, complying with the objective assessment of actions undertaken by a leader or another employee;
- The Bank's ensuring equal rights to taking a position and appointing people to positions irrespective of their sex, nationality, ethnical and social background, sexual orientation, religious or political beliefs, family status of employees;
- Creating such working conditions that are safe in terms of labor and health protection and other safeties;
- Creating corporate culture, the culture of risk management, in particular, a required atmosphere (tone at the top);
- Fulfilling mutual obligations, adhering to rights and responsibilities in accordance with internal regulations;
- Shaping possibilities for improvement of qualifications, training, obtaining knowledge by the Bank's employees at the cost of the Bank, as well as promoting this process at the cost own funds of employees.

The Bank ensures for timely payment of payroll to the Bank's executives and employees, tax payment, compensations for business trips, vacations, and other guarantees in accordance with the legislation and internal regulations.

An integral part of the Bank's Corporate Code is the policy on prevention of corruption which presupposes policies of "zero tolerance", irreversible punishment for any displays of corruption, bribery, and fraud, and treats them as inadmissible in banking.

To prevent participation or use of the Bank and employees in corruption, the Bank ensures for control over the compliance of employees with the requirements of policies on preventing and counteracting the corruption, bribery, and fraud in the course of fulfilling their functional duties which has three levels in organization and complies with internal control policies and risk management of the Bank.

The Bank's strategies in the area of hygiene and labor safety determine policies, objectives, targets, key principles, and directions of the Bank's activities in creating appropriate and safe working conditions, avoiding injuries, professional diseases, traffic accidents, and occupational accidents.

The Bank's objectives in the area of hygiene and labor safety are to reduce the number of:

- Accidents and injuries of employees;
- Casualties of employees in the course of performing their employment obligations as a result of unexpected health deterioration caused by general diseases;
- Traffic accidents with participation of the Bank's vehicles;
- Professional diseases.

The Bank's measures on preventing and removing reasons for work-related incidents and professional diseases include:

- Arranging for work, training, control, and supervision over labor protection;
- Complying with the labor legislation, inter-industry regulatory acts on labor protection;
- Conducting reviews, lectures, and illustrative propaganda on labor protection issues;
- Establishing a regulatory microclimate in working places;
- Providing working places with proper lighting, ventilation systems, heating, and conditioning;
- Equipping sanitary and household rooms;
- Developing and implementing safe equipment;
- Modernizing technological equipment.

The issue of environmental protection is of key significance nowadays. The Bank has entered into agreements with specialized entities on utilizing of used fluorescent lamps.

Also, one of the issues currently is a problem of collecting and processing used car batteries which threaten human health and environment due to the material used in their production.

The Bank hands in for processing used car batteries to specialized entities with which it has concluded agreements, thus, it promotes for their safe utilization without any harm to environment, life and health of people.

Utilizing and processing tires in the modern world, where the number of motor vehicles grows progressively, acquire great environmental and economic significance for all developed countries of the world, including Ukraine. This is related to the fact that used tires are a source of extensive contamination of environment.

The Bank hands in for further processing the used car tires to specialized entities, thus promoting the protection of environment.

Also, to optimize the use of the planet's resources and improve the environmental situation in cities, it is helpful to collect recyclable materials (waste paper). The Bank hands over the waste paper for recycling.

During 2018 the Bank:

In the reporting year, the Bank continued granting charitable and sponsorship aid, supporting projects and programs, paying personal scholarships to students, and participating in charitable events.

During 2018, payments to charitable and sponsorship aid amounted to more than UAH 5.8 million.

This assistance was as follows:

- Special purpose – to people suffering from different diseases;
- Charitable Organization "Jewish Fund "Unity of Tribes of Israel" – to implement the Fund's programs, such as assistance to young families in grave financial positions, incomplete and multi-child families, patients, children, and people who require medical help, providing them with drugs, vouchers for diagnostics and health improvement, assistance in studies and support of talented young people;
- Dr. Haas Social Assistance Fund that provides assistance to lonely old people, disabled persons, and child patients;
- "Urban Music Hall" Project. This project launched in March 2018 is a unique concert platform in the city that is equipped for attendance by people with disabilities;
- Orphanage – to pay for food products for children, utilities – electricity, gas supplies and other;
- Association of Jewish Organizations and Communities "Vaad of Ukraine" – to organization of summer camps for Jewish children and children of other nationalities and religions;
- The Gorshenin Institute – to conduct the National Expert Forum, one of the most famous and influential discussion platforms that makes a great contribution to shaping the public life of Ukraine;
- Charitable Foundation "Myloserdia Viktor" that provides charitable assistance to children, multi-child families, boarding schools, orphanages, veterans. Effective from 2006, the Foundation has been actively providing assistance to the Janusz Korczak Institute of Medical Rehabilitation of Children with Central Nervous System Lesion, in particular, in equipment of a new department;
- The Odesa Regional Association of Jews – former prisoners of ghetto and Nazi concentration camps;
- Public Organization "ODESA CITY CHESS FEDERATION" and recurring charitable assistance to the Union of Chess and Checkers Clubs to conduct different chess tournaments for children, as well as chess players of all age categories;
- Chess players taking part in international competitions;
- Public Organization "Aspen Institute Kyiv" which, in particular, holds varied workshops for young leaders, teenagers, discussions with leading experts in different spheres of knowledge and practice devoted to the topical issues of modern Ukrainian society;
- Public Organization "World Club of Odesa Residents" that establishes and develops ties among Odesa residents irrespective of their actual place of residence and citizenship, consolidates and coordinates efforts of Odesa residents with the purpose of reviving and preserving the City of Odesa, with the main direction aimed at developing and implementing programs in the areas of culture, science, arts, environmental protection, health care, human rights protection, charity, and other programs directly related to the life and activities of Odesa;
- LLC "IA "Media-Inform" – to prepare and create a series of programs "Golden Violins of Odesa";
- Public Organization "Children's and Youth Sports Club "Olimp" (city of Odesa) – to develop physical culture and sports;
- The Odesa Regional Council of Peace – to hold a celebration for children in Opera and Ballet House;
- The Odesa Diplomatic Club – to hold Christmas charitable trade fair;
- Other charitable foundations and public organizations.

The Bank established personal scholarships to students of the Odesa National Economic University for high achievements in studies, active public and scientific work, and sports achievements. In 2018, such scholarships were paid to six students and will be regularly paid in the future.

The Bank also decided to pay, effective from 2019, monthly charitable financial aid to the Righteous among the Nations, Danilianz, O. H. and Voloshyn, V. Ye.

The Bank consistently increases its intellectual capital and develops technological resources. Thus, during 2018, the Bank realized and implemented projects and tasks in the following spheres:

Internet Banking

Added about 1,300 new services.

Implemented functions:

- Connection of a card to MasterPass digital wallet;
- Analysis of expenses/proceeds, added diagrams by cost items;
- Activation of overdraft and signature of a loan passport;
- Transfer in the national currency between own card accounts for non-residents;
- Management of Mobi&Card and 3D Secure services;
- Management of card limit validity terms by days;
- Cash transfers by using a phone number.

Mobile application development

Implemented integration with "Vlasnyi Rakhunok" ("Own Account") program of the Silpo Retail Network, replenishment/payment at the cash register by using QR Code.

Implemented software of NFC 2.0, Android Pay, Apple Pay.

Internet Banking for legal entities

Implemented a new, modern program of Web-Client.

ABS

Implemented:

- Calculation of provisions under IFRS;
- Two-factor authentication of payments from accounts;
- Integration with Bloomberg;
- Transition to accounting for card accounts by 2600, 2620.

Cyber resilience of business

In order to build a cyber-resilient, comprehensive, adaptive, business- and risk oriented architecture of the Bank's information security, Bank has implemented:

- Continuous monitoring and analysis of vulnerabilities of systems, automated process of stock taking of information assets;
- Protection from 0-Day attacks and viruses of cryptographers;
- Protection of web-applications;
- Antispam protection;
- Compliance of the working environment with information security corporate policies.

Infrastructure

During the year, Bank has created over 50 virtual machines of VMware, improved hardware facilities by adding new computing nodes.

Modernized servers of ABS cluster.

Risk management system

Risk management is a process with the help of which the Bank identifies, measures, monitors, and controls its risk positions, as well as considers interrelations among different categories (types) of risks.

A set of risk management actions aims at achieving the following goals:

- Risks should be understandable and comprehendible by the Bank and its management;
- Risks should be within the ranges of levels established by the Bank's Supervisory Board for risk appetite;
- Risk management decisions should be in line with the Bank's strategic tasks;
- Risk management decisions should be specific and clear;
- Estimated yield should be able to compensate for the accepted risk;
- Allocated equity should correspond to the amounts of risks the Bank is exposed to;
- Incentives for achieving high performance should be reconciled with the set level of the Bank's risk appetite.

Risk management strategies shall be aimed at:

- Ensuring the Bank's sustainable development within the framework of its development strategy;
- Ensuring and protecting interests of participants (founders, shareholders), lenders, and other persons interested in the Bank's stable work;
- Strengthening competitive advantages of the Bank as a result of strategic planning, with reference to levels of acceptable risks, improving the efficiency of risk management, and increasing the Bank's market value, preserving the Bank's reliability in the course of extending a product line;
- Increasing confidence of investors by creating a transparent risk management system;
- Developing risk management infrastructure, implementing state-of-the-art methods and means of risk management by applying the best world practices in risk management.

The Bank distinguishes the following risk management targets:

- Maintaining an acceptable risk level within the framework of the set risk appetite (i.e. acceptable risk levels by risk types in respect of which the Bank has decided it is practicable/needed to maintain them in order to achieve its strategic objectives and perform business plans) and other established limits and restrictions;
- Ensuring capital adequacy in order to cover significant risks;
- Ensuring the Bank's financial stability and its development within the Development Strategies;
- Minimizing possible financial losses from the effect of risks accepted by the Bank within the set risk appetite;
- Ensuring the effective allocation of resources in order to optimize risks and profitability of the Bank;
- Ensuring business continuity and planning of the Bank's business optimal management, with reference to possible stress conditions;
- Improving the efficiency of capital management and increasing the value of the Bank's equity;
- Preserving the Bank's stability in extending a product line and implementing more complicated products due to adequate assessment and management of accepted risks;
- Increasing the confidence degree of investors by creating a transparent risk management system.

The Bank's risk management system meets the following principles:

- Efficiency – ensuring for objective assessment of the Bank's risk amounts and complete measures on risk management with the optimum use of financial resources, staff, and information systems in respect of the Bank's risk management;
- Timeliness – ensuring for timely (early) identification, measuring, monitoring, control, reporting, and mitigating all types of risks at all organization levels;
- Structuring – a clear segregation of functions, duties, and authorities on risk management among all structural units and employees of the Bank and their responsibilities under such a segregation;
- Separating duties (unbundling a control function from the Bank's operations) in order to avoid the situation when the same person performs the Bank's operations and simultaneously controls them;
- Versatility and integrity – covering all types of the Bank's activities at all organization levels and in all structural units, assessing the mutual impact of risks;
- Proportionality – complying a risk management system with the Bank's risk model, its system significance, as well as complexity level of the transactions undertaken by the Bank;
- Independence – freedom from the circumstances that threaten the unbiased fulfillment by risk management and compliance control units their functions;
- Confidentiality – limiting the access to sensitive information from unauthorized getting to know;
- Transparency – publishing by the Bank of information about risk management system and risk profile.

The Bank's risk management system is based on the Bank's Strategies, Risk Management Strategy, Declaration on Risk Appetite, certain risk management policies, as well as methodologies and procedures of risk management by types of risks that determine a procedure of actions aimed at fulfilling a systemic process of identifying, measuring, monitoring, controlling, reporting, and mitigating all types of risks at all organization levels of the Bank.

The Bank's risk management system envisages for covering all types of the Bank's activities that affect its risk parameters and ensure for risk analysis in order to take timely and adequate management decisions aimed at mitigating risks and decreasing risk-related losses.

The Bank's risk management system is based on segregating duties among the Bank's units by using three lines of defense. Risk management is performed at that level of the Bank where a risk arises and with the help of independent review and risk control functions – at the highest management levels and at the level of the Bank's Supervisory Board. To manage risk levels within established restrictions, their independent assessment, and control, the bank has introduced the following segregation of authorities by lines of defense:

First line of defense – the Bank's business units and support units of the Bank. Those units accept risks and are responsible for them and report regularly or on demand regarding the current management of such risks.

The first line of defense is aimed at managing risk levels within the framework of set restrictions. The Bank's business units strive to maintain an optimal combination of profitability and risk, follow the development goals set, monitor risk management decisions, consider risk profiles of customers in performing transactions, implement and manage business processes and tools, participate in the processes of risk identification and assessment, comply with the requirements of internal regulations, including in part of risk management. The Bank has established a collective responsibility for decision making actions related to risk acceptance;

Second line of defense – risk management units (the Bank's Risk Management Department) and compliance control units (the Bank's Compliance Department) that are independent (structurally and financially) from units of the first line of defense and subordinated to the Bank's Supervisory Board.

The second line of defense is aimed at performing an independent assessment and control of risks. Risk Management and Compliance Departments develop risk management standards, principles, limits, and restrictions, monitor levels (profiles) of risks, and prepare reporting, review the compliance of risk levels with the Bank's risk appetite accepted, advise, model, and aggregate general risk profiles, perform regular risk stress-testing;

Third line of defense – a unit of internal audit (the Bank's Internal Audit Department) that reviews and assesses the efficiency of the Bank's risk management system taken as a whole.

The third line of defense is aimed at performing an independent assessment of the efficiency of risk management system and its compliance with internal and external requirements.

The process of risk management in the Bank covers all its structural units – from management level (the Bank's Supervisory Board and the Bank's Management Board) to the levels where risks are directly accepted and/or generated.

The Bank's risk management system has an impact on making strategic decisions and directly on business conducting. With the help of a comprehensive picture of risks, the Bank is able to decrease the uncertainties in its activities.

Components of the Bank's risk management system are as follows:

- Organization structure of the Bank that defines duties, authorities, and responsibilities of risk management employees;
- Risk management culture;
- Internal documents on risk management issues;
- Information system on risk management and reporting;
- Tools for effective risk management.

Subjects of the Bank's risk management system are as follows:

- The Bank's Supervisory Board;
- The Bank's Management Board;
- Credit Committee;
- Assets and Liabilities Management Committee;
- Business units of the Bank and support units (the first line of defense);
- Risk Management Department (the second line of defense);
- Compliance Department (the second line of defense);
- Internal Audit Department (the third line of defense);
- Other units and collegiate units of the Bank that, within their authorities and functions, participate in the Bank's risk management system.

The Bank distinguishes the following levels of appetite to risk: risk size and risk appetite.

Risk appetite is an aggregate amount by all pre-determined types of risks and individually by each risk and within the acceptable risk levels in respect of which the Bank has decided it is practicable/needed to maintain them in order to achieve its strategic objectives and perform business plans.

The amount of risk appetite should not exceed the indicator of risk size, which represents a maximum amount of risk that the Bank is able to accept by all types of risks considering the level of its capital, the ability to manage risks adequately and effectively, as well as with reference to regulatory restrictions.

The Bank, based on the specifics of its activities and business model, intends to accept and maintain for achieving its business objectives the following significant types of risks:

- Credit risk (counterparty, country, and transfer risks);
- Liquidity risk;
- Interest rate risk of bank book (gap, baseline, and option risks);
- Market risk in part of foreign currency risk;
- Operating risk;
- Compliance risk.

Types of risks the Bank is ready to accept and maintain in order to achieve its business goals and for which a zero risk appetite is set are as follows:

- Market risks inherent in commercial book tools;
- Risk of default;
- Interest rate risk of bank book;
- Credit spread risk;
- Volatility risk;
- Stock risk;
- Commodity risk.

Risk appetite indicators are updated (reviewed) by the Bank's Supervisory Board at least on an annual basis simultaneously with developing the Bank's business plan. Risk appetite indicators may be revised also ahead when planning new directions of the Bank's activities and/or new products of the Bank.

The Bank's Supervisory Board, when determining strategies and preparing the Bank's business plan, considers the amount of risk appetite specified in the Declaration on Risk Appetite. The Bank's Supervisory Board takes into account the determined level of risk appetite when taking decisions on increasing the volume of assets as a result of extension of operating types of activities, implementation of new products and significant changes in the Bank's activities.

The Bank undertakes measures on mitigating risks that are aimed at decreasing the probability of risks and/or decreasing the impact of risks on the Bank's performance. In assessing all types of risks, the Bank considers a concentration risk.

The Bank has a multi-level system in place in respect of limits and restrictions, which allows ensuring the acceptable level of risks:

- Risk appetite;
- Limits by types of significant risks;
- Limits by structural units of the Bank performing functions of accepting significant/material risks;
- Limits by volumes of transactions performed with one counterparty, a group of counterparties related to certain features, volumes of transactions, performed with financial instruments, etc.;
- Other risk restrictions required for effective management of significant risks.

General approaches to credit risk management

Credit risk represents a probability of losses or incremental losses or failure to receive planned income as a result of failure of a debtor/counterparty to fulfill its obligations taken in accordance with the contractual terms and conditions.

Credit risk is inherent in all types of the Bank's activities where a result depends on the activities of a counterparty, issuer, or borrower. It arises each time when the Bank grants cash, issues commitments on their granting, invests funds, or otherwise risks them in accordance with the contractual terms and conditions irrespective whether the operation is treated as on-balance sheet or off-balance sheet.

Key tasks in managing the Bank's credit risk are as follows:

- Ensure a maximum degree of yield on the Bank's loan portfolio at minimum risk level;
- Ensure a weighted and optimal use of loan resources;
- Comply with all requirements and statutory ratios specified in guidelines, orders, and resolutions of the NBU, including credit risk limits, regulating volumes of loan deposits, maximum loan amounts (including to related parties of the Bank);
- Extend the customer base by providing credit services of high quality;
- Retain a high degree of confidence and respect of legal entities and individuals to the Bank through timely and complete fulfillment of its obligations to depositors and shareholders;
- Deposit funds in high quality assets in order to protect interests of depositors and shareholders of the Bank;
- Grant loans on the terms of security, availability, maturity, repayment, and designated use;
- Diversify risks by complying with an acceptable level of concentration of loan contributions per one borrower/'large' loans/types of economic activities;
- Perform lending transactions in compliance with the requirements of the effective legislation of Ukraine, resolutions of the National Bank of Ukraine, and internal regulations of the Bank.

A key principle of the Bank's credit policies is a priority to minimizing a risk level over profitability under which, irrespective of the amount of potential revenues, a credit operation is not performed if it is accompanied by an unacceptable risk level.

General criteria for acceptability of lending are as follows: acceptable risk level, feasibility and possibility of a lending operation, security, a significant probability of return, maturity, repayment, designated use, and compliance with limits, ratios in lending. The amount of loans may not exceed the set internal limits and ratios.

When assessing a possibility and feasibility of each lending operation, the Bank studies the return on the event for which credit funds are intended, considers parameters of the environment in which a potential borrower operates, type of its activities, its competitive ability, quality of management, analyzes a borrower's financial position, examines its cash flows in the past, projects their volumes in the future, determines value and liquidity of collateral, performs a detailed analysis of other aspects that affect the risk of a lending operation conducted.

The Bank adheres to a criterion of security of a lending operation, irrespective of projected capabilities of a customer to return the loan. In the event of a significant risk in failure to return a loan, the Bank has the right to refuse from granting the loan to the customer, even a liquid collateral is available.

The Bank applies the following methods in managing credit risks:

- Preventing a risk before a transaction;
- Planning a risk level by assessing the level of expected losses;
- Limiting a credit risk by setting limits;
- Creating allowances for possible losses on the loans granted;
- Structuring agreements;
- Managing the agreement collaterals;
- Applying a system of authorities in making decisions;
- Performing a consistent monitoring and control over risk levels;
- Performing an appropriate control over the Bank's related party transactions.

Factors that give rise to credit risk are as follows:

- Excessive concentration – loans are concentrated in one of economy sectors;
- Risks of lenders and debtors when a borrower incurs losses due to the fault of suppliers or consumers of its products;
- Price risks when financial losses of a borrower arise from a reduced value of products or increased prices for raw materials;
- Inability of a borrower to generate adequate cash flows;
- Inability of a borrower to be legally liable;
- Production risks. Failure in a production process may require significant additional expenditures, lead to a failure to perform contractual obligations;
- Risks of illiquid collateral. In the event a loan is not repaid, a need arises to dispose of the collateral, then a risk arises that the collateral may be illiquid or its sale will take a longer time, or the sale price will be lower;
- Risks of insufficient collateral to cover the amount of debt, interest, penalties, and litigation costs;
- Risks of improper execution of collateral;
- Risk of maturity. A risk increases when the maturity period increases;
- Foreign currency risk of a loan portfolio. If an entity's major proceeds are denominated in the national currency, and accounts payable are in a foreign currency, then a growth in exchange rates may cause financial difficulties to the borrower.

In order to identify in a timely manner potential problems, the Bank performs monitoring procedures in respect of lending operations. The effective management of credit relationships in the course of lending operations is achieved by:

- Maintaining a continuous contact with a customer;
- Controlling cash flows on its accounts;
- A possibility to review quickly contractual terms and conditions in respect of the loan and collateral in the event of any changes in a risk level with regards to the lending operation and market situation;
- Analyzing a borrower's financial position and its business in accordance with internal regulations of the Bank;
- Reviewing on site the available collateral and its state within the periods established by internal regulations of the Bank;
- Responding immediately in the event a borrower's financial position deteriorates, a threat of losses arises, or the collateral impairs, as well as other factors that increase a risk of failure to recover the loan.

The Bank uses the following methods to mitigate its credit risk:

- Diversifying – a method for mitigating risks by spreading deposits and limiting risk factors at the cost of avoiding excessive concentration;
- Decreasing loan concentration – placing a greater number of medium loans than a small number of large loans;
- Limiting – setting limits on financial outflows to external environment (as an example, setting limits on authorities when taking decisions on entering into agreements, limiting the amount of loan granted to one borrower, limiting the volume of deposits in one individual industry, etc.);
- Accepting collateral – reducing the amount of possible losses by covering risks at the cost of liquid collateral;
- Transferring risks – transferring a certain portion of risks to another entity that is able to ensure the decrease in risk (e.g., obtaining varied guarantees and warranties);
- Obtaining additional information – the most widely used means for reducing a risk level. E.g., obtaining information about a potential borrower from the credit bureau and/or the NBU's Loan Register, etc.;
- Creating allowances to cover credit risks on equity in the event of insufficient provisions – allows provisioning to cover possible losses in future periods;
- Insuring – insuring by the Bank of financial risks with insurance companies;
- Securitization of assets – redistribution of risks by transforming the Bank's assets (loans and other assets) into securities for further sale to investors.

General approaches to liquidity risk management

Liquidity risk represents a probability of losses or incremental losses or failure to receive planned income as a result of failure of the Bank to finance the increased assets and/or fulfill its obligations when they are due.

Liquidity is the Bank's ability to timely fulfillment of all its monetary obligations that is determined as a balance between maturities and repayment amounts of placed assets and periods and amounts of the Bank's obligations, as well as periods and amounts of other sources and direction of funds use (extending loans, other expenses).

In order to fulfill in a timely manner all its obligations taken, considering their volumes, maturity, and currency of payments, the Bank should manage consistently its liquidity by maintaining it at a sufficient level, ensure a required balance between own and borrowed funds, create an optimal structure of assets, with an increased portion of high quality assets with an acceptable credit risk level, to fulfill the requirements of depositors, lenders, and all other clients.

Liquidity management is one of key types of day-to-day activities conducted by the Bank. The process of managing banking liquidity presupposes a flexible combination of opposite requirements – maximizing profitability and mandatory complying with the established liquidity ratios. A daily work on maintaining a sufficient liquidity ratio is an essential condition for the Bank's self-protection and survival. Liquidity analysis is required not only for determining on a consistent basis of the Bank's liquid position, but also needs of financing under different scenarios, including unfavorable conditions.

Goals for managing liquidity risk include the following:

- Ensure the Bank's ability, in an unconditioned and timely manner, to perform all its obligations to customers and counterparties in compliance with the regulatory requirements of the NBU in the sphere of liquidity risk management in both normal course of business and crisis situations;
- Ensure/maintain an acceptable risk level within the frameworks of risk appetite and/or other limits and restrictions;
- Ensure a sufficient volume of unencumbered high quality liquid assets as a possible collateral in the event stress scenarios are realized;
- Ensure a financial stability of the Bank, minimize possible financial losses from the effect of liquidity risk accepted by the Bank within the frameworks of set risk appetite;
- Ensure business continuity and planning of optimal management of the Bank, with reference to potential stress conditions;
- Create an effective liquidity risk management system to ensure for maintaining a sufficient liquidity level in both standard and stress situations.

The Bank distinguishes the following types of liquidity risks:

- Risk of physical liquidity – a risk of the Bank's failure to fulfill its obligations to customers and counterparties in any currency due to shortages in cash or non-cash forms (inability to make a payment, grant a loan, etc.);
- Risk of statutory liquidity – a risk of failure to comply with statutory liquidity ratios (H4, H5, H6, LCR, or NSFR), as well as mandatory provisioning on the correspondent account with the National Bank of Ukraine;
- Concentration risk – a risk of significant deterioration in physical or statutory liquidity due to a mismatch in the structure of assets and liabilities, including a high dependence of the Bank's liabilities base on one or several customers or sources of funding in a certain currency or with certain maturity.

The Bank's approaches to identifying, measuring, monitoring, controlling, reporting, and mitigating liquidity risk are based on the strategy of off-balance sheet management of assets and liabilities and include the following methods and models:

- Analysis of regulatory requirements (mandatory provisioning, liquidity ratios of H4, H5, H6, and LCR);
- Analysis of liquidity gaps by maturities;
- Analysis of concentration by assets and liabilities;
- Analysis of resources of highly liquid assets;
- Analysis of stability of 'on demand' liabilities;
- Scenario and statistical analysis and stress testing of liquidity risk;
- Analysis of liquidity risk within one operating day;
- Analysis and projecting of cash flows.

An important component in managing liquidity risk is a system of limits on risk appetite and a system of quantitative indicators on identifying crisis situations.

A process of liquidity risk control includes, inter alia, process of preliminary, current, and subsequent control with regards to regulatory requirements, liquidity risk limits, etc., as well as timely notification and escalation of exceeded limits and violations in liquidity risk restrictions.

To mitigate and decrease liquidity risk, the Bank may apply measures on both raising additional volumes of liquidity and limiting active operations, including price and non-price (administrative) measures.

General approaches to bank book's interest rate risk management

Interest rate risk of bank book represents a probability of losses or incremental losses or failure to receive planned income as a result of the effect of unfavorable changes in interest rates on bank book.

Interest rate risk is vulnerability of the Bank's financial position to unfavorable movements in interest rates. Acceptance of this risk is a common practice in banking and may be a source of profits. However, an excessive interest rate risk may become a serious threat to banking proceeds and capital.

Fluctuations in interest rates affect the Bank's proceeds because of changes in net interest income and levels of other revenues susceptible to changes in interest rates and operating expense. Fluctuations in interest rates also affect the baseline value of assets, liabilities, and off-balance sheet instruments of the Bank, because the present value of future cash flows (and, in some cases, cash flows itself) change when the interest rate changes. Correspondingly, the effective management of interest rate risk of bank book that maintains the risk in acceptable frames is a necessary components for reliability and safety of the Bank.

Interest rate risk management presupposes resolving issues in respect of maximizing the interest margin during the cycle of interest rate fluctuations. For this purpose, the Bank:

- Maintains a portfolio of assets diversified by interest rate, maturities, economy sectors striving to ensure its high liquidity and balances to a maximum degree its assets and liabilities by maturities;
- Applies respective strategies to managing assets and liabilities for each stage in interest rate cycle.

General approaches to market risk management

Market risk represents a probability of losses or incremental losses or failure to receive planned income as a result of unfavorable fluctuations in foreign exchange rates, interest rates, value of financial instruments.

Key goals in managing this type of risk are as follows:

- Ensure the compliance of this type of risk with a risk appetite set for this risk;
- Minimize potential losses as a result of realization of market risk;
- Comply with the requirements of the National Bank of Ukraine;
- Optimize a ratio of risk and profitability.

General approaches to operating risk management

Operating risk represents a probability of losses or incremental losses or failure to receive planned income as a result of deficiencies or errors in organization of internal processes, deliberate or unintentional actions of the Bank's employees or other persons, failures in operation of the Bank's information systems or due to the effect of external factors.

The Bank assesses its operating risk with reference to its interrelation and impact on other risks inherent in the Bank's activities.

A concept of managing operating risk envisages for its management as a continuous process and includes the following global stages:

- Identify an operating risk;
- Measure and make a qualitative and quantitative assessment of an operating risk;
- Monitor an operating risk;
- Minimize and control an operating risk.

The Bank creates and maintains a record of operating risk events and analyzes the data accumulated in its.

General approach to compliance risk management

One of the most significant types of risks in the Bank's activities is compliance risk which represents a probability of losses/sanctions, additional losses or failure to receive planned income or loss of reputation as a result of the Bank's failure to comply with the requirements of the effective legislation, market standards, fair competition rules, corporate ethics rules, a conflict of interest, as well as internal regulations of the Bank.

Assessment of compliance risk is required to:

- Determine processes/transactions where internal control procedures are not sufficient to maintain an acceptable level of compliance risk;
- Determine possible changes in controls (mitigate the risk, refuse from operations) in order to ensure a general level of compliance risk at an acceptable level;
- Take adequate and timely management decisions.

Key measures in managing compliance risk in the Bank include tracking not only changes in the legislation, but also analyzing whether the Bank meets all its major requirements and regulating norms, best global practices, as well as how business is built.

Consequences of unsatisfactory compliance risk management in the Bank may include:

- Negative financial consequences;
- Applying sanction to the Bank by regulators for its failure to comply with the effective legislation;
- Loss of confidence and reputation of the Bank which, to date, form one of the key components for long-term successful operations in the future.

Some of key measures aimed at supporting the Bank's positive image and mitigating the Bank's compliance risk include the following:

- Ensuring a sufficiently transparent activity of the Bank for all stakeholders;
- A competitive and ethical behavior of the Bank in the market of banking services;
- Approving by the Supervisory Board and implementing in everyday activities of the Corporate Code of PJSC "BANK VOSTOK";
- Complying with a 'tone at the top' principle and maintaining a spotless reputation by management;
- Establishing an effective system of relationships with media;
- Fulfilling by the Bank of its obligations to depositors, borrowers, investors, and partners;
- Working consistently on the Bank's image and shaping a positive public opinion of the Bank;
- Implementing innovation products and services or lines of activities, with reference to risk management system;
- Managing in a qualitative manner risks, thanks to which the society develops a positive opinion and confidence of the Bank, which ensures its competitive ability in the financial market and sustainable development.

Potential possibilities as a result of qualitative compliance risk management are further reflected in the Bank's ability to raise resources for its activities, implement efficient mechanisms and tools for effective and timely response to challenges of modern business.

Relationships with shareholders and related parties and managing them

In accordance with the Law of Ukraine "On Banks and Banking", the Bank's related parties are represented by a number of individuals or legal entities that meet the requirements of Article 52 of this Law and which include, inter alia, shareholders and management of the Bank.

The Bank has implemented a process for identifying its related parties and controlling transactions with them, ensuring for appropriate identifying, determining monitoring, reporting, managing, and controlling the Bank's related party transactions.

A procedure for the Bank's related party transactions, submitting information about such parties to the National Bank of Ukraine, and other issues related to measures of corporate governance, internal control, and risk management in this respect are regulated by internal regulations of the Bank.

The Bank transacts with its related parties with unconditional compliance with the requirements and restrictions established by the effective legislation, in particular the Law of Ukraine "On Banks and Banking", and regulations of the National Bank of Ukraine.

The Bank controls its related party transactions using a precaution that a beneficiary of a transaction and/or its related party may not be involved in the process of preforming and managing the related party transaction.

Related party transactions are subject to regular reviews on behalf of internal and external audit, with reports on findings based on those reviews submitted to the Bank's Supervisory Board.

The Bank's Management Board makes the Bank's Supervisory Board aware of untimely or inappropriate fulfillment of obligations by related parties to the Bank.

All related party transactions are performed in compliance with principles of control in accordance with the requirements of the Bank's internal regulations and the effective legislation. Control over related party transactions is executed by the Bank's employees in compliance with their functional duties and includes a list of procedures that ensure integrity and completeness of the related party identification process in performing transactions, control over such transactions, as well as the procedures that ensure control over compliance with limits and restrictions.

When identifying related parties, performing banking transactions with them and other contacts, the Bank's employees strictly comply with the established rules and procedures, as well as strive to avoid to a maximum degree the impact on behalf of related parties (including shareholders) with the purpose of minimizing of their possibility to receive gains at the cost deteriorated performance of the Bank. Relationships are managed by means of control over processes on behalf of employees of Risk Management and Compliance Departments.

During 2018, the Bank performed active operations with related parties, but the volume of those transactions was immaterial in relation to the total loan portfolio of the Bank and has no effect on its performance.

Performance and further development prospects

In 2018, the Bank's performance that make it possible to understand major trends and factors affecting the Bank's business were as follows.

Total assets of the Bank as at 31 December 2018 amounted to UAH 9,340,960 thousand, which was by UAH 904,944 thousand or 10.73% more than in the previous year (31 December 2017: UAH 8,436,016 thousand).

The Bank's assets as at 31 December 2018 had the following structure:

Loans and advances to customers amounted to UAH 6,567,014 thousand or 70.30% of total assets (31 December 2017: UAH 5,562,641 thousand or 65.94%);

Cash with the National Bank of Ukraine and due from other banks amounted to UAH 977,551 thousand or 10.47% of total assets (31 December 2017: UAH 1,157,473 thousand or 13.72%);

Cash and cash equivalents amounted to UAH 687,234 thousand or 7.36% of total assets (31 December 2017: UAH 598,297 thousand or 7.09%);

Securities portfolio amounted to UAH 808,857 thousand or 8.66% of total assets (31 December 2017: UAH 830,537 thousand or 9.85%);

Premises and equipment and intangible assets amounted to UAH 75,450 thousand or 0.81% of total assets (31 December 2017: UAH 68,726 thousand or 0.81%);

Other financial and non-financial assets amounted to UAH 224,854 thousand or 2.41% of total assets (31 December 2017: UAH 218,342 thousand or 2.59%).

In 2018, the Bank's equity increased by UAH 102,321 thousand or 16.83% and, as at 31 December 2018, amounted to UAH 710,410 thousand.

Based on its performance, in 2018, the Bank received net profit in the amount of UAH 122,104 thousand, which was by UAH 39,639 thousand or 48.07% more than in 2017.

During 2018, the Bank received UAH 547,051 thousand of net interest income, which was by UAH 116,709 thousand or 27.12% more than in 2017. Interest income increased due to the growth in the number of lending transactions with legal entities and individuals.

Net fee and commission income of the Bank for 2018 amounted to UAH 258,649 thousand, which was by UAH 72,002 thousand or 38.58% more than in 2017. The largest portion in fee and commission income (UAH 157,667 thousand or 60.96%) referred to fees and commissions on cash and settlement transactions with customers.

Trade and other income of the Bank in 2018 amounted to UAH 44,033 thousand, which was by UAH 15,738 thousand or 55.62% more than in 2017. The biggest portion (UAH 43,047 thousand or 97.76%) related to the income on foreign currency transactions. A negative result from modification and de-recognition of financial instruments for 2018 amounted to UAH 25,576 thousand, which was by UAH 11,850 thousand or 31.66% less than in 2017.

Operating income of the Bank for 2018 amounted to UAH 21,738 thousand, which was by UAH 381 thousand or 1.78% more than in 2017. A major component of operating income (UAH 20,910 thousand or 96.19%) was gain on implementation of a joint marketing program with MasterCard.

Operating expense of the Bank in 2018 grew by UAH 171,960 thousand or 32.54% and amounted to UAH 700,348 thousand. Staff related costs amounted to UAH 326,737 thousand or 46.65% of operating expense.

A key direction of the Bank's active operations is lending to legal entities and individuals.

During 2018, the volume of loans granted (net of allowances for lending operations) increased by UAH 1,025,395 thousand or 17.69% and, as at 31 December 2018, amounted to UAH 6,567,014 thousand (after allowances).

During 2018, the volume of loans granted to legal entities (net of allowance for loan impairment) increased by UAH 1,008,320 thousand or 17.47% and, as at 31 December 2018, amounted to UAH 6 778 803 thousand. The Bank provided lending to entities of trade (48.81% of loan portfolio of legal entities), industry (13.70%), transport and communication (13.27%), agriculture and food processing (10.45%), construction and real estate (7.58%), etc.

The volume of loans granted to individuals (net of allowance for loan impairment) increased by UAH 17,075 thousand or 66.71% and, as at 31 December 2018, amounted to UAH 42,671 thousand.

Loan portfolio of individuals consisted of consumer loans (55.37% of loan portfolio of individuals), credit card loans (37.78%), mortgage loans (4.77%), and car loans (2.08%).

The volume of allowance for loan impairment increased by UAH 21,022 thousand or 9,01% and, as at 31 December 2018, amounted to UAH 254,460 thousand. The increase was due to a significant increase in lending transactions to legal entities and individuals.

Due from other banks, as at 31 December 2018, amounted to UAH 571,595 thousand, which was by UAH 71,474 thousand or 11.11% less than as at 31 December 2017.

As at 31 December 2018, the Bank placed cash on the accounts of five counterparty banks for the total amount of UAH 570,259 thousand, which was 99.77% of total due from other banks.

Term deposits placed with other banks amounted to UAH 42,189 thousand or 7.38% of total due from other banks.

Securities portfolio as at 31 December 2018 amounted to UAH 808,857 thousand, which was by UAH 21,680 thousand or 2.61% less than as at 31 December 2017.

Securities portfolio included:

- Domestic government loans bonds ("DGLBs") for the amount of UAH 56,173 thousand, of which UAH 98 thousand of coupon DGLBs maturing on 22 July 2019 and UAH 56,075 of USD denominated discount DGLBs with final maturity on 19 June 2019;
- Deposit certificates issued by the NBU for the amount of UAH 752,684 thousand with final maturities on 4 January 2019 and 11 January 2019.

The Bank's liabilities increased by UAH 802,623 thousand or 10.25% and, as at 31 December 2018, amounted to UAH 8,630,550 thousand.

The volume of customer accounts for 2018 increased by UAH 529,001 thousand or 11.54% and, as at 31 December 2018, amounted to UAH 5,112,733 thousand, with a portion in total liabilities amounting to 59.24%.

Current account balances of legal entities amounted to UAH 4,176,542 thousand or 81.69%. Major customers of the Bank were represented by entities of transport and telecommunications (36.76%) and trade (24.51%). Current account balances of individuals amounted to UAH 936,191 thousand or 18.31%.

As at 31 December 2018, included in current account balances were deposits 'on demand' in the total amount of UAH 143,142 thousand, of which UAH 76,886 thousand belonged to individuals. Interest rates on such deposits amounted to the range from 0.01% to 18% p.a., depending on the account balance.

Total amount of cash of the Bank's 10 largest customers on current accounts amounted to UAH 1,279,756 thousand, or 25.03% of total cash on current accounts.

Included in customer accounts were balances in the total amount of UAH 650,358 thousand placed by customers as a collateral in the total amount of UAH 535,538 thousand.

Deposit portfolio of the Bank during 2018 decreased by UAH 130,796 thousand or 6.05% and, as at 31 December 2018, amounted to UAH 2,030,507 thousand, with a portion in total liabilities amounting to 23.53%.

Deposits of legal entities amounted to UAH 480,419 thousand or 23.66% of total deposit portfolio. Major customers of the Bank were represented by entities rendering professional services (38.63%), transport and telecommunications (25.92%), and trade (19.06%).

Deposits of individuals amounted to UAH 1,550,088 thousand or 76.34% of total deposit portfolio.

As at 31 December 2018, total amount of cash of the Bank's 10 largest customers on deposit accounts amounted to UAH 789,837 thousand or 38.90% of total deposit portfolio.

During 2018, due to other banks grew by UAH 348,747 thousand or 49.32% and, as at 31 December 2018, amounted to UAH 1,055,894 thousand, which amounted to 12.2% of total liabilities.

Short-term borrowings received by the Bank amounted to UAH 857,470 thousand or 81.21% of total debt. 100% of this debt related to a short-term EUR denominated borrowing from a non-resident bank.

Long-term borrowings received from other banks amounted to UAH 142,804 thousand or 13.52% of total debt. 100% of this debt related to a long-term EUR denominated borrowing from a non-resident bank.

Correspondent accounts and overnight deposits amounted to UAH 55,620 thousand or 5.27% of total debt. The largest debt on correspondent accounts with other banks amounted to UAH 28,620 thousand.

The analysis of the Bank's financial performance evidences of the stable growth in indicators by using both quantitative (increase in assets, equity) and qualitative (increase in profits) criteria, which confirms the right strategy chosen and weighted application of approaches to management by the Bank's management.

The Bank's plans for 2019 are as follows:

Under payment card operations, the following projects are planned to be implemented in 2019:

- Replace a card back-office of IS-Card to the system that would allow maintaining all retail products of the Bank – SOLANTEC;
- Scan QR at the Silpo cash registers;
- Conclude an agreement of servicing cards with UnionPay;
- Implement a service of SMS-request on the actual card balance;
- Measures to organize an acquiring trade business of the Bank:
    - Issue chip and contactless VISA cards;
    - Develop measures on attracting legal entities and individual entrepreneurs to service corporate card products;
    - Participate in the process of launching cards operating under NFC standard;
    - Internet-acquiring.

In 2019, it is planned to increase the number of individuals who receive pensions and social assistance, as well as attract to servicing individual sailors.

To attract new customers and expand the Bank's presence in the cities of Ukraine, in 2019, it is planning to:

- Open outlets in the cities of Kherson, Mykolaiv, Lutsk, Vinnytsia, Chornomorsk, and in populated residential districts of Odesa (Tairove, Medinstytut).

PJSC "BANK VOSTOK" is planning to conclude an agreement on servicing UnionPay cards

UnionPay is the largest international payment system in the world by the number of issued payment cards, and UnionPay International is entering the Ukrainian market. On 12 November 2018, the Committee on Supervision and Regulation of Banks' Activities and Oversight over Payment Systems of the National Bank of Ukraine agreed conditions and procedure of its operations in Ukraine.

The Ukrainian Processing Center is planning to connect to UnionPay in the second half of 2019, after the banks operating with the UPC will have a possibility to service UnionPay cards in trade acquiring.

Key performance indicators

During the reporting period, the Bank developed in the directions that ensure for expansion of the resource base and increase in indicator growth rate. Key directions were shaped on the basis of the banking market analysis:

- Gain and maintain a positive reputation among consumers and competitors;
- Growth business at the cost of development programs within joint projects with entities owned by the Bank's shareholders;
- Improve and expand a range of services, increase productivity (volume of transactions) with the use of modern technologies;
- Expand and diversify the customer base;
- Increase the resource potential and rate of return;
- Attract new investments;
- Decrease a risk level on lending operations;
- Optimize a balance of rate of return and liquidity of banking operations;
- Create a flexible interest rate and tariff policies;
- Extend presence at the cost of expanded regional network;
- Implement state-of-the-art banking technologies and servicing standards;
- Improve decision making procedures;
- Ensure for brand development;
- Expand and optimize a list of banking products and services for all market segments in order to improve client servicing standards, implement actively cross sales, and ensure for growth in rate of return on banking transactions.

The Bank tries not only to preserve the created customer base, but also attract new customers. In this connection, using a principle of versatility, the Bank attracts for servicing, alongside with large corporate companies, representatives of small and medium business and individuals. Thus, it ensures for comprehensive servicing the sphere of consumer interests of the Bank's customers and their partners.

Number of customers	As at 1 January 2017	As at 1 January 2018	As at 1 January 2019
Legal entities	9,147	11,061	13,232
Individuals	228,339	244,730	275,769
Total:	**237,486**	**255,791**	**289,001**

Cash of individuals attracted to current and deposit accounts made up, as at the reporting date, 29% of liabilities, which was by 6% lower than at the beginning of the year. A stable growth was demonstrated by a portfolio of customers' plastic cards: the increase was observed for the portfolio in both UAH and foreign currencies.

Cash of legal entities attracted to current and deposit accounts made up, as at the reporting date, 54% of liabilities, which was by 2 p.p. higher than at the beginning of the year.

For the reporting period, changes occurred in the structure of the Bank's assets. By gradually moving away from the situation that was caused by stress events in the banking sector during recent years which resulted in placing funds in risk-free assets at the interest rate that was decreasing intensively, the Bank returns to traditional operations of granting loans to the real sector of economy. At the end of the reporting period, a share of loans to customers amounted to 70% of assets, which was by 4 p.p. more than the same indicator at the beginning of the year.

The Bank selects objects for its lending operations on the basis of a strict selection of borrowers, a detailed analysis of credit and investment risks, profitability and security of the agreements offered for lending. In shaping its loan portfolio, the Bank always adheres to strict conservative credit policies that envisage for creating a profitable, liquid, and diversified loan portfolio agreed by the terms of granting cash and resource base.

The Bank has proved once again its active position in the market of banking services, which is supported by a constant growth in market ratings under key performance indicators of banks. The increased share capital for the reporting period has shaped the structure in which the share capital made up 74% of the Bank's equity, which is the factor that evidences of the growth in reliability and improved stability of the Bank.

Performance indicators of PJSC "BANK VOSTOK"

	As at 1 January 2019
Financial result, UAH thousand	122,104
Return on assets, %	1.39
Return on equity (ROE), %	20.79
Net interest income, before impairment losses/(reversal) by interest-bearing assets, UAH thousand	571,974
Net interest margin, %	6.51

In 2018, target indicators in respect of regulatory requirements were complied with. Average daily balance on the correspondent account with the NBU for the period of holding from December 2018 to January 2019 exceeded the provisioning base of UAH 389 million under the regulator's requirements (for the period of holding from December 2017 to January 2018 exceeded the provisioning base of UAH 335 million under the regulator's requirements). The Bank complies with the liquidity ratio and significantly exceeds the marginal values set by the regulator.

In 2018, target indicators in respect of concentration were complied within the limits set by the Supervisory Board. In 2018, the concentration limit of borrowed funds did not exceed the marginal value of 55% on accounts of individuals and legal entities. Balances on transactions with banks are eliminated.

Servicing corporate customers

Based on the performance for 2018, corporate business of the Bank continued to grow its base of resource generating clients. A decisive factor considered in selecting customers by the Bank refers to applying a flexible and individual approach in servicing, as well as a responsible attitude to challenges that the market poses to customers and the Bank.

Based on the performance for 12 months of 2018, the volume of cash and settlement services remained at a stable high level and reached its maximum in September 2018 in the amounts of UAH 7,201 thousand, besides, average monthly revenue in 2018 amounted to UAH 5,855 thousand.

Compared to 2017, revenue from cash and settlement services grew from UAH 53,493 thousand to UAH 75,035 thousand, with the growth for 2018 amounting to 40%.

Cash collection and transportation of valuables

In 2018, the Bank actively increased its volumes in cash collection services.

The unit has 11 units of operating motor vehicles.

The service employed 36 persons.

Customers are serviced in the cities of Kyiv, Odesa, Chornomorsk, Mykolaiv, Kharkiv, Sumy.

Services on transportation of cash and valuables of the Bank are used by:

- 385 sales points of the Bank's customers;
- 22 branches.
-

The Bank also effects collection from:

- 27 ATMs;
- 35 payment terminals.

Collected sales revenues delivered to the Bank during 2018 amounted to UAH 31,060.03 million.

Possessing modern safety facilities, qualified personnel, and own fleet of specialized motor vehicles equipped with required communication means and enjoying a long-term cooperation with the state security service, the Bank provides to its customers all types of cash collection services and transportation of valuable with full legal liability for their safekeeping.

For the reporting period, the Bank's customers were provided the following cash collection services:

- Collecting cash;
- Delivering cash and other valuables from the Bank's cash office to a destination point at a customer's request;
- Delivering fractional coins;
- Transporting, storing, and returning cash of customers;
- Collecting cash of organizations and entities without opening an account with the Bank;
- Collecting cash from ATMs and self-servicing terminals;
- Interbank transportations;
- Services on transporting valuables to other banks.

Cost of services to customers is determined with reference to specific features of entities' operations, volumes of cash to be transported, and location of the organization.

The Bank's fee and commission income on cash collection services for 2018 amounted to UAH 5,176 thousand.

Monetary turnover

For 2018, the Bank sold cash to other banks:

- UAH in the amount of UAH 14,300.70 million;
- USD – UAH 14.24 million;
- EUR – UAH 4.15 million;
- GBP – UAH 0.2 million.

Transported to the NBU – UAH 3,348.63 million.

Fee and commission income on sales of cash amounted to UAH 9,948.7 thousand.

Fee and commission income on sales of fractional coins amounted to UAH 2,013.5 thousand.

Retail business

Cash and settlement services

As at 31 December 2018, the Bank had 380,393 current accounts opened, of which 332,420 – card accounts of individuals. Average daily balance of cash on current accounts per year amounted to UAH 4,490 million, including on card accounts – UAH 640 million. In the structure of liabilities to individuals, cash balances on current accounts amounted to 38%.

For 2018, cash and settlement services to individuals earned fees and commissions in the amount of almost UAH 21 million.

Payment card operations

The year of 2018 has become significant for the Bank in view of development and implementation of innovation products among the first in Ukraine.

The Bank has developed and implemented card products considering specific features of regions and present needs: "Pension Program", "Social Program", "Sailor's Card", "IT Specialist" Card", "World Elite" Premium Package. The Bank has implemented a large card project in cooperation with LLC "Fozzy-Food", "Vlasnyi Rakhunok" ("Own Account") card.

Using the card of MC World Elite, a customer has premium privileges – Concierge Service of Mastercard, Fast Line service, Mastercard business lounges in airports, discounts and special offers from more than 100 partner companies in Ukraine (boutiques, restaurants, hotels, beauty salons, etc.) and from almost 20 world companies – undisputable leaders in the area of service abroad.

Visa Infinite card comprises the following premium privileges – full insurance during travel abroad up to USD 1 million, Global Customer Assistance Service (GCAS), International Medical and Travel Support, protection of sales/extended guarantee, discounts and offers from Visa partners in Ukraine and abroad, hotel booking program, 6 free visits during the year of business lounges "Lounge Key".

Key achievements in the sphere of projects with payment cards include the following:

- Launch in April 2018 of Google Pay wallet for holders of the Bank's cards. The wallet is designed for digitalization of cards in G Pay mobile application and further transfer of safe payments using the smartphone on the basis of Android 4.4 operating system and higher. For more effective management of the process of card digitalization and ensuring the life cycle of digitalized cards within the project, API Pre-digitization has also been implemented;
- In October 2018, the Bank was one of the first four banks in Ukraine to implement the Apple Pay payment solution for safe and convenient payments using Mastercard cards issued by PJSC "BANK VOSTOK".

One of key directions of the Bank's activities for 2019 is further activation of those products, informing customers via different communication channels, conducting, jointly with payment systems, of promotion and advertising campaigns.

As at 31 December 2018, the Bank serviced 1,868 payroll projects, of which 413 projects were entered into during 2018, with the growth amounting to 28.4%.

Total number of payroll cards issued by the Bank as at 31 December 2018 amounted to 164,007 units, during 2018, there was both a growth in the number of active cards of corporate employees serviced under payroll projects (growth amounted to 22,569 units) and increase in average monthly balances on the accounts of those customers.

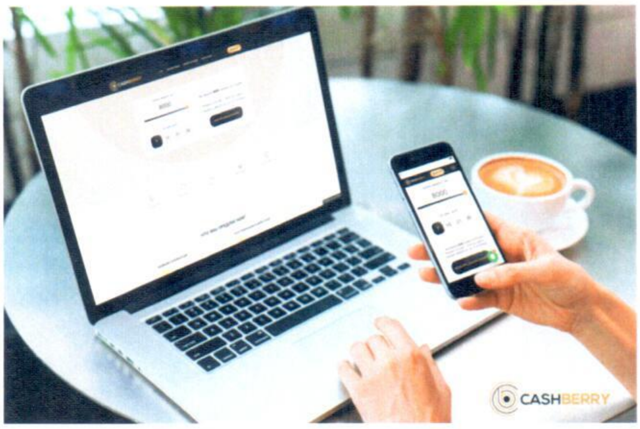
In 2018, the work of the Bank's Department of Special Retail Projects was devoted to support, analysis, and improvement of the business model of co-branded product of "Vlasnyi Rakhunok" ("Own Account") card with the payment function.

Advantages of the co-branded product of PJSC "BANK VOSTOK" and Silpo supermarket network are as follows:

- Improved loyalty program due to the accrued points from the Bank for purchases in both the network of supermarkets Silpo and outside it;
- Simple and convenient procedure for activating the payment function;
- Free card servicing;
- A possibility for replenishing cards directly at cash points of the network of supermarkets Silpo;
- A possibility for replenishing cards via self-servicing terminals, personal office in Internet Banking, and the Bank's branches;
- Managing cash with the help of Internet Banking at my.bankvostok.com.ua and Mobile Banking;
- Free 3-D Secure services to protect Internet operations and SMS notification about each transaction;
- Round-the-clock support of holders in the Bank's contact center.

System of Internet/Mobile Banking for individuals

Online-Banking/Mobile Application represents a multifunctional convenient platform which allows to manage easily and effectively around the clock the account online, 24 hours a day, 7 days a week, in any point of the world. It has been created with reference to all modern safety requirements which guarantee data confidentiality and safety of settlements.



Online-Banking provides to customers the following functionalities and possibilities:

- Obtain quickly information about the state of accounts;
- Obtain required statements in different electronic formats with a possibility to print them out;
- Review a list of transactions. This functionality allows a customer monitoring expenses incurred in sales networks in the real time mode, and filter transactions by type for further analysis. The settlements made in sales and service network by using a payment card are also recorded in the list of transactions and, if a point of sale where the settlement was performed has address, the customer may see its geo-position in Google Maps;
- Track the state of deposit (current deposit amount, amount of interest accrued, expiration date);
- Transfer cash between own accounts and to accounts with other banks;
- Transfer immediately cash from card to card with the help of MoneySend/Visa Direct technology;
- Use the service of "Nakopilka" (the analog of a deposit account with free regime for replenishing and withdrawing);
- Make payments for different services (including utilities with free payment details);
- Pay for services of mobile operators;
- If needed, block or de-block cards;
- Replace PIN-code for cards;
- Available templates of payments which allows saving time significantly;
- Receive information about accrued points under "Vlasnyi Rakhunok" program.

As at 1 January 2019:

- Number of users registered in Internet-Banking – 93,899 users;
- Number of users registered in Mobile-Banking – 39,525 users.

International cash transfers

The Bank actively provides services to individuals on sending and paying cash transfers under systems of international cash transfers:

- Western Union (WU): transfer currencies – UAH, USD, EUR;
- MoneyGram (MG): transfer currencies – USD, EUR;
- Welsend: transfer currencies – UAH, USD, EUR;
- RIA: transfer currencies – USD, EUR.

In the first half of 2019, the Bank is planning to realize a possibility for making RIA transfers via Online-Banking.

To attract customers and receive additional fee and commission income, the Bank works on expanding a list of transfer systems with which the Bank cooperates. At the beginning of 2019, it is planned to commence work with the transfer system of Oshchadbank, "Shvydka Kopiika", via cash offices of the Bank and Online-Banking. Also, it is planned to conclude an agreement with the transfer system of PrivatBank, Privat Money.

The volume of sent and paid transfers via systems of international cash transfers for 2018 by currencies:

Sent:

USD	EUR	UAH
1,870,684	208,611	1,129,268

Paid:

USD	EUR	UAH
16,144,108	3,053,708	476,928

Based on the performance of 2018, total volume of fee and commission income received by the Bank on cash transfers amounted to UAH 4.2 million.

Acceptance of utility payments

To increase fee and commission income, during 2018, the Bank continued working on servicing the existing and entering into new agreements on accepting utility payments.

Total volume of fees and commissions on acceptance of utility payments for 2018 amounted to more than UAH 13.3 million.

Individual safes

The Bank actively renders services on leasing out individual safes to its customers.

As at the end of 2018, the service on leasing out individual safes was available in Odesa, Kyiv, Dnipro, Mykolaiv, Poltava, Kharkiv, Lviv, Cherkasy, and Kryvyi Rih.

Total volume of fee and commission income on leasing out individual safes for 2018 amounted to UAH 6.2 million.

Cooperation with Treasury bodies

During 2018, the Bank, based on the concluded agreements on cash services by paying with the help of checks of the Department of State Treasury Service of Ukraine in the city of Odesa and Odeska region, worked with the following organizations:

- Department of Labor and Social Policies of the Odesa City Council;
- Odesa Regional Department (Branch) of the Committee for Physical Education and Sports of the Ministry of Education and Science of Ukraine;
- Charitable Foundation "Medical Center "Nadiia, Dobro, I Blahopoluchchia" ("Hope, Goodness, and Welfare").

The volume of funds that came to the accounts of bodies of the State Treasury Service of Ukraine in the city of Odesa and Odeska region for 2018 amounted to almost UAH 19.4 million.

Servicing pension and social accounts

At the beginning of 2018, the Bank won a tender on servicing pension and social accounts. During 2018, the Bank entered into agreements with pension fund agencies and departments of labor and social policies in the regions where the Bank's outlets are presented.

For 2018, the bank opened 2,258 social accounts and 474 pension accounts.

Deposits

As at 31 December 2018, the Bank had the following deposit programs for the Bank's individual customers:

- Deposit "Maksymalnyi" – for the customers interested in receiving maximum income;
- Deposit "Premialnyi" – for the customers interested in receiving monthly interest;
- Deposit "Skarbnytsia" – for the customers interested in receiving monthly interest and replenishing the deposit during the whole life of the agreement;
- Deposit "Pensiinyi" – developed for the customers of pension age, it envisages for a possibility of replenishing the deposit and receiving monthly interest;
- Deposit "Aktsiinyi", deposit "Aktsiinyi +" – developed to attract customers, with a possibility of winning additional bonuses to the interest rate on the deposit.

As at 31 December 2018, the deposit portfolio of individuals amounted to UAH 1.5 billion.

Granting loans to individuals

- Loans to payroll card holders – the Bank opens on the payroll card a credit limit – overdraft;
- Loans to sailors – lending to sailors who make on sails;
- Loans to IT specialists – the Bank grants loans to IT specialists who have a current account with the Bank. Without a certificate of income and collateral.

Documentary transactions

Indicators	2017	2018
Portfolio of guarantees and letters of credit, UAH thousand	564,001	593,890
Income received, UAH thousand	16,880	17,700

Correspondent relations

In 2018, the Bank continued to cooperate with foreign and domestic financial institutions by ensuring for its customers additional possibilities on receiving high quality banking services.

As at 31 December 2018, the Bank had 30 correspondent accounts of NOSTRO type opened in 13 banks, both largest foreign banks of the world: THE BANK OF NEW YORK MELLON USA, Raiffeisen Bank International AG AUSTRIA, UNICREDIT BANK AG GERMANY, and Ukrainian financial institutions: JSC "Ukreximbank", JSC "Raiffeisen Bank Aval", PJSC "Citibank", PJSC JSB "UKRGAZBANK". The Bank makes payments in 11 currencies, which allows the Bank's customers making settlements on foreign economic contracts in the shortest possible time.

As at 31 December 2018, the Bank had 9 correspondent accounts of LORO type opened in two banks.

Depositary activities

The volume of accounting transactions performed by deponents of corporate and government securities for 2018 amounted to more than UAH 2.5 billion at the nominal value.

Report on Corporate Governance of PJSC "BANK VOSTOK" (in accordance with the requirements of Art. 40-1 of the Law of Ukraine "On Securities and Stock Market")

Report on corporate governance of PJSC "BANK VOSTOK" prepared in accordance with the requirements of Art. 40-1 of the Law of Ukraine "On Securities and Stock Market" and Provision on Disclose of Information about Securities Issuers as approved by Resolution of the National Commission for Securities and Stock Market of Ukraine # 2826 dated 3 December 2013 (as subsequently amended) is provided on the Bank's site at: https://bankvostok.com.ua/public.

Thanks to steady adherence to the strategy chosen, management of PJSC "BANK VOSTOK" is planning to further increase the Bank's share in the banking market of Ukraine, gradually expand its presence in international financial markets, grow the volume and range of banking transactions, and increase its equity.

Signed on behalf of the Management Board of PJSC "BANK VOSTOK" on 24 April 2019.

Morokhovskyi Vadym Viktorovych,
Chairman of the Management Board

Siuskova Olena Petrivna,
Chief Accountant

PUBLIC JOINT STOCK COMPANY "BANK VOSTOK"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the financial statements that present fairly, in all material respects, the financial position of PUBLIC JOINT STOCK COMPANY "BANK VOSTOK" (hereinafter, the "Bank") as at 31 December 2018, and the results of its operations, cash flows, and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information, in compliance with International Financial Reporting Standards ("IFRS") and the Law of Ukraine "On Accounting and Financial Reporting in Ukraine".

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information;
- Providing additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the Bank's financial position and financial performance;
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing, and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with the legislation and requirements of the National Bank of Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank;
- Preventing and detecting fraud and other irregularities; and
- Complying with other requirements of the effective legislation in the field of audit, accounting, and corporate governance, which are stipulated to the Bank's management and ensuring compliance with these requirements by the higher authorities of the Bank.

The financial statements for the year ended 31 December 2018 were approved by the Bank's management on 24 April 2019.

On behalf of the Bank's management:

Morokhovskyi Vadym Viktorovych,	**Siuskova Olena Petrivna,**
Chairman of the Management Board	Chief Accountant
24 April 2019	24 April 2019

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК» І.К. 26237202 УКРАЇНА м. ДНІПРО

PJSC "Deloitte & Touche USC"
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Ukraine

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Management Board of PUBLIC JOINT STOCK COMPANY "BANK VOSTOK":

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PUBLIC JOINT STOCK COMPANY "BANK VOSTOK" (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the preparation of the financial statements requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" (the "Law on Accounting and Financial Reporting").

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Allowances for expected credit losses ("ECL") on loans and advances to customers Starting from 1 January 2018, the Bank applies IFRS 9 that introduced expected credit losses model for measuring impairment, which significantly changes the methodology and process for assessing allowance on loans and advances to customers.	Our audit procedures have included the following: • Obtaining understanding of the Bank's processes and control procedures for assessment of a significant increase in credit risk and event of default and measurement of expected credit losses on loans and advances to customers.

Key audit matter	How the matter has been addressed in the audit
Allowances for expected credit losses are calculated on a collective basis for the loans with similar risk characteristics and on an individual basis for significant loans. To assess allowances for expected credit losses, the Bank's management applies models and techniques that use both external and internal inputs, as well as comprehensive and subjective judgments of the Bank's management. Key areas of judgments and estimates in determining the amount of allowances for expected credit losses for loans and advances to customers at amortized cost include the following: • Assessment of a significant increase in credit risk and event of default for determining the stage of impairment of loans and advances to customers at amortized cost; • Measurement of expected credit losses taking into account macroeconomic forecasts and historical information on credit losses incurred for the loans assessed on a collective basis; • Assessment of expected future cash flows based on several scenarios in respect of the loans assessed on an individual basis. Assessment of allowance for expected credit losses is determined as a key audit matter due to the complexity of methodology, subjective character of certain judgments used in models, and a significant balance of loans and advances to customers. Details on the use of judgments, estimates, and assumptions are provided in Note 4.	• For collective ECL allowances, the appropriateness of the modelling policy and methodology used for material portfolios was independently assessed with involvement of credit risk and actuarial experts by reference to the accounting standards and market practices. Model calculations were tested through re-performance. The appropriateness of management's judgments was independently considered in respect of calculation methodologies, segmentation, significant increase in credit risk (SICR) identification, time-period used for probability of default and recovery rates assessment, including macroeconomic adjustment, and valuation of collateral. We checked completeness and accuracy of historical data used in collective models and checked forward-looking inputs to external macroeconomic forecasts. • For individual allowances, the appropriateness of provisioning methodologies was independently assessed for a sample of loans across the whole portfolio selected on the risk basis. An independent assessment was performed in respect of the levels of provisions booked based on the detailed loan and counterparty information in the credit file. Calculations within a sample of discounted cash flow models were re-performed. • We checked completeness and accuracy of the relevant notes to the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the management report, issuer's annual information, which also includes a corporate governance report, but does not include the financial statements and our auditor's report thereon, made available to us before the date of this auditor's report.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, which constitute the key audit matters included herein. We describe these matters in our auditor's report, except for the cases when a law or regulation prohibits a public disclosure of a specific matter or, in extremely adverse circumstances, we determine that such an matter should not be addressed in our report, as negative consequences from such a disclosure may predictably outweigh its usefulness for interests of the public.

Report on Other Legal Requirements

We have been appointed as auditor of PUBLIC JOINT STOCK COMPANY "BANK VOSTOK" by the Supervisory Board's meeting on 10 September 2018. In view of the previous renewals and reappointments, we conducted audit from 30 October 2017 to the date of this report.

We confirm that the audit opinion is consistent with the additional report to Audit Committee.

We confirm that the prohibited non-audited services referred to ISA or requirements of Article 6, Paragraph 4 of the Law of Ukraine "On Audit of Financial Statements and Audit Activities" were not provided and that the audit engagement partner and audit firm remains independent of the Bank in conducting the audit.

In accordance with the requirements of Paragraph 11, Article 4 of the Instruction on the Procedure for Preparation and Publication of Financial Statements of Ukrainian Banks as approved by Resolution of the Board of the National Bank of Ukraine # 373 dated 24 October 2011 (as subsequently amended) ("Instruction # 373"), we report the following:

- In our opinion, based on the work undertaken in the course of our audit of the Bank's financial statements, the management report has been prepared in accordance with the requirements of Article 4 of Instruction # 373 and the information in the management report is consistent with the financial statements;
- We are required to report if we have identified material misstatements in the management report in light of our knowledge and understanding of the Bank obtained during our audit of the Bank's financial statements. We have nothing to report in this respect.

Basic Information about Audit Firm

Full name: PRIVATE JOINT STOCK COMPANY "DELOITTE & TOUCHE UKRAINIAN SERVICES COMPANY".

Address of registration and location of audit firm: 48, 50a Zhylianska Str., Kyiv, 01033, Ukraine.

"Private Joint Stock Company "Deloitte & Touche Ukrainian Services Company" was enrolled to Sections of "Audit Entities", "Audit Entities and Auditors That Have the Right to Conduct Statutory Audits of Financial Statements", and "Audit Entities and Auditors That Have the Right to Conduct Statutory Audits of Financial Statements of Public Interest Entities" of the Register of Auditors and Auditing Entities of the Audit Chamber of Ukraine under #1973."

PJSC "Deloitte & Touche USC"

Engagement Partner   Natalia Samoilova

Certificate of Banks' Auditor # 0202
issued by the Audit Chamber of Ukraine
on 24 December 2014, valid until 24 December 2019

PJSC "Deloitte & Touche USC"
48, 50a Zhylianska Str., Kyiv, 01033, Ukraine

24 April 2019

In Ukrainian Hryvnias and in thousands	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	5	687,234	598,297
Balances with the National Bank of Ukraine	6	405,956	514,404
Due from other banks	7	571,595	643,069
Loans and advances to customers	8	6,567,014	5,562,641
Investment securities measured at fair value through other comprehensive income	9	98	803,080
Investment securities measured at amortized cost	10	808,759	27,457
Income taxes prepaid		94	54
Deferred tax asset	24	4,773	3,571
Premises, equipment, and intangible assets	11	75,450	68,726
Other financial and non-financial assets	12	219,987	214,717
TOTAL ASSETS		**9,340,960**	**8,436,016**
LIABILITIES			
Due to other banks	13	1,055,894	707,147
Current accounts	14	5,112,733	4,583,732
Deposits	14	2,030,507	2,161,303
Other borrowed funds	15	213,479	229,737
Other financial and non-financial liabilities	16	68,198	51,565
Current income tax liabilities		6,414	8,785
Subordinated debt	17	143,325	85,658
TOTAL LIABILITIES		**8,630,550**	**7,827,927**
EQUITY			
Share capital	18	523,110	445,043
Issue costs		(182)	(94)
Retained earnings		170,371	150,287
Reserve fund		17,108	12,710
Revaluation reserve for investment securities measured at fair value through other comprehensive income		3	143
TOTAL EQUITY		**710,410**	**608,089**
TOTAL LIABILITIES AND EQUITY		**9,340,960**	**8,436,016**

Authorized for issue by the Management Board and signed on its behalf on 24 April 2019.

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК» І.К 26237202 УКРАЇНА м. Дніпро

Morokhovskyi Vadym Viktorovych,
Chairman of the Management Board

Siuskova Olena Petrivna,
Chief Accountant

In Ukrainian Hryvnias and in thousands	Notes	2018	2017
Interest income	19	992,763	877,088
Interest expense	19	(420,789)	(377,283)
Net interest income before impairment losses on interest-bearing assets		*571,974*	*499,805*
Effect of initial recognitions of interest-bearing assets		19,935	(5,764)
Impairment losses on interest-bearing assets		(44,858)	(63,699)
Net interest income		**547,051**	**430,342**
Fee and commission income	20	407,570	290,638
Fee and commission expense	20	(148,921)	(103,991)
Net loss on transactions with derivative financial instruments		(2,054)	(8,015)
Net gain on foreign exchange operations		46,947	36,141
Net (loss)/gain on foreign currency revaluation		(3,900)	169
Net gain on reversal of provisions for other financial assets/liabilities		3,040	-
Gain or loss on modification and de-recognition of financial instruments		(25,576)	(37,426)
Other operating income	21	21,738	21,357
Net non-interest income		**298,844**	**198,873**
Staff related costs	22	(326,737)	(230,835)
Depreciation and amortization expenses		(44,018)	(40,807)
Administrative and other operating expenses	23	(329,593)	(256,746)
Profit before income tax		**145,547**	**100,827**
Income taxes	24	(23,443)	(18,362)
PROFIT FOR THE YEAR		**122,104**	**82,465**
Other comprehensive income/(loss):			
(Loss)/gain on changes in fair value of investments in securities measured at fair value through other comprehensive income		(171)	301
Income taxes recorded directly in other comprehensive income		31	(54)
Other comprehensive income for the year		**(140)**	**247**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**121,964**	**82,712**
Net earnings per ordinary share (in UAH per share for the period)		39.73	26.83

Authorized for issue by the Management Board and signed on its behalf on 24 April 2019.

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК» І.К 26237202 УКРАЇНА м. ДНІПРО

Morokhovskyi Vadym Viktorovych,
Chairman of the Management Board

Siuskova Olena Petrivna,
Chief Accountant

In Ukrainian Hryvnias and in thousands	Notes	Share capital	Issue costs	Revaluation reserve for investment securities available for sale	Reserve fund	Retained earnings	Total
Balance as at 1 January 2017		**307,350**	**-**	**(104)**	**7,925**	**207,850**	**523,021**
Profit for the year		-	-	-	-	82,465	82,465
Gains less losses on changes in fair value		-	-	301	-	-	301
Income taxes recognized in other comprehensive income		-	-	(54)	-	-	(54)
Other comprehensive income for the year		-	-	247	-	-	247
Total comprehensive income for 2017		-	-	247	-	82,465	82,712
Charges to reserve fund	18	-	-	-	4,785	(4,785)	-
Increase in share capital at the cost of retained earnings	18	137,693	-	-	-	(137,693)	-
Issue costs		-	(94)	-	-	-	(94)
Gains or losses on fair value adjustment of financial instruments due to changes in contractual terms of transactions with shareholders	17	-	-	-	-	2,450	2,450
Balance as at 31 December 2017, as earlier reported		**445,043**	**(94)**	**143**	**12,710**	**150,287**	**608,089**
Effect of IFRS 9 application	**3**	**-**	**-**	**-**	**-**	**(17,185)**	**(17,185)**
Adjusted balance as at 1 January 2018		**445,043**	**(94)**	**143**	**12,710**	**133,102**	**590,904**
Profit for the year		-	-	-	-	122,104	122,104
Loss on changes in fair value of investment in securities at fair value through other comprehensive income		-	-	(171)	-	-	(171)
Income taxes recognized in other comprehensive income		-	-	31	-	-	31
Other comprehensive income		-	-	(140)	-	-	(140)
Total comprehensive income for 2018		-	-	(140)	-	122,104	121,964
Charges to reserve fund	18	-	-	-	4,398	(4,398)	-
Increase in share capital at the cost of retained earnings	18	78,067	-	-	-	(78,067)	-
Issue costs		-	(88)	-	-	-	(88)
Gains or losses on fair value adjustment of financial instruments due to changes in contractual terms of transactions with shareholders	17	-	-	-	-	(2,370)	(2,370)
Balance as at 31 December 2018		**523,110**	**(182)**	**3**	**17,108**	**170,371**	**710,410**

Authorized for issue by the Management Board and signed on its behalf on 24 April 2019.

Morokhovskyi Vadym Viktorovych,
Chairman of the Management Board

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК» І.К. 26237202 УКРАЇНА м. ДНІПРО

Siuskova Olena Petrivna,
Chief Accountant

In Ukrainian Hryvnias and in thousands	Notes	2018	2017
Cash flows from operating activities			
Interest received		981,041	832,356
Interest paid		(405,733)	(393,303)
Fees and commissions received		406,773	289,857
Fees and commissions paid		(147,159)	(103,815)
Loss on transactions with derivative financial instruments		(2,597)	(7,471)
Gain on foreign exchange operations		46,947	36,141
Other operating income received		21,738	21,485
Administrative and other operating expenses paid		(329,850)	(253,483)
Staff costs paid		(321,657)	(226,546)
Income taxes paid		(27,056)	(16,974)
Cash generated from operating activities before changes in operating assets and liabilities		**222,447**	**178,247**
Net (increase)/decrease in:			
- Mandatory reserves	5	-	127,860
- Due from other banks		(38,261)	8,895
- Loans and advances to customers		(1,117,213)	(638,428)
- Other financial assets and other assets		(8,452)	(49,971)
Net increase/(decrease) in:			
- Due to other banks		357,166	(196,079)
- Current accounts		542,837	372,739
- Deposits		(91,365)	59,958
- Other financial liabilities and other liabilities		8,413	21
Net cash used in operating activities		**(124,428)**	**(136,758)**
Cash flows from investing activities			
Acquisition of premises, equipment, and intangible assets		(50,742)	(46,821)
Purchase of investment securities measured at fair value through other comprehensive income		-	(27,806,000)
Proceeds from sale and repayment of investment securities measured at fair value through other comprehensive income		801,094	27,635,094
Purchase of investment securities measured at amortized cost		(47,578,965)	(28,067)
Proceeds from repayment of investment securities measured at amortized cost		46,796,087	-
Net cash used in investing activities		**(32,526)**	**(245,794)**
Cash flows from financing activities			
Proceeds on other borrowed funds		-	216,955
Repayment of other borrowed funds		(13,871)	(26,460)
Funds borrowed on subordinated debt terms		56,823	-
Issue differences		(88)	(94)
Net cash used in financing activities		**42,864**	**190,401**
Effect of exchange rate changes on cash and cash equivalents		**(18,623)**	**9,958**
Net decrease in cash and cash equivalents		**(132,713)**	**(182,193)**
Cash and cash equivalents at the beginning of the year	5	1,755,317	1,937,510
Cash and cash equivalents at the end of the year	5	**1,622,604**	**1,755,317**

Authorized for issue by the Management Board and signed on its behalf on 24 April 2019.

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК» І.К. 26237202 УКРАЇНА м. Дніпро

Morokhovskyi Vadym Viktorovych,
Chairman of the Management Board

Siuskova Olena Petrivna,
Chief Accountant

The accompanying notes form an integral part of the financial statements.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018 for PUBLIC JOINT STOCK COMPANY "BANK VOSTOK" (hereinafter, the "Bank").

The Bank was established on 23 April 2002 and registered by the National Bank of Ukraine (hereinafter, the "NBU") on 17 October 2002 as CJSC "Agrobank". In December 2006, the Bank became a part of Home Credit Group. On 27 March 2009, the Bank was re-registered as open joint stock company and, on 27 May 2010, as public joint stock company.

On 21 December 2011, 100% of the Bank's shares were acquired by a group of legal entities and individuals. During 2012, changes in the shareholders' structure took place. As at 31 December 2018 and 2017, 100% of the Bank's shares were held by LLC "Vostok Capital".

Ultimate beneficiary owners of the Bank are Mr. V. M. Kostelman, Mr. V. V. Morokhovskyi, and Ms. L. S. Morokhovska.

The Bank provides banking services to individuals and legal entities, including attracting deposits and granting loans, investing in securities, transferring payments in Ukraine and abroad, exchanging currencies, and other services. The Bank is a participant of Individual Deposit Guarantee Fund (Registration Certificate # 157 dated 19 November 2012), which operates under the Law of Ukraine "On Individual Deposit Guarantee System" # 4452-VI dated 23 February 2012. Individual Deposit Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual in case the National bank of Ukraine takes a decision to include a bank into the insolvent category, and Individual Deposit Guarantee Fund commences a procedure on withdrawing a bank from the market.

As at 31 December 2018, the Bank had 36 branches in Dnipropetrovska, Odeska, Khersonska, Mykolaivska, Lvivska, Cherkaska, Kyivska, Kharkivska, Poltavska, Zaporizka, and Sumska regions. For comparison: as at 31 December 2017, the Bank had 35 separate units: 32 branches in Dnipropetrovska, Odeska, Khersonska, Mykolaivska, Lvivska, Cherkaska, Kyivska, Kharkivska, Poltavska, Zaporizka, and Sumska regions; 2 representative offices in Kyiv and 1 representative office in Kryvyi Rih.

The Bank's registered address is at 24 Kursantska Street, Dnipro, Ukraine. The Bank's head office units are located at 1B Kanatna Street, Odesa, Ukraine and 12 Krutohirnyi Uzviz, Dnipro, Ukraine.

Presentation currency. These financial statements are presented in Ukrainian Hryvnias ("UAH") and in thousands, unless otherwise indicated.

2 Operating environment of the Bank

In 2018, the Ukrainian economy proceeded recovery from the economic and political crisis of previous years and demonstrated sound real GDP growth of around 3.4% (2017: 2.5%), modest annual inflation of 9.8% (2017: 13.7%), and slight devaluation of national currency by around 2.4% against USD and 8.2% against EUR comparing to previous year average.

Also, Ukraine continued to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and a frozen armed conflict with separatists in certain parts of Luhanska and Donetska regions. Amid such events, the Ukrainian economy demonstrated further refocusing on the European Union (the "EU") market realizing all potentials of established Deep and Comprehensive Free Trade Area with EU, in such a way effectively reacting to mutual trading restrictions imposed between Ukraine and Russia. As a result, the weight of the Russian Federation's export and import substantially fell from 18.2% and 23.3% in 2014 to around 7.7% and 14.2% in 2018, respectively.

In terms of currency regulations, the new currency law was adopted in 2018 that came into force on 7 February 2019. It purports to enable the NBU to promulgate more liberal currency regulation and soften a number of currency restrictions, such as: requirement to register loans obtained from non-residents with the NBU, 180-day term for making payments in foreign economic transactions, required 50% share of mandatory sale of foreign currency proceeds, etc.

2 Operating environment of the Bank (continued)

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned reforms, cooperation with the International Monetary Fund (the "IMF"), and smooth transition through parliamentary elections, due in October 2019.

3 Summary of significant accounting policies

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Going concern. Management has prepared these financial statements on a going concern basis. For the consideration of compliance with regulatory matters, please refer to Note 26.

As at 31 December 2018, the Bank had a cumulative mismatch of financial assets and financial liabilities with a horizon of 12 months in the amount of UAH 214,966 thousand. This liquidity mismatch arises due to the fact that a primary source of the Bank's funding as at 31 December 2018 were funds of customers and interbank deposits on demand. A significant portion of current customer accounts is represented by accounts on demand, in particular, deposits on demand and current accounts. Management believes that diversification of those accounts and pervious experience of the Bank allow to state that most of deposits on demand included in current accounts represent a long-term and stable source of the Bank's funding.

In addition, as at 31 December 2018, due to other banks included loans and deposits from a related party (entity under common control) in the amount of UAH 1,028,894 thousand that, if required, may be extended for a respective period.

Subsequent to the reporting date, in March 2019, the Bank received a long-term funding for the period of 9 years in the amount of USD 8,000 thousand from an international financial organization (Note 31).

Based on the above, management anticipates that the Bank will be able to fulfill its obligations in a timely manner and continue as a going concern in the foreseeable future.

Basis of preparation. These financial statements have been prepared on the historical cost basis, except for certain financial instruments. A summary of significant accounting policies used in preparing these financial statements is presented below. The same accounting policies, estimates and assumptions, and methods of computation have been followed the year ended 31 December 2018 as were applied in the preparation of the Bank's financial statements for the year ended 31 December 2017, except for the accounting policies and impact of the adoption of the following new and amended Standards and Interpretations:

- IFRS 9 "Financial Instruments";
- IFRS 15 "Revenue from Contracts with Customers" (and the related Ammendmends and Clarifications);
- Amendments to IFRS 2 "Share-based Payments" – Classification and measurement of share-based payment transactions;
- Interpretation of IFRS IC 22 "Foreign Currency Transactions and Advance Consideration";
- Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts;
- Amendments to IAS 40 "Investment Property" – Transfers of investment property;
- Annual Improvements to IFRS Standards 2014–2016 Cycle.

Adoption of new Standards and Interpretations, other than IFRS 9 "Financial Instruments", have no impact on the Bank's financial position or performance recorded in the financial statements and have not resulted in any changes in the Bank's accounting policies and the amounts reported in current or prior years.

3 Summary of significant accounting policies (continued)

The preparation of the financial statements in conformity with IFRS requires that management use estimates and assumptions. It also requires that management exercise its judgment in the process of applying the Bank's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates have a higher impact on the financial statements are disclosed in Note 4. Actual results may differ from those estimates.

New and amended IFRS that are effective for the current year

Impact of initial application of IFRS 9 "Financial Instruments". In the current year, the Bank has applied IFRS 9 "Financial Instruments" and the related consequential amendments to other IFRS that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow the Bank not to restate comparatives. Corresponding information was not restated, as the modified retrospective approach was applied on transition, which allows recognition of differences to be accounted for in the opening retained earnings at the beginning of the period. Additionally, the Bank adopted consequential amendments to IFRS 7 "Financial Instruments: Disclosures" that were applied to the disclosures for 2018.

IFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities;
2) Impairment of financial assets; and
3) General hedge accounting.

Details of these new requirements, as well as their impact on the Bank's financial statements, are described below.

Net interest income. Interest income and expense for all financial instruments, except for those classified as held for trading or those measured or designated as at fair value through profit or loss (FVTPL) are recognized in 'Net Interest Income' as 'Interest Income' and 'Interest Expense' in the profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and payments paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

The interest income/interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit-impaired financial assets, the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI), the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Fee and commission income/expense. Fee and commission income and expense include fees, other than those that are an integral part of EIR. The fees included in this part of the Bank's statement of profit or loss and other comprehensive income include, among other things, fees charged for servicing a loan, non-utilization fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement, fees for monitoring a collateral, for changing primary lending terms on the borrower's initiative, etc.

Fee and commission expenses with regards to services are accounted for as the services received.

3 Summary of significant accounting policies (continued)

Financial assets. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Bank makes the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis. Specifically:

- The Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 "Business Combinations" applies, in OCI; and
- The Bank may irrevocably designate a debt instrument that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortized cost or at FVTOCI. The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g., if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

3 Summary of significant accounting policies (continued)

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments that reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank considers all relevant information available when making the business model assessment. However, this assessment is not performed based on scenarios that the Bank reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank takes into account all relevant evidence available such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank'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 in which those risks are managed; and
- How managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Bank has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

Modifications in contractual cash flows are analyzed in accordance with the accounting policies set out below ("Modification and De-recognition of Financial Assets").

Reclassifications. If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Bank's financial assets.

3 Summary of significant accounting policies (continued)

Impairment. The Bank recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Balances with the National Bank of Ukraine;
- Due from other banks;
- Loans and advances to customers;
- Investment securities;
- Other financial assets;
- Other financial liabilities and financial guarantees issued.

No impairment loss is recognized on equity investments.

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECLs, i.e. lifetime ECLs that result from those default events on the financial instrument that are possible within 12 months after the reporting date (referred to as Stage 1); or
- Full lifetime ECLs, i.e. lifetime ECLs that result from all possible default events over the life of the financial instrument (referred to as Stage 2 and Stage 3).

For more details about staging refer to Note 25.

A loss allowance for full lifetime ECLs is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments allowance for ECLs are measured at an amount equal to the 12-month ECLs.

The Bank estimates the expected credit losses on a financial instrument in the manner that reflects:

- An objective and probability-weighted amount determined by assessing a certain range of possible results;
- Time value of money;
- Reasonable and supportable information about past events, current conditions, and forward-looking information about economic conditions that is available without undue cost or effort as at the reporting date.

Expected credit losses are measured for separate loans (an individual basis) or loan portfolios with similar risk characteristics (a collective basis).

Expected credit losses represent an estimate of the present value of credit losses, with reference to probability of their occurrence. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's original EIR.

The Bank measures ECLs on an individual basis based on the discounted cash flows using several probability-weighted scenarios.

The Bank considers several scenarios regarding the recovery of funds from a borrower under each financial asset and analyzes each of them, even when the recovery under that scenario is very low.

3 Summary of significant accounting policies (continued)

In calculating an allowance for financial instruments measured on a collective basis, the Bank applies two approaches:

- General approach (for cash flows) is used for all financial assets under which repayment schedules are clearly defined and off-balance-sheet instruments (other than lending commitments);
- Simplified approach is used for all financial instruments under which repayment schedules cannot be clearly defined.

Credit-impaired financial assets. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower;
- A breach of contract such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings, and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment, including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets. POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognizes all changes in lifetime ECLs since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain.

Definition of default. Critical to the determination of ECLs is the definition of default. The definition of default is used in measuring the amount of ECLs and in the determination of whether the loss allowance is based on 12-month or lifetime ECLs, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

3 Summary of significant accounting policies (continued)

The Bank considers the following as constituting an event of default for a financial asset or a group of financial assets:

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as a default or past due event regarding repayment of a principal or interest. It should be noted that certain delays in debt repayment may not evidence of impairment. A decision on whether the asset has impairment indicators should be taken on the basis of additional information;
- Negative restructuring, i.e. granting benefits to a borrower due to economic or legal reasons related to the borrower's financial difficulties, which the Bank would not otherwise consider. Those benefits may be in the form of any lightened lending terms, e.g., loan extension, delays in loan repayments, interest capitalization, reduced original interest rate to the lower-than-market level, repossession of collateral or other assets as a partial repayment of the loan;
- Financial difficulties of the borrower are such changes in the borrower's financial position that would result in repayment delays and/or recognized impairment of the loan unless a respective restructuring is performed;
- The loss of an active market by the borrower because of financial difficulties;
- The failure in prerequisites for the credited project to be realized;
- Impairment of the collateral when the loan repayment is directly dependable on the collateral value;
- A high probability of the borrower to announce its bankruptcy or financial reorganization;
- Observable data about the decreased cash flows from the group (negative changes in the status of borrowers' repayments in the group or impact of economic conditions on fulfillment of obligations);
- A significant or prolonged reduction in the fair value of equity investment lower than its cost;
- The borrower is past due more than 90 days on a financial instrument;
- Write off of one or several assets of the counterparty at the cost of an allowance;
- Sale of the counterparty's loans at a great discount.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

Significant increase in credit risk. The Bank monitors all financial assets, issued loan commitments, and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECLs. The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Bank monitors all financial assets, issued loan commitments, and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

3 Summary of significant accounting policies (continued)

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized.

In making this assessment, the Bank considers both quantitative and qualitative information (including indicators at the level of both financial instruments and clients) that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment, including forward-looking information.

The Bank uses rebuttable presumption when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECLs.

Modification and de-recognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Bank renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

When a financial asset is modified, the Bank assesses whether this modification results in de-recognition. In accordance with the Bank's policy, a modification results in de-recognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms, the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants.

If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10%, the Bank deems the arrangement is substantially different leading to de-recognition.

In the case where the financial asset is derecognized, the loss allowance for ECLs is re-measured at the date of de-recognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on de-recognition. The new financial asset will have a loss allowance measured based on 12-month ECLs except in the rare occasions where the new loan is considered to be originated credit-impaired asset. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

3 Summary of significant accounting policies (continued)

The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in de-recognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition.

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in de-recognition, the estimate of PD reflects the Bank's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition, the loss allowance will continue to be measured at an amount equal to lifetime ECLs.

The loss allowance on forborne loans will generally only be measured based on 12-month ECLs when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to de-recognition, the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECLs allowance). Then, the Bank measures ECLs for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

On de-recognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss. A cumulative gain/loss that had been recognized in OCI is allocated between the part that continues to be recognized and the part that is no longer recognized based on the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

3 Summary of significant accounting policies (continued)

Write-off. Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a de-recognition event.

The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in increase in impairment gains.

Presentation of allowance for ECLs in the statement of financial position. Loss allowances for ECLs are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVTOCI: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- For loan commitments and financial guarantee contracts: as a provision; and
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECLs on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Financial liabilities. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities. Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. For details on EIR, see the "Net Interest Income" section above.

De-recognition of financial liabilities. The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled, or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss.

3 Summary of significant accounting policies (continued)

Derivative financial instruments. The Bank enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage its exposure to credit risk and foreign exchange rate risk. Derivatives held include foreign exchange forward contracts, interest rate and currency swaps.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain/loss is recognized in profit or loss immediately.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with the Bank's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions in the statement of financial position and the re-measurement is presented in other revenue.

The Bank has not designated any financial guarantee contracts as at FVTPL.

Impact of application of IFRS 9 "Financial Instruments"

Changes in the accounting policies as a result of application of IFRS 9 were applied retrospectively, except for the situations described below:

- Comparative data for the prior periods were not restated. Differences between the previous carrying amounts of instruments and their carrying values under IFRS 9 were recognized in retained earnings as at 1 January 2018;
- Business models within which the financial assets were held were determined based on the facts and circumstances existing at the date of the first application;
- If a debt investment security had an insignificant credit risk as at 1 January 2018, the Bank determined there was no significant increase in credit risk from its initial origination.

Details on changes and consequences arising from application of IFRS 9 are described below.

The following table summarizes valuation categories under IAS 39 and new categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

3 Summary of significant accounting policies (continued)

In Ukrainian Hryvnias and in thousands	*Notes*	**Previous classification under IAS 39**	**New classification under IFRS 9**	**Previous carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets					
Cash and cash equivalents	5	Loans and receivables	Amortized cost	598,297	598,297
Balances with the National Bank of Ukraine	6	Loans and receivables	Amortized cost	514,404	514,404
Due from other banks	7	Loans and receivables	Amortized cost	643,069	642,467
Loans and advances to customers	8	Loans and receivables	Amortized cost	5,562,641	5,550,265
Investments in securities	9	Available for sale	Fair value through other comprehensive income	803,080	803,080
Investments in securities	10	Held to maturity	Amortized cost	27,457	27,457
Other financial assets	12	Loans and receivables	Amortized cost	190,625	190,059
Total financial assets				**8,339,573**	**8,326,029**
Financial liabilities					
Due to other banks	13	Amortized cost	Amortized cost	707,147	707,147
Current accounts	14	Amortized cost	Amortized cost	4,583,732	4,583,732
Deposits	14	Amortized cost	Amortized cost	2,161,303	2,161,303
Other borrowed funds		Amortized cost	Amortized cost	229,737	229,737
Other financial liabilities	16	Amortized cost	Amortized cost	21,339	21,339
Derivative financial instruments	16	Fair value through profit or loss	Fair value through profit or loss	544	544
Subordinated debt	17	Amortized cost	Amortized cost	85,658	85,658
Total financial liabilities				**7,789,460**	**7,789,460**

The following table summarizes carrying amounts of financial assets and financial liabilities under IAS 39 and IFRS 9 within transition to the new Standard as at 1 January 2018.

3 Summary of significant accounting policies (continued)

In Ukrainian Hryvnias and in thousands

	Carrying amount under IAS 39 as at 31 December 2017	Re-classifications	Re-measurement	Carrying amount under IFRS 9 as at 1 January 2018
Financial assets				
Amortized cost				
Cash and cash equivalents	598,297	-	-	598,297
Balances with the National Bank of Ukraine	514,404	-	-	514,404
Due from other banks	643,069	-	(602)	642,467
Loans and advances to customers	5,562,641	-	(12,376)	5,550,265
Investment securities held to maturity	27,457	-	-	27,457
Other financial assets	190,625	-	(566)	190,059
Total measured at amortized cost	**7,536,493**	**-**	**(13,544)**	**7,522,949**
Measured at fair value				
Investment securities available for sale	803,080	(803,080)	-	-
Investment securities measured at fair value through other comprehensive income		803,080	-	803,080
Total measured at fair value	**803,080**	**-**	**-**	**803,080**
Total financial assets	**8,339,573**	**-**	**(13,544)**	**8,326,029**
Financial liabilities				
Amortized cost				
Due to other banks	707,147	-	-	707,147
Current accounts	4,583,732	-	-	4,583,732
Deposits	2,161,303	-	-	2,161,303
Other borrowed funds	229,737	-	-	229,737
Other financial liabilities	21,339	-	3,641	24,980
Subordinated debt	85,658	-	-	85,658
Total measured at amortized cost	**7,788,916**	**-**	**3,641**	**7,792,557**
Measured at fair value through profit or loss				
Derivative financial instruments	544	-	-	544
Total financial liabilities	**7,789,460**	**-**	**3,641**	**7,793,101**

3 Summary of significant accounting policies (continued)

The following table analyzes the impact of IFRS 9 on retained earnings. Application of IFRS 9 had no effect on other equity components.

In Ukrainian Hryvnias and in thousands

	Changes from application of IFRS 9 as at 1 January 2018
Retained earnings	
Opening balance under IAS 39 as at 31 December 2017	**150,287**
Effect of reclassification under IFRS 9	-
Recognition of expected credit losses under IFRS 9 (including on loan commitments)	(17,185)
Opening balance under IFRS 9 as at 1 January 2018	**133,102**

The following table reconciles:

- Opening balance of allowances for impairment of financial assets under IAS 39 and allowances for liabilities under IAS 37 "Provisions, Contingent Liabilities, and Contingent Assets" as at 31 December 2017; and
- Opening balance of expected credit losses determined under IFRS 9 as at 1 January 2018.

In Ukrainian Hryvnias and in thousands

	Allowance for impairment of assets and provisions for liabilities			
	31 December 2017 (IAS 39/ IAS 37)	**Re-classifications**	**Re-measurement**	**1 January 2018 (IFRS 9)**
Loans and receivables under IAS 39/ financial assets measured at amortized cost under IFRS 9 (include cash and cash equivalents, loans to banks, loans to customers, and other financial assets)	233,500	-	13,544	247,044
Total allowance for assets measured at amortized cost	**233,500**	**-**	**13,544**	**247,044**
Loan commitments, guarantees	-	-	3,641	3,641
Total provisions for liabilities	-	-	**3,641**	**3,641**

3 Summary of significant accounting policies (continued)

The financial statements of the Bank for the year ended 31 December 2017 were reclassified to bring them in compliance with the presentation form for the year ended 31 December 2018. The presentation form for the current year ensures a clearer understanding of the Bank's financial position.

As a result of application of IFRS 9, the Bank changed the presentation of certain items in the financial statement forms. Comparative information was reclassified to bring it in compliance with the current period presentation.

The impact of major changes in presentation of the statement of financial position as at 31 December 2017 was as follows:

- The Bank's securities available for sale were presented as investments in securities measured at fair value through other comprehensive incomes;
- The Bank's securities held to maturity were presented as investments in securities measured at amortized cost.

The financial statements of the Bank for 2017 had other changes in classification and presentation to bring them in compliance with the presentation form for 2018. The impact of above changes on the statement of profit or loss and other comprehensive income is presented in the table below:

In Ukrainian Hryvnias and in thousands

Items	2017 (previously reported)	Effect of reclassifi-cation	2017 (reclassified)
Interest income	830,585	46,503	877,088
Interest expense	(376,055)	(1,228)	(377,283)
Effect of initial recognition of interest-bearing assets	-	(5,764)	(5,764)
Loss on initial recognition of assets at lower-than-market rates	(5,764)	5,764	-
Gain or loss on modification and de-recognition of financial instruments	-	(37,426)	(37,426)
Other operating income	29,206	(7,849)	21,357
Staff related costs	-	(230,835)	(230,835)
Depreciation and amortization expenses	-	(40,807)	(40,807)
Administrative and other operating expense	(528,388)	271,642	(256,746)

A summary of accounting policies, presentation, and calculation methods used only in the preparation of the Bank's financial statements for the year ended 31 December 2017

Financial instruments. Depending on their classification, financial instruments are carried at fair value or amortized cost as described below.

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 best evidence of fair value is price in an active market. An active market is one in which transactions with the assets or liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for an individual asset or liability and their number held by the Bank. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held by the Bank, and placing orders to sell the position in a single transaction might affect the quoted price. The price within a bid-ask spread that, according to the Bank's management, is most representative of fair value in the circumstances is the average of actual trading prices at the reporting date.

3 Summary of significant accounting policies (continued)

A portfolio of derivative financial instruments or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages a group of financial assets and financial liabilities on the basis of the Bank's net exposure to a particular market risk or to a credit risk of a particular counterparty in accordance with investment strategy or risks management; (b) it provides information about a group of assets and liabilities to the Bank's key management personnel; and (c) the market risks, including duration of it impact on the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if a change in any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets, or total liabilities. Fair value measurements are analyzed by levels in the fair value hierarchy as follows: (i) Level One are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level Two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and (iii) Level Three measurements are valuations that are not based on observable market data (i.e. valuation require significant application of parameters with unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and stock exchanges, as well as taxes and duties imposed on re-registration of titles of ownership. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortized cost is the amount at which the financial instrument was recognized at initial recognition, less any principal repayments, plus accrued interest, and for financial assets, less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest rate method.

Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees carried forward to subsequent periods at initial recognition, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest rate method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant interest rate (effective interest rate) on the carrying amount of instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

3 Summary of significant accounting policies (continued)

Initial recognition of financial instruments. Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price, which can be evidenced by other observable current market transactions with the same instrument or by a valuation technique, whose inputs include only data from observable markets. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recorded at a trade date, which is the date on which the Bank commits to deliver a financial asset.

All other purchases are recognized when the entity becomes a party to the contractual provisions of the instrument.

If the Bank revises its estimates in respect of expected payments and receipts from financial instruments due to changes in the contractual terms, the carrying amounts of the financial instruments are adjusted to reflect actual and revised estimated cash flows. The Bank recalculates the carrying amounts of the financial instruments by computing the present value of the estimated future cash flows at the financial instrument's original effective interest rates or, where appropriate, at the revised effective interest rates. The adjustment is recognized as interest income or expense.

The Bank uses discounted cash flow valuation techniques to determine the fair value of loans to related parties that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using the valuation technique. Any such differences are amortized over the period of the loans to related parties.

De-recognition of financial assets. The Bank derecognizes financial assets when (a) the assets are redeemed or the rights to cash inflows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash inflows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have a practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

De-recognition of financial liabilities. The Bank derecognizes financial liability when it is extinguished or when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortized cost.

Impairment of financial assets carried at amortized cost. Impairment losses are recognized 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 a 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 realizability of related collateral, if any.

3 Summary of significant accounting policies (continued)

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 reorganization;
- 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.

If the terms of an impaired financial asset held at amortized cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of its terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognized 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 collateralized 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.

The effect of changes in exchange rates on the amount of the impairment provision is recognized as losses or gains from impairment of assets.

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 recognized (such as an improvement in the debtor's credit rating), the previously recognized 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 allowance 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.

3 Summary of significant accounting policies (continued)

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognized as revenue on a time proportion basis over the respective commitment period.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices. The Bank classifies investment securities as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest rate method, and recognized in profit or loss for the year. Dividends on available-for-sale equity instruments are recognized in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognized in other comprehensive income until the investment is derecognized or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognized 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 investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognized in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognized in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss for the year.

Investment securities held to maturity. This group includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank intends and has ability to hold to maturity. Investment securities are not classified as held to maturity if the Bank has the right to demand from an issuer a repayment or repurchase of the investment security before the date of its maturity, since the right of early repurchase contradicts the intention to hold the asset to maturity. Management classifies investment securities as held to maturity on initial recognition and reviews this classification at the end of each reporting period. Investment securities held to maturity are carried at amortized cost.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest rate method. This method includes, as part of interest income or expense and distributes throughout period of validity, all fees paid or received by the parties of the contract, that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

3 Summary of significant accounting policies (continued)

Fees integral to the effective interest rate include origination fees received or paid by the Bank relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example, fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions, and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

A summary of accounting policies, presentation, and calculation methods used also in the preparation of the Bank's financial statements for the year ended 31 December 2017

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. Cash and cash equivalents include correspondent accounts with other banks and balances with the National Bank of Ukraine, other than the amount of mandatory reserves. Cash and cash equivalents are carried at amortized cost.

Mandatory cash balances with the NBU. Mandatory cash balances with the NBU are carried at amortized cost and represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations and, hence, are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets, investment properties, or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

Premises and equipment. Premises and equipment are stated at cost, less accumulated depreciation and allowance for impairment, where required. Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalized, and the replaced part is written-off.

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 recognized in profit or loss for the year. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value, less costs to sell.

3 Summary of significant accounting policies (continued)

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

Depreciation. Construction in progress is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives (in years)
Premises	20
Vehicles	5–10
Office and computer equipment	1–10
Leasehold improvements	Over the period of 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 lives and primarily include capitalized computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalized 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. Capitalized computer software is amortized on a straight-line basis over expected useful lives of 2–10 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) fulfillment 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 recognized as rental income on a straight-line basis over the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. Due to other banks is carried at amortized cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

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

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

3 Summary of significant accounting policies (continued)

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, agreements on future interest rates, currency and interest rate swaps, and currency and interest rate options, are carried at their fair value.

The Bank also enters into agreements on issuing loans that are subject to offsetting with counterparty banks for the purpose of exchanging currencies. Although those loans are legally separate instruments, they are combined and accounted for as one derivative financial instrument (a currency swap) on a net basis when (i) these loans are issued and accepted simultaneously and are mutually conditioned, (ii) they are entered into with the same counterparty, (iii) they relate to the same risk, and (iv) no evident business objective is available that will cause structuring transactions separately that would not have been achieved through one transaction.

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 as gains less losses arising from derivative financial instruments. The Bank does not apply hedge accounting.

Some derivatives embedded into other financial instruments are separated from the main agreement if their risks and economic characteristics are not closely connected with the risks and economic features of the main agreement.

Income taxes. Income taxes have been provided for in the financial statements in accordance with the legislation enacted or substantively enacted by the end of the reporting period. The income tax charge or credit comprises current tax and deferred tax and is recognized in profit or loss for the year, except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, 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 financial statements are authorized prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expense.

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 utilized.

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 utilized.

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. Uncertain tax position and income tax sanctions (fines, penalties) are presented as current income tax prepayments or liabilities, and related expenses are recorded in the statement of profit or loss and other comprehensive income in the income tax line.

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

3 Summary of significant accounting policies (continued)

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.

Accounts payable on principal activities and other payables. Accounts payable on principal activities are accrued when the counterparty has performed its obligations under the contract and are carried at amortized 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.

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 financial statements are authorized for issue are disclosed in the note "Events after the Reporting Period". Distribution of profit and its usage otherwise occurs on the basis of the financial statement of the Bank. The Ukrainian legislation identifies the basis of distribution as retained earnings.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The functional currency of the Bank and the Bank's presentation currency is the national currency of Ukraine, Ukrainian Hryvnia (UAH).

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the NBU, are recognized in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

As at 31 December 2018, the principal rates of exchange used for translating foreign currency balances as established by the NBU were UAH 27.688264 to USD 1 (2017: UAH 28.067223) and UAH 31.714138 to EUR 1 (2017: UAH 33.495424).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize 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 charges. Wages, salaries, contributions to the Ukrainian state pension and social insurance funds, paid annual leaves and sick leaves, 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 beyond the payments to the statutory defined contribution scheme.

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

3 Summary of significant accounting policies (continued)

In Ukrainian Hryvnias and in thousands	31 December 2018: Amounts expected to be recovered or settled: Within 12 months after the reporting period	31 December 2018: Amounts expected to be recovered or settled: After 12 months after the reporting period	31 December 2018: Total	31 December 2017: Amounts expected to be recovered or settled: Within 12 months after the reporting period	31 December 2017: Amounts expected to be recovered or settled: After 12 months after the reporting period	31 December 2017: Total
ASSETS						
Cash and cash equivalents	687,234	-	687,234	598,297	-	598,297
Balances with the National Bank of Ukraine	405,956	-	405,956	514,404	-	514,404
Due from other banks	571,595	-	571,595	643,069	-	643,069
Loans and advances to customers	5,408,101	1,158,913	6,567,014	5,043,078	519,563	5,562,641
Investment securities measured at fair value through other comprehensive income	98	-	98	803,080	-	803,080
Investment securities measured at amortized cost	808,759	-	808,759	27,457	-	27,457
Income taxes prepaid	94	-	94	54	-	54
Deferred tax asset	-	4,773	4,773	-	3,571	3,571
Premises, equipment, and intangible assets	-	75,450	75,450	-	68,726	68,726
Other financial and non-financial assets	5,954	214,033	219,987	34,709	180,008	214,717
TOTAL ASSETS	**7,887,791**	**1,453,169**	**9,340,960**	**7,664,148**	**771,868**	**8,436,016**
LIABILITIES						
Due to other banks	1,055,894	-	1,055,894	707,147	-	707,147
Current accounts	5,112,733	-	5,112,733	4,564,307	19,425	4,583,732
Deposits	1,853,264	177,243	2,030,507	1,945,411	215,892	2,161,303
Other borrowed funds	7,212	206,267	213,479	15,393	214,344	229,737
Other financial and non-financial liabilities	68,198	-	68,198	51,565	-	51,565
Current income tax liabilities	6,414	-	6,414	8,785		8,785
Subordinated debt	36,027	107,298	143,325	798	84,860	85,658
TOTAL LIABILITIES	**8,139,742**	**490,808**	**8,630,550**	**7,293,406**	**534,521**	**7,827,927**

4 Critical accounting estimates and judgments in applying accounting policies

The Bank makes estimates and judgments that affect the amounts recognized in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually reviewed 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 judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk. As explained in Note 3, ECLs are measured as an allowance equal to 12-month ECLs for Stage 1 assets, or lifetime ECLs assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank takes into account qualitative and quantitative reasonable and supportable forward looking-information. Refer to Note 25 for more details.

Establishing groups of assets with similar credit risk characteristics. When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 25 for details of the characteristics considered in this judgment. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs, but the amount of ECLs changes because the credit risk of the portfolios differ.

Models and assumptions used. The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECLs. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 25 for more details on ECLs and Note 29 for more details on fair value measurement.

4 Critical accounting estimates and judgments in applying accounting policies (continued)

Tax legislation. The Ukrainian tax, currency, and customs legislation is subject to varying interpretations. Refer to Note 27.

Initial recognition of related party transactions. In the normal course of business, the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment 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 30.

Key sources of estimation uncertainty

The below are listed key estimations that management have used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario. When measuring ECLs, the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default. PD constitutes a key input in measuring ECLs. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions, and expectations of future conditions.

Loss given default (LGD). LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

Fair value measurement. In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Bank uses valuation models to determine the fair value of its financial instruments. Refer to Note 29 for more details on fair value measurement.

Standards and Interpretations in issue, but not yet effective

Certain new Standards and Interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Bank has not early adopted.

Standards/Interpretations	Effective for annual accounting periods beginning on or after
IFRS 16 "Leases"	1 January 2019
IFRS 17 "Insurance Contracts" – The Standard sets principles for recognizing, measuring, presenting, and disclosing insurance contracts and replaces IFRS 4 "Insurance Contracts"	1 January 2021
Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or contribution of assets between an investor and its associate or joint venture	Effective date to be determined
Interpretation of IFRS IC 23 "Uncertainty Over Income Tax Treatments"	1 January 2019
Amendments to IFRS 9 "Financial Instruments" – Prepayment features with negative compensation	1 January 2019
Amendments to IAS 19 "Employee Benefits" – Plan amendment, curtailment, or settlement	1 January 2019
Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Clarifications that decisions to assess investees at fair value through profit or loss should be taken separately for each individual investment	1 January 2019
Amendments to IAS 1 and IAS 8 – The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1	1 January 2020
Annual Improvements to IFRS 2015–2017 Cycle	1 January 2019
Amendments to IFRS 3 "Business Combinations"	1 January 2020
Amendments to references in the Conceptual Framework to IFRS	1 January 2020

4 Critical accounting estimates and judgments in applying accounting policies (continued)

IFRS 16 "Leases"

General impact of application of IFRS 16 Leases. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance, including IAS 17 "Leases" and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Bank will be 1 January 2019.

The Bank has chosen the modified retrospective application of IFRS 16. Consequently, the Bank will not restate the comparative information.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease. The Bank will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRS IC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Bank will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on lessee accounting. IFRS 16 will change how the Bank accounts for leases previously classified as operating leases under IAS 17.

On initial application of IFRS 16, for all leases (except as noted below), the Bank will:

- Recognize right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- Recognize depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss and other comprehensive income;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Lease incentives (e.g., rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 "Impairment of Assets". This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture) that are valued at price lower or equal to USD 5 thousand, the Bank will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

Management is currently estimating the impact on adoption of IFRS 16 "Leases". As for other Standards and Interpretations, management of the Bank estimates that adoption of the above Standards in future periods will not have a material impact on its financial statements.

5 Cash and cash equivalents

The Bank's cash and cash equivalents for the purposes of the statement of cash flows were as follows:

In Ukrainian Hryvnias and in thousands	31 December 2018	31 December 2017
Cash	687,234	598,297
Balances with the National Bank of Ukraine (Note 6)	405,956	514,404
Correspondent accounts with other banks (Note 7)	529,414	642,616
Cash and cash equivalents for the purposes of the statement of cash flows	**1,622,604**	**1,755,317**

6 Balances with the National Bank of Ukraine

As at 31 December 2018, balances with the National Bank of Ukraine amounted to UAH 405,956 thousand (31 December 2017: UAH 514,404 thousand).

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

7 Due from other banks

In Ukrainian Hryvnias and in thousands	31 December 2018 (IFRS 9)	31 December 2017 (IAS 39)
Correspondent accounts with other banks	531,560	642,678
Term deposits with other banks	42,189	453
Less: Allowance	(2,154)	(62)
Total due from other banks	**571,595**	**643,069**

Amounts due from other banks are not collateralized. Movements in allowances for impairment on due from other banks were as follows.

In Ukrainian Hryvnias and in thousands	Correspondent accounts with other banks	Term deposits with other banks	Total
As at 1 January 2017 (IAS 39)	**(62)**	**-**	**(62)**
Charges to allowances decrease	-	-	-
As at 31 December 2017 (IAS 39)	**(62)**	**-**	**(62)**
Changes due to application of IFRS 9	**(601)**	**(1)**	**(602)**
As at 1 January 2018 (IFRS 9)	**(663)**	**(1)**	**(664)**
Charges to allowances	(1,483)	(7)	(1,490)
As at 31 December 2018 (IFRS 9)	**(2,146)**	**(8)**	**(2,154)**

7 Due from other banks (continued)

As at 1 January 2018, allowances for expected credit losses in the amount of UAH 601 thousand and UAH 62 thousand were included in Stage 1 and Stage 3, respectively.

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2018 was as follows:

In Ukrainian Hryvnias and in thousands	Correspondent accounts with other banks	Term deposits with other banks	Total
Stage 1			
AA- to AA+ rated	344,847	41,747	386,594
BB- to BBB+ rated	173,551	95	173,646
Unrated	11,624	347	11,971
Total on Stage 1	**530,022**	**42,189**	**572,211**
Allowance for expected credit losses (Stage 1)	**(608)**	**(8)**	**(616)**
Stage 3			
- Not expired	1,476	-	1,476
- Past due over 360 days	62	-	62
Total on Stage 3	**1,538**	**-**	**1,538**
Allowance for expected credit losses (Stage 3)	**(1,538)**	**-**	**(1,538)**
Less: Allowance for expected credit losses on due from other banks	(2,146)	(8)	(2,154)
Total due from other banks	**529,414**	**42,181**	**571,595**

During 2018, the amount of expected credit losses on due from other banks increased mainly due to the increase in credit risk and subsequent transfer to Stage 3 on balances with one bank in the amount of UAH 1,476 thousand.

Additional information on analysis of due from other banks by credit quality as at 31 December 2018 is provided in Note 25.

The credit ratings are based on Standard & Poor's ratings where available, or Fitch's and Moody's rating converted to the nearest equivalent on the Standard & Poor's rating scale.

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2017 was as follows:

In Ukrainian Hryvnias and in thousands	Correspondent accounts with other banks	Term deposits with other banks	Total
Neither past due nor impaired			
AA- to AA+ rated	471,600	-	471,600
BB- to BBB+ rated	164,120	100	164,220
Unrated	6,896	353	7,249
Total neither past due nor Impaired	**642,616**	**453**	**643,069**
Individually determined to be impaired (gross)			
- Past due over 360 days	62	-	62
Total individually impaired (gross)	**62**	**-**	**62**
Allowance for impairment	(62)	-	(62)
Total due from other banks	**642,616**	**453**	**643,069**

7 Due from other banks (continued)

As at 31 December 2018, the Bank had 5 counterparty banks (2017: 5 counterparty banks) with total gross balances of UAH 570,259 thousand (2017: UAH 635,797 thousand), or 99.4% of the total due from other banks (2017: 99%).

Refer to Note 29 for the disclosure on due from other banks by fair value. Refer to Note 25 for the disclosure on due from other banks by interest rates.

8 Loans and advances to customers

Total balance of the Bank's loans and advances to customers consisted by 99.4% of loans and advances to legal entities measured at amortized cost and by 0.6% of loans and advances to individuals measured at amortized cost.

Loans to customers were as follows:

In Ukrainian Hryvnias and in thousands	31 December 2018 (IFRS 9)	31 December 2017 (IAS 39)
Corporate loans	6,778,803	5,770,483
Loans to individuals:		
– Consumer loans	23,626	8,955
– Credit card loans	16,122	14,838
– Mortgage loans	2,035	785
– Car loans	888	1,018
Total loans and advances to customers, before allowance	**6,821,474**	**5,796,079**
Less: Allowance for impairment of loans	(254,460)	(233,438)
Total loans and advances to customers	**6,567,014**	**5,562,641**

Movements in the allowance for expected credit losses on loans and advances to customers during 2018 were as follows:

In Ukrainian Hryvnias and in thousands	Corporate loans	Consumer loans	Credit card loans	Mortgage loans	Car loans	Total
Allowance for impairment as at 1 January 2018 (IAS 39)	**232,381**	**58**	**590**	**1**	**408**	**233,438**
Impact on application of IFRS 9	12,714	(14)	(47)	(1)	(276)	12,376
Allowance/(decrease in allowance) for expected credit losses during the year	42,700	733	65	2	(132)	43,368
Amounts written off during the year as irrecoverable	(34,644)	-	(78)	-	-	(34,722)
Allowance for expected credit losses as at 31 December 2018	**253,151**	**777**	**530**	**2**	**-**	**254,460**

8 Loans and advances to customers (continued)

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

In Ukrainian Hryvnias and in thousands	Corporate loans	Consumer loans	Credit card loans	Mortgage loans	Car loans	Total
Allowance for loan impairment as at 1 January 2017	**198,506**	**18**	**382**	**2**	**1**	**198,909**
Allowance*/(decrease in allowance) for impairment during the year	62,878	40	389	(1)	407	63,713
Amounts written off during the year as irrecoverable	(29,003)	-	(181)	-	-	(29,184)
Allowance for loan impairment as at 31 December 2017 (IAS 39)	**232,381**	**58**	**590**	**1**	**408**	**233,438**

* The allowance for impairment during 2017 differed from the amount presented in the statement of profit or loss and other comprehensive income for the year due to recovery of amounts previously written off as irrecoverable in the amount of UAH 14 thousand. The amount of the decrease was credited directly to the allowance line in the statement of profit or loss and other comprehensive income for the year.

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

In Ukrainian Hryvnias and in thousands	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Trade	3,308,926	49	2,798,725	48
Manufacturing	928,490	14	637,096	11
Transport and communication	899,781	13	994,663	17
Agriculture, fishery, and food processing	708,136	10	559,749	10
Construction and real estate operations	514,170	7	448,043	8
Financial and investment operations	174,142	2	133,908	3
Tourist and hotel services, restaurant business	135,501	2	4,752	-
Loans to individuals	42,671	1	25,595	-
Other services	109,657	2	193,548	3
Total loans and advances to customers, before allowance	**6,821,474**	**100**	**5,796,079**	**100**

As at 31 December 2018, the Bank had top 10 borrowers (2017: 10 borrowers) with the total gross amount of UAH 1,723,448 thousand (2017: UAH 1,906,768 thousand), or 25% of the gross loan portfolio (2017: 32.8%). At the same time, exposures of top 10 borrowers were partly covered by the deposits in collateral in the total amount of UAH 378,259 thousand as at 31 December 2018 (2017: UAH 756,806 thousand).

8 Loans and advances to customers (continued)

Information about collateral as at 31 December 2018 was as follows:

In Ukrainian Hryvnias and in thousands	Corporate loans	Consumer loans	Credit card loans	Mortgage loans	Car loans	Total
Unsecured loans	777,536	7,592	15,961	43	153	**801,285**
Loans collateralized by:						
- Residential real estate items	165,356	7,551	-	1,992	85	**174,984**
- Other real estate items	2,802,186	1,371	-	-	-	**2,803,557**
- Cash deposits (Note 14)	529,482	5,894	161	-	-	**535,537**
- Other assets	2,504,243	1,218	-	-	650	**2,506,111**
Total loans and advances to customers	**6,778,803**	**23,626**	**16,122**	**2,035**	**888**	**6,821,474**

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on the liquidity of the assets taken as collateral.

Fair value of property pledged as collateral during the reporting period was assessed by independent experts – professional appraisers. "Other Assets" category includes goods in turnover, other movable property, and other property rights.

Information about collateral as at 31 December 2017 was as follows:

In Ukrainian Hryvnias and in thousands	Corporate loans	Consumer loans	Credit card loans	Mortgage loans	Car loans	Total
Unsecured loans	539,536	2,878	14,610	-	46	**557,070**
Loans collateralized by:						
- Residential real estate items	110,999	5,664	-	785	333	**117,781**
- Other real estate items	2,180,848	40	-	-	-	**2,180,888**
- Cash deposits (Note 14)	940,735	16	228	-	-	**940,979**
- Other assets	1,998,365	357	-	-	639	**1,999,361**
Total loans and advances to customers	**5,770,483**	**8,955**	**14,838**	**785**	**1,018**	**5,796,079**

As at 31 December 2017, the Bank applied the provisioning methodology prescribed by IAS 39 "Financial Instruments: Recognition and Measurement" and created allowances for impairment losses that were incurred but have not been specifically identified with any individual loan by the reporting date.

Past due but not impaired loans primarily included collateralized loans where the fair value of collateral covered the overdue interest and principal repayments. The amounts reported as past due but not impaired were the whole balance of such loans, not only the individual instalments that were past due.

8 Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding as at 31 December 2018 was as follows:

In Ukrainian Hryvnias and in thousands	**Corporate loans**	**Consumer loans**	**Credit card loans**	**Mortgage loans**	**Car loans**	**Total**
Stage 1						
- Not expired	5,168,656	22,701	14,775	2,035	590	**5,208,757**
- Past due less than 31 days	1,531	6	936	-	-	**2,473**
Total on Stage 1	**5,170,187**	**22,707**	**15,711**	**2,035**	**590**	**5,211,230**
Stage 2, loans with a significant increase in risk						
- Not expired	1,181,058	-	-	-	-	**1,181,058**
- Past due from 31 to 90 days	-	888	37	-	298	**1,223**
Total on Stage 2, loans with a significant increase in risk	**1,181,058**	**888**	**37**	**-**	**298**	**1,182,281**
Stage 3, impaired loans						
- Not expired	206,351	-	-	-	-	**206,351**
- Past due from 91 to 180 days	-	29	58	-	-	**87**
- Past due from 181 to 360 days	22,433	-	37	-	-	**22,470**
- Past due more than 360 days	118,152	2	279	-	-	**118,433**
Total on Stage 3, impaired loans	**346,936**	**31**	**374**	**-**	**-**	**347,341**
Purchased or originated credit impaired loans						
- Not expired	28,919	-	-	-	-	**28,919**
- Past due from 31 to 90 days	51,703	-	-	-	-	**51,703**
Total loans and advances to customers	**6,778,803**	**23,626**	**16,122**	**2,035**	**888**	**6,821,474**
Less: Allowance for expected credit losses	**(253,151)**	**(777)**	**(530)**	**(2)**	**-**	**(254,460)**
Total loans and advances to customers	**6,525,652**	**22,849**	**15,592**	**2,033**	**888**	**6,567,014**

8 Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding as at 31 December 2017 was as follows:

In Ukrainian Hryvnias and in thousands	Corporate loans	Consumer loans	Credit card loans	Mortgage loans	Car loans	Total
Neither past due nor impaired						
- Loans to business entities with insignificant sensitivity to foreign currency exposure	2,509,747	-	-	-	-	**2,509,747**
- Loans to business entities with significant sensitivity to foreign currency exposure	2,417,361	-	-	-	-	**2,417,361**
- Loans to individuals with insignificant sensitivity to foreign currency exposure	-	8,883	13,927	785	610	**24,205**
Total neither past due nor impaired	**4,927,108**	**8,883**	**13,927**	**785**	**610**	**4,951,313**
Past due but not impaired						
- Past due less than 31 days	66,341	28	317	-	-	**66,686**
- Past due from 31 to 90 days	-	-	182	-	-	**182**
- Past due from 91 to 180 days	-	44	85	-	408	**537**
- Past due from 181 to 360 days	-	-	145	-	-	**145**
- Past due more than 360 days	-	-	182	-	-	**182**
Total past due but not impaired	**66,341**	**72**	**911**	-	**408**	**67,732**
Loans individually determined as impaired						
- Not past due	655,180	-	-	-	-	**655,180**
- Past due from 91 to 180 days	1,848	-	-	-	-	**1,848**
- Past due from 181 to 360 days	3,946	-	-	-	-	**3,946**
- Past due more than 360 days	116,060	-	-	-	-	**116,060**
Total loans individually determined as impaired	**777,034**	**-**	**-**	**-**	**-**	**777,034**
Total loans and advances to customers	**5,770,483**	**8,955**	**14,838**	**785**	**1,018**	**5,796,079**
Less: Allowance for loan impairment	**(232,381)**	**(58)**	**(590)**	**(1)**	**(408)**	**(233,438)**
Total loans and advances to customers	**5,538,102**	**8,897**	**14,248**	**784**	**610**	**5,562,641**

8 Loans and advances to customers (continued)

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-collateralized assets') and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ('under-collateralized assets').

The effect of collateral as at 31 December 2018 was as follows:

	Over-collateralized assets		Under-collateralized assets	
In Ukrainian Hryvnias and in thousands	**Gross carrying value of assets**	**Fair value of collateral**	**Gross carrying value of assets**	**Fair value of collateral**
Loans to legal entities	5,516,790	12,448,002	1,262,013	484,477
Loans to individuals				
- Consumer loans	14,777	111,941	8,849	1,257
- Credit card loans	161	651	15,961	-
- Mortgage loans	1,412	4,184	623	580
- Car loans	735	5,382	153	-
Total	**5,533,875**	**12,570,160**	**1,287,599**	**486,314**

The effect of collateral as at 31 December 2017 was as follows:

	Over-collateralized assets		Under-collateralized assets	
In Ukrainian Hryvnias and in thousands	**Gross carrying value of assets**	**Fair value of collateral**	**Gross carrying value of assets**	**Fair value of collateral**
Loans to legal entities	4,554,401	9,941,097	1,216,082	676,546
Loans to individuals				
- Consumer loans	5,806	22,422	3,149	271
- Credit card loans	228	738	14,610	-
- Mortgage loans	785	8,330	-	-
- Car loans	972	1,776	46	-
Total	**4,562,192**	**9,974,363**	**1,233,887**	**676,817**

The 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 inherent in discounting 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.

Other information on loans and advances to customers (a detailed analysis of movements in allowances for expected credit losses and their allocation by impairment stages) is provided in Note 25.

Refer to Note 29 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 25. The information on related party balances is disclosed in Note 30.

9 Investment securities measured at fair value through other comprehensive income

In Ukrainian Hryvnias and in thousands	2018	2017
Domestic government loan bonds	98	1,181
Deposit certificates issued by the NBU	-	801,899
Total debt securities	**98**	**803,080**
Total investment securities measured at fair value through other comprehensive income	**98**	**803,080**

As at 31 December 2018, domestic government loan bonds (hereinafter – "DGLBs") included coupon DGLBs with final maturity on 22 July 2019 and nominal yield of 9.5% p.a.

As at 31 December 2017, domestic government loan bonds included coupon DGLBs with final maturity on 22 July 2019 and nominal yield of 9.5% p.a., discount DGLBs with final maturity on 10 January 2018 and nominal yield of 15.3% p.a., deposit certificates issued by the NBU with final maturity on 4 January 2018 and nominal interest rate of 14.5% p.a., deposit certificates issued by the NBU with final maturity on 9 January 2018 and nominal interest rate of 14.5% p.a., deposit certificates issued by the NBU with final maturity on 11 January 2018 and nominal interest rate of 14.5% p.a.

Analysis by credit quality of debt securities outstanding as at 31 December 2018 was as follows:

In Ukrainian Hryvnias and in thousands	Domestic government loan bonds	Total
Neither past due nor impaired		
High quality securities	98	98
Total neither past due nor impaired	**98**	**98**
Total debt securities measured at fair value through other comprehensive income	**98**	**98**

Analysis by credit quality of debt securities outstanding as at 31 December 2017 was as follows:

In Ukrainian Hryvnias and in thousands	Domestic government loan bonds	Deposit certificates issued by the NBU	Total
Neither past due nor impaired			
High quality securities	1,181	801,899	803,080
Total neither past due nor impaired	**1,181**	**801,899**	**803,080**
Total debt securities measured at fair value through other comprehensive income	**1,181**	**801,899**	**803,080**

9 Investment securities measured at fair value through other comprehensive income (continued)

Debt securities have no collateral.

Interest rate analysis of investment securities measured at fair value through other comprehensive income is disclosed in Note 25. Refer to Note 29 for the disclosure of the fair value of investment securities available for sale.

10 Investment securities measured at amortized cost

(In Ukrainian Hryvnias and in thousands)	2018	2017
Domestic government loan bonds	56,075	27,457
Deposit certificates issued by the NBU	752,684	-
Total investment securities measured at amortized cost	**808,759**	**27,457**

As at 31 December 2018, domestic government loan bonds included discount DGLBs denominated in USD and total nominal value of USD 2 million, with final maturity on 19 June 2019 and nominal yield of 5.4% p.a., deposit certificates issued by the NBU with final maturity on 4 January 2019 and nominal interest rate of 18% p.a., deposit certificates issued by the NBU with final maturity on 11 January 2019 and nominal interest rate of 18% p.a.

As at 31 December 2017, domestic government loan bonds included coupon DGLBs denominated in USD and nominal value of USD 1 million, with final maturity on 13 June 2018 and nominal yield of 5.0% p.a.

Analysis by credit quality of investment securities measured at amortized cost outstanding as at 31 December 2018 was as follows:

In Ukrainian Hryvnias and in thousands	Domestic government loan bonds	Deposit certificates issued by the NBU	Total
Neither past due nor impaired			
High quality securities	56,075	752,684	808,759
Total neither past due nor impaired	**56,075**	**752,684**	**808,759**
Total debt securities measured at amortized cost	**56,075**	**752,684**	**808,759**

Analysis by credit quality of investment securities measured at amortized cost outstanding as at 31 December 2017 was as follows:

In Ukrainian Hryvnias and in thousands	Domestic government loan bonds	Total
Neither past due nor impaired		
High quality securities	27,457	27,457
Total neither past due nor impaired	**27,457**	**27,457**
Total investment securities measured at amortized cost	**27,457**	**27,457**

Interest rate analysis of investment securities measured at amortized cost is disclosed in Note 25. Refer to Note 29 for the disclosure of the fair value of investment securities measured at amortized cost.

11 Premises, equipment, and intangible assets

In Ukrainian Hryvnias and in thousands	Notes	Leasehold improve-ments	Vehicles	Office and computer equipment	Construc-tion in progress	Total premises and equip-ment	Intan-gible assets	Total
Cost as at 1 January 2017		19,148	8,876	79,272	7,052	114,348	23,392	137,740
Accumulated depreciation and amortization		(6,808)	(4,495)	(48,503)	-	(59,806)	(8,356)	(68,162)
Net book value as at 1 January 2017		**12,340**	**4,381**	**30,769**	**7,052**	**54,542**	**15,036**	**69,578**
Additions		1,383	5,273	32,483	-	39,139	6,783	45,922
Disposals		-	-	(136)	(5,831)	(5,967)	-	(5,967)
Depreciation and amortization charges		(6,992)	(2,333)	(19,422)	-	(28,747)	(12,060)	(40,807)
Net book value as at 31 December 2017		**6,731**	**7,321**	**43,694**	**1,221**	**58,967**	**9,759**	**68,726**
Cost as at 31 December 2017		20,538	14,149	111,079	1,221	146,987	30,176	177,163
Accumulated depreciation and amortization		(13,807)	(6,828)	(67,385)	-	(88,020)	(20,417)	(108,437)
Net book value as at 31 December 2017		**6,731**	**7,321**	**43,694**	**1,221**	**58,967**	**9,759**	**68,726**
Additions		4,849	3,044	31,225	1,279	40,397	10,432	50,829
Disposals		-	-	(87)	-	(87)	-	(87)
Depreciation and amortization charges		(5,902)	(2,629)	(25,123)	-	(33,654)	(10,364)	(44,018)
Net book value as at 31 December 2018		**5,678**	**7,736**	**49,709**	**2,500**	**65,623**	**9,827**	**75,450**
Cost as at 31 December 2018		25,387	17,193	141,956	2,500	187,036	39,462	226,498
Accumulated depreciation and amortization		(19,709)	(9,457)	(92,247)	-	(121,413)	(29,635)	(151,048)
Net book value as at 31 December 2018		**5,678**	**7,736**	**49,709**	**2,500**	**65,623**	**9,827**	**75,450**

In 2017, the Bank's management reviewed useful lives for a part of intangible assets. As a result of the review, average useful lives for the said intangible assets decreased from 6 to 2.7 years.

As at 31 December 2018, fully depreciated assets continued to be used by the Bank amounted to UAH 72,788 thousand (31 December 2017: UAH 53,752 thousand).

12 Other financial and non-financial assets

In Ukrainian Hryvnias and in thousands	31 December 2018	31 December 2017
Other financial assets		
Restricted cash	189,926	180,008
Accounts receivable on other financial instruments	-	5,024
Other financial assets	6,058	5,593
Total other financial assets	**195,984**	**190,625**
Other non-financial assets		
Deferred expenses	15,194	16,357
Accounts receivable on assets purchased	5,340	1,825
Repossessed collateral by the Bank	3,336	2,473
Taxes prepaid, other than income taxes	84	3,254
Other assets	49	183
Total other non-financial assets	**24,003**	**24,092**
Total other financial and non-financial assets	**219,987**	**214,717**

Restricted cash comprises the guarantee cover placed by the Bank within payment systems Visa and Master Card. This cash is neither available to finance the Bank's day-to-day operations nor returnable on demand (Note 27).

Refer to Note 29 for the disclosure of the fair value of other financial assets.

Repossessed collateral comprises real estate properties and land plots. The Bank intends to dispose of those assets in the foreseeable future. These assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2 "Inventories". These assets were initially recognized at fair value at acquisition.

All the above assets are expected to be recovered within more than twelve months after the end of the reporting period.

13 Due to other banks

In Ukrainian Hryvnias and in thousands	31 December 2018	31 December 2017
Short-term borrowings received	857,470	487,903
Long-term deposits	142,804	151,524
Correspondent accounts and overnight deposits of other banks	55,620	67,720
Total due to other banks	**1,055,894**	**707,147**

As at 31 December 2018, the largest exposure of correspondent accounts of other banks related to a non-resident bank and comprised UAH 28,620 thousand, which represented 51.5% of the total correspondent accounts and overnight deposits of other banks (2017: UAH 57,922 thousand, which represented 85.5% of the total correspondent accounts and overnight deposits of other banks).

13 Due to other banks (continued)

As at 31 December 2018, the largest exposure of short-term borrowings received from other banks related to a non-resident bank and comprised UAH 857,470 thousand, which represented 100% of the total short-term borrowings received from other banks (31 December 2017: UAH 487,903 thousand, which represented 100% of the total short-term borrowings received from other banks).

As at 31 December 2018, due to other banks represented by a long-term deposit from a non-resident bank totaled to UAH 142,804 thousand at the rate 3.68% in EUR (31 December 2017: UAH 151,524 thousand at the rate 6.4% in EUR).

Refer to Note 29 for the estimated fair value of each class of due to other banks. Interest rate analysis of due to other banks is disclosed in Note 25. The information on related party balances is disclosed in Note 30.

14 Current accounts and deposits

In Ukrainian Hryvnias and in thousands	31 December 2018	31 December 2017
Current accounts		
- Current accounts of legal entities	4,176,542	3,660,541
- Current accounts of individuals	936,191	923,191
Total current accounts	**5,112,733**	**4,583,732**
Deposits		
- Deposits of legal entities	480,419	440,302
- Deposits of individuals	1,550,088	1,721,001
Total deposits	**2,030,507**	**2,161,303**
Total current accounts and deposits	**7,143,240**	**6,745,035**

As at 31 December 2018, current accounts balances included demand deposits totaling to UAH 143,142 thousand (31 December 2017: UAH 315,920 thousand), of which UAH 76,886 thousand related to individuals (31 December 2017: UAH 247,520 thousand) and UAH 66,256 thousand related to legal entities (31 December 2017: UAH 68,400 thousand). These deposits carried interest rates ranging from 0.01% to 18% p.a. depending on remaining balance of the account.

As at 31 December 2018, the current accounts of 10 largest customers of the Bank comprised UAH 1,279,756 thousand (31 December 2017: UAH 1,427,036 thousand) or 25% (31 December 2017: 31%) of total current accounts.

As at 31 December 2018, the deposits of 10 largest customers of the Bank comprised UAH 789,837 thousand (31 December 2017: UAH 1,054,574 thousand) or 39% (31 December 2017: 49%) of total deposits.

As at 31 December 2018, customer accounts included balances totaling to UAH 650,358 thousand (2017: UAH 974,385 thousand) placed by customers as collateral for loans to customers totaling to UAH 535,538 thousand (2017: UAH 940,979 thousand). Refer to Note 8.

14 Current accounts and deposits (continued)

Economic sector risk concentrations within the current accounts were as follows:

In Ukrainian Hryvnias and in thousands	31 December 2018 Amount	%	31 December 2017 Amount	%
Transport, telecommunications	1,535,348	30	1,149,366	25
Trade	1,023,845	20	1,079,851	24
Individuals	936,191	18	923,191	20
Processing industry	369,236	7	280,750	6
Agriculture	333,452	7	124,398	3
Professional services	230,702	5	573,175	13
Financial intermediaries	250,399	5	225,801	5
Construction	196,685	4	139,150	3
Other	236,875	4	88,050	1
Total current accounts	**5,112,733**	**100**	**4,583,732**	**100**

Economic sector risk concentrations within the deposits were as follows:

In Ukrainian Hryvnias and in thousands	31 December 2018 Amount	%	31 December 2017 Amount	%
Individuals	1,550,087	76	1,721,001	80
Professional services	185,570	9	5,672	1
Transport, telecommunications	124,509	6	96,287	4
Trade	91,588	5	222,843	10
Processing industry	29,146	1	19,376	1
Other	49,607	3	96,124	4
Total deposits	**2,030,507**	**100**	**2,161,303**	**100**

Refer to Note 29 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 25. The information on related party balances is disclosed in Note 30.

15 Other borrowed funds

Based on the agreement entered into in December 2014 with Black Sea Trade and Development Bank ("BSTDB"), in February 2015, the Bank obtained a long-term borrowing for development of small and medium businesses in the amount of USD 2,500 thousand. In February 2018, in accordance with the terms and conditions of the agreement, the Bank repaid the borrowing to Black Sea Trade and Development Bank (31 December 2017: the carrying value of the borrowing amounted to UAH 14,438 thousand).

Based on the agreement entered into in November 2017 with WORLDBUSINESS CAPITAL, INC., USA, in December 2017, the Bank received a long-term borrowing for the period of 10 years in the amount of USD 8,000 thousand. As at 31 December 2018, the carrying value of the borrowing amounted to UAH 213,479 (31 December 2017: UAH 215,299 thousand). The borrowing is repayable in 32 (thirty two) equal instalments every three months after 24 months of the borrowing's use starting from 20 December 2019. The borrowing was received against guarantees of OVERSEAS PRIVATE INVESTMENT CORPORATION, USA, with the purpose of promoting lending to small and medium businesses in Ukraine.

The contractual interest rate is based on 3-month USD LIBOR rate plus margin of 4.75%, which, as at 31 December 2018, amounted to 7.5625% (31 December 2017: 7.125%). Interest is payable on a three month basis over the term of the borrowing agreement.

Disclosures on collateral under other borrowed funds described above are included in Note 27.

Refer to Note 29 regarding the estimated fair values of other borrowed funds.

15 Other borrowed funds (continued)

Reconciliation of liabilities arising from financing activities

The table below details main changes in the Bank's liabilities arising from financing activities, including cash and non-cash changes. Liabilities arising from financing activities are obligations in respect of which cash flows were or future cash flows will be classified in the Bank's statement of cash flows as cash flows from financing activities for the year ended 31 December 2018:

	Balance as at the beginning of the period	Proceeds/ (repayments) from cash flows	Interest payments	Non-cash changes		Balance as at the end of the period
				Interest expense	Foreign exchange differences	
Other borrowed funds	229,737	(13,871)	(16,249)	16,931	(3,069)	213,479
Total reconciliation of liabilities arising from financing activities	**229,737**	**(13,871)**	**(16,249)**	**16,931**	**(3,069)**	**213,479**

Movements in the Bank's liabilities arising from financial activities, including cash and non-cash changes, for the year ended 31 December 2017 were as follows:

	Balance as at the beginning of the period	Proceeds/ (repayments) from cash flows	Interest payments	Non-cash changes		Balance as at the end of the period
				Interest expense	Foreign exchange differences	
Other borrowed funds	41,367	190,494	(12,380)	3,289	6,967	229,737
Total reconciliation of liabilities arising from financing activities	**41,367**	**190,494**	**(12,380)**	**3,289**	**6,967**	**229,737**

The Bank should comply with certain financial covenants relating to other borrowed funds. Non-compliance with those financial covenants may lead to negative consequences for the Bank, including a requirement of early repayment of the borrowing at a lender's discretion.

As at 31 December 2018 and 2017, the Bank was in compliance with financial covenants imposed under the agreements on other borrowed funds.

16 Other financial and non-financial liabilities

In Ukrainian Hryvnias and in thousands	31 December 2018	31 December 2017
Accounts payable on assets and services purchased	16,493	337
Settlements with customers	14,993	6,299
Expenses accrued on services	2,443	12,489
Provisions for financial liabilities	601	-
Accounts payable on settlements under transfers	211	439
Derivative financial instruments with negative fair value	-	544
Other financial liabilities	2,896	1,775
Total other financial liabilities	**37,637**	**21,883**
Employee benefits accrued	20,059	14,939
Payables to Individual Deposit Guarantee Fund	4,744	5,741
Taxes payable, other than income taxes	2,602	6,517
Other expenses accrued	3,156	2,485
Total other liabilities	**30,561**	**29,682**
Total other financial and non-financial liabilities	**68,198**	**51,565**

17 Subordinated debt

In Ukrainian Hryvnias and in thousands	Currency	Maturity	Nominal rate %	31 December 2018	31 December 2017
Subordinated debt received from a related party-legal entity	UAH	25 November 2019	16.5	35,497	35,503
Subordinated debt received from a related party-individual	USD	30 November 2025	8	50,014	50,155
Subordinated debt received from a related party-individual	USD	6 September 2024	6	57,814	-
Total subordinated debt				**143,325**	**85,658**

In September 2018, a new agreement was concluded on attracting the subordinated debt from a related party-individual denominated in USD in the amount of USD 2,000 thousand for the period to September 2024 (Note 30). The Bank's management estimated the interest rate on such foreign currency denominated contracts to amount to 5.3%. Loss on attracting funds in USD was recognized in equity in the amount of UAH 2,370 thousand (2017: gain in the amount of UAH 2,450 thousand). Refer to Note 30.

18 Share capital

In Ukrainian Hryvnias and in thousands, other than the number of shares	Number of issued shares	Amount
As at 1 January 2017	**3,073,500**	**307,350**
Increase in share capital at the cost of retained earnings	-	137,693
As at 31 December 2017	**3,073,500**	**445,043**
As at 1 January 2018	**3,073,500**	**445,043**
Increase in share capital at the cost of retained earnings	-	78,067
As at 31 December 2018	**3,073,500**	**523,110**

18 Share capital (continued)

All shares are ordinary shares, with the nominal value of UAH 170.20 per share (2017: UAH 144.80 per share). Each ordinary share carries one vote. All shares are authorized, issued, and fully paid, with the equal voting, dividend, and capital repayment rights.

In accordance with the Ukrainian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of the financial information prepared in accordance with the requirements of the National Bank of Ukraine.

No dividends on ordinary shares of the Bank were declared during 2018 and 2017.

The statutory reserve fund in equity accounted for in accordance with the Law of Ukraine "On Banks and Banking" amounted to UAH 17,108 thousand as at 31 December 2018 (31 December 2017: UAH 12,710 thousand). Charges to the reserve fund are made from the net profit for the year retained by the Bank after paying taxes and other mandatory payments and must be at least 5% of the net profit of the Bank. The reserve fund can only be used to cover losses of the Bank for the reporting year in accordance with the decision of the Bank's Supervisory Board and in line with the procedure established by the general shareholders' meeting.

In April 2018, the sole shareholder decided to increase the Bank's share capital by UAH 78,067 thousand to the total amount of UAH 523,110 thousand. The Bank's share capital was increased through the increase in nominal value of the Bank's shares by UAH 25.40 to the total value of UAH 170.20 per share. In June 2018, the new version of the Bank's Charter was state registered. On 11 July 2018, the National Commission for Securities and Stock Market registered the issue of the Bank's shares with the nominal value of UAH 170.20 per share for the total amount of UAH 523,110 thousand.

19 Interest income and expense

In Ukrainian Hryvnias and in thousands	2018	2017
Interest income		
Loans and advances to legal entities	859,139	811,300
Investment securities measured at amortized cost	105,030	-
Due from other banks	17,816	7,797
Loans and advances to individuals	8,030	6,076
Investment securities measured at fair value through other comprehensive income	2,748	51,915
Total interest income	**992,763**	**877,088**
Interest expense		
Current/settlement accounts	190,606	169,914
Term deposits of individuals	100,051	114,821
Due to other banks	63,114	51,056
Term deposits of legal entities	38,454	27,505
Other borrowed funds	16,930	3,289
Subordinated debt	11,634	10,698
Total interest expense	**420,789**	**377,283**
Net interest income	**571,974**	**499,805**

20 Fee and commission income and expense

In Ukrainian Hryvnias and in thousands	2018	2017
Fee and commission income		
- Cash and settlement transactions	288,499	205,298
- Purchase and sale of foreign currency	75,035	53,493
- Guarantees issued	17,700	16,880
- Lending transactions	13,062	4,659
- Use of safe deposits	6,194	4,250
- Cash collection	5,176	4,230
- Other	1,904	1,828
Total fee and commission income	**407,570**	**290,638**
Fee and commission expenses		
- Cash and settlement transactions	130,832	90,029
- Payment processing	17,167	13,508
- Other	922	454
Total fee and commission expenses	**148,921**	**103,991**
Net fee and commission income	**258,649**	**186,647**

21 Other operating income

In Ukrainian Hryvnias and in thousands	2018	2017
Income from MasterCard on implementation of a joint marketing program	20,910	20,823
Other	828	534
Total other operating income	**21,738**	**21,357**

22 Staff related costs

As at 31 December 2018, staff related costs amounted to UAH 326,737 thousand (31 December 2017: UAH 230,835 thousand).

Included in staff related costs was unified social contribution in the amount of UAH 37,068 thousand (31 December 2017: UAH 26,514 thousand).

23 Administrative and other operating expenses

In Ukrainian Hryvnias and in thousands	2018	2017
Royalty	66,205	47,427
Maintenance of premises and equipment	64,012	46,239
Operating leases of premises and equipment	57,302	46,206
Communication, mail, and information systems	43,028	34,942
Advertising and marketing services	22,169	16,181
Contributions to Individual Deposit Guarantee Fund	19,072	24,294
Professional services	15,677	3,157
Security services	6,947	4,790
Business trips	6,273	3,683
Utilities	4,994	3,855
Other taxes and mandatory payments, other than income taxes	4,288	4,311
Other	19,626	21,661
Total administrative and operating expenses	**329,593**	**256,746**

Royalty represented monthly payments for using the trade mark "Vlasnyi Rakhunok" to a related party – an entity under control of ultimate shareholders (Note 30) in the total amount of UAH 62,956 thousand (2017: UAH 43,325 thousand).

24 Income taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprised the following components:

In Ukrainian Hryvnias and in thousands	2018	2017
Current tax	24,614	22,035
Deferred tax	(1,171)	(3,673)
Income tax expense for the year	**23,443**	**18,362**

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

The income tax rate applicable to the Bank's 2018 income was 18% (2017: 18%). Reconciliation between the expected and the actual tax charges is provided below.

In Ukrainian Hryvnias and in thousands	2018	2017
Profit before tax	**145,547**	**100,827**
Theoretical tax charges at the statutory tax rate	26,198	18,149
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	(317)	216
- Expenses not recognized in financial accounting	-	(3)
- Tax effect of the Tax Code transition provisions*	(2,438)	-
Income tax expense for the year	**23,443**	**18,362**

* In 2018, the Verkhovna Rada adopted amendments to the Tax Code of Ukraine. Tax effect of the Tax Code transition provisions related to the following:

A positive difference (reported in 1 Quarter 2018 via accounts of the Bank's equity) between the adjusted amount of provisions for assets (including by groups of assets) calculated as at the beginning of 2018 in accordance with the requirements of IFRS 9 and the amount of provisions created as a result of asset impairment under the requirements of IAS 39 decreases a gain or loss before tax by UAH 13,544 thousand, with the tax effect amounting to UAH 2,438 thousand.

(c) Deferred taxes analyzed by type of temporary differences

Differences between IFRS and statutory taxation regulations in Ukraine 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 movements in these temporary differences is detailed below, and is recorded at the rate of 18% (2017: 18%).

In Ukrainian Hryvnias and in thousands	1 January 2018	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2018
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	3,534	1,216	-	4,750
Expenses accrued	68	(45)	-	23
Other	(31)	-	31	-
Net deferred tax asset/(liability)	**3,571**	**1,171**	**31**	**4,773**
Deferred tax asset recognized	3,602	1,171	-	4,773
Deferred tax liability recognized	(31)	-	31	-
Net deferred tax asset/(liability)	**3,571**	**1,171**	**31**	**4,773**

24 Income taxes (continued)

The tax effect of movements in temporary differences during the year ended 31 December 2017 is detailed below.

In Ukrainian Hryvnias and in thousands	1 January 2017	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2017
Tax effect of deductible/(taxable) temporary differences				
Allowance for loan impairment	(1,412)	1,412	-	-
Premises and equipment	1,189	2,345	-	3,534
Expenses accrued	152	(84)	-	68
Other	23	-	(54)	(31)
Net deferred tax asset/(liability)	**(48)**	**3,673**	**(54)**	**3,571**
Deferred tax asset recognized	1,364	2,261	(23)	3,602
Deferred tax liability recognized	(1,412)	1,412	(31)	(31)
Net deferred tax asset/(liability)	**(48)**	**3,673**	**(54)**	**3,571**

25 Financial risk management

The risk management function within the Bank is described in respect of financial risks, operating risks, and compliance risks. Financial risk comprises market risk (including currency risk, interest rate risk, and other price risks), credit risk, and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

The risks are managed in an integrated manner and evaluated in terms of the policy of the Bank, which is reviewed and approved by the Management Board on an annual basis. The operating and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimize those risks.

The risk management functions are divided among the Supervisory Board, the Management Board, Assets and Liabilities Management Committee ("ALCO"), Credit Committee (for corporate and retail business and interbank operations), and Tariff Committee.

The Supervisory Board has the highest degree of authority with respect to risk management, and is empowered through the Charter to approve any transactions on behalf of the Bank, including those, which are outside of the scope of the authority of the Management Board and other governing bodies (ALCO, Tariff and Credit Committees).

The Management Board is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board delegates its power with respect to overall asset, liability, and risk management to ALCO, Credit Committee, and Tariff Committee.

ALCO coordinates work of all divisions of the Bank with the aim of implementation of the asset and liability management strategies, optimization of asset and liability structure, effective and efficient utilization of the Bank's credit resources, minimization of risks and achievement of sufficient profitability level. ALCO manages currency, interest rate, securities portfolio, and loan portfolio and liquidity risks.

The Credit Committees make and approve decisions on credit transactions within their respective authority as well as on other credit-related issues relating to corporate and retail customers and regarding setting up the limits for parties operating in interbank market (foreign exchange and money market). The Credit Committees also make decisions on allowance for possible losses on the Bank's active operations.

In the event the amount of credit application or the total amount of the exposure of a borrower (or a group of borrowers), taking into account also the credit related commitments of the Bank in respect of this borrower (a group of borrowers) and also the transactions on sale/purchase of loan, exceeds the level of 10% of the Bank's regulatory capital, a decision regarding the transaction is subject to approval by the Management Board and the Supervisory Board.

25 Financial risk management (continued)

Decisions to issue loans, guarantees, or sureties to related parties (other than banks) in the amount exceeding 1% of regulatory capital (for individuals) or 3% of regulatory capital (for legal entities) are made by the Management Board by 2/3 of votes in secret ballot voting in the absence of the interested party, with the quorum being at least half of the Management Board members.

Tariff Committee of the Bank acts with the aim to provide additional measures for the risk management and optimization of the tariff policy regarding the Bank's products and services provided to the clients. Tariff Committee, within its area of responsibility, performs monthly analysis of the ratios related to service costs and competitiveness of the Bank's tariffs in the market, and also is responsible for the operating income policies.

During 2018, no changes occurred in risk management policies, other than changes due to adoption of IFRS 9 "Financial Instruments".

Credit risk. Credit risk represents the Bank's exposure to financial losses as a result of failure by a borrower or counterparty to fulfill its obligations. Credit risk exposure arises mainly from loans and advances granted and investment securities. For risk management reporting purposes, the Bank considers and consolidates all credit risk elements (such as a risk of failure of certain borrowers and counterparties to perform their obligations, as well as risks inherent to certain countries and industries).

Credit risk management system in the Bank ensures for timely and adequate identifying, measuring, monitoring, reporting, controlling, and mitigating credit risk on both individual and collective bases.

In granting and supporting off-balance sheet loan commitments (obligations on unused loans and letters of credit) and guarantees, the Bank uses the same procedures for their considering, approving, and maintaining as for the loans granted.

A process for credit risk management is established in the following regulations of the Bank: the Bank's Risk Management Strategies, the Bank's Credit Risk Management Policies, as well as methodologies and regulations determining the procedure for assessing a degree of credit risk of financial instruments and expected credit losses.

Key principles applied in the process of credit risk management include:

- Assessing the Bank's counterparty's financial position at the stage of considering the issue on taking a loan decision;
- Assessing the Bank's borrower's financial position during the period of lending;
- Assessing terms and conditions of a lending operation, including a collateral;
- Estimating and setting lending limits for borrowers/groups of the Bank's related counterparties;
- Accrediting independent appraisers of collateralized properties of the Bank's borrowers;
- Monitoring on a regular basis the availability and condition of collateral items;
- Assessing the Bank's loan portfolio risks;
- Maintaining regular management reporting.

A process for credit risk management in the Bank consists of the following stages:

- Identifying risks – determining risk sources;
- Assessing risks – determining and assessing the extent of risks identified;
- Controlling risks – setting limits to the extent of acceptable risks;
- Monitoring risks – a process of consistent tracking of risk sources.

25 Financial risk management (continued)

The Bank manages its credit risk by establishing limits in relation to single borrowers or groups of borrowers, which are recommended by Risk Management Division and approved by relevant Credit Committee as a part of the loan portfolio risk management system, and by complying with the exposure limits set by the NBU.

Those ratios are:

- Maximum credit risk exposure per single counterparty (H7) calculated as the ratio of the Bank's total exposure to a counterparty or a group of related counterparties plus all financial commitments issued by the Bank in respect of the counterparty or a group of related counterparties to regulatory capital. The ratio was 21.11% as at 31 December 2018 (31 December 2017: 23.94%), with the maximum required limit of not more than 25% (31 December 2017: 25%);
- Large credit risks ratio (H8) calculated as the ratio of total large credit risks in respect of counterparties, groups of related counterparties, and all related parties of the Bank to regulatory capital. The ratio was 485.13% as at 31 December 2018 (31 December 2017: 450.80%), with the maximum required limit of not more than 800% (31 December 2017: 800%);
- Maximum aggregate credit exposure to related parties (H9) calculated as the ratio of aggregate exposure to related parties of the Bank plus aggregate financial commitments issued by the Bank in respect of its related parties to regulatory capital. The ratio was 3.65% as at 31 December 2018 (31 December 2017: 1.08%), with the required limit set by the NBU of not more than 25% (31 December 2017: 25%).

The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements.

A decision on active operations with large corporate customers is made by the Bank's Credit Committee.

In making its lending decisions, the Bank evaluates potential borrowers on the basis of their financial positions as reflected in their financial statements, their credit history and the amount of risk involved in lending to a particular borrower.

In evaluating the risks associated with a particular borrower-legal entity or individual entrepreneur obtaining a loan for conducting business activities, the Bank takes into account the borrower's financial position, its solvency and payment abilities, market analysis, risks related to the industry in which the borrower operates, and market positions of the borrower's business, as well as factors such as the quality of its management, its geographic location, concentration of suppliers/customers, debt load, the liquidity of the proposed collateral, and whether it is sufficient in view of the credit risk.

The Bank assesses credit risk concentrations by portfolios of active operations taken as a whole and by individual components. The Bank's Management Board has approved limits on active operations by industries and a range of loan products. As at 31 December 2018, all loan transactions were performed within the limits set.

Measuring expected credit losses on financial assets. Assessment of credit risk for risk management purposes is comprehensive and requires using a certain model, since the exposure of credit risk changes depending on market condition developments, estimated cash flows, and time. The Bank assesses credit risk by using such indicators as probability of default (PD), exposure at default (EAD), and loss given default (LGD). The measurement is performed on the basis of the requirements of the National Bank of Ukraine and considering IFRS requirements. In accordance with IFRS 9 requirements, the Bank creates allowances for expected credit losses.

In accordance with the requirements of IFRS 9, impairment is assessed on the basis of a model of expected credit losses ("impairment model") and replaces the model of incurred losses under the requirements of IAS 39.

25 Financial risk management (continued)

A model for assessing expected credit losses is applied to the following financial instruments that are not measured at fair value through profit or loss:

- Cash and cash equivalents;
- Balances with the National Bank of Ukraine;
- Due from other banks;
- Loans and advances to customers;
- Investment securities measured at fair value through other comprehensive income;
- Investment securities measured at amortized cost;
- Other financial assets;
- Loan and financial guarantee commitments.

The general impairment model has two approaches on which to measure expected credit losses:

- Lifetime expected credit losses are the expected credit losses that result from a significant increase in credit risk under a financial instrument or all possible default events over the expected life of a financial instrument; and
- 12-month expected credit losses are the portion of the lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

IFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition, in particular:

- Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition and default events or have low credit risk at the reporting date. For these assets, 12-month expected credit losses are recognized;
- Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition and no default event has occurred. For these assets, lifetime ECLs are recognized;
- Stage 3 includes financial assets in respect of which a default event has occurred at the reporting date. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount (net of loss allowance for expected credit losses). Those assets are considered to be credit impaired.

The "three-stage" model does not apply to purchased or originated credit-impaired assets ("POCI"). Purchased or originated credit-impaired financial assets are those that, at the date of initial recognition, are credit-impaired. Expected credit losses for POCI assets are assessed on an individual basis. Purchased or originated credit-impaired assets are initially recognized at fair value. Lifetime expected credit losses for such financial assets are included in expected cash flows in the course of calculating the effective interest rate at initial recognition. The effective interest rate for the purpose of interest recognition during the asset's life is the effective interest rate adjusted for credit risk.

Expected credit losses on securities (including DGLBs) are measured within the general impairment model with reference to credit risk parameters.

25 Financial risk management (continued)

In assessing whether a significant increase in credit risk has occurred since initial recognition, the Bank considers both quantitative and qualitative indicators. Qualitative indicators are determined separately depending on the type of financial assets (corporate, retail, interbank loans, securities, financial accounts receivable). One of the qualitative criteria performs a function of 'backstop' indicator (number of days past due). The Bank uses a rebuttable presumption that a credit risk on the financial asset has increased significantly since initial recognition if the period of delays in contractual payments is in excess of 30 days.

In accordance with the requirements of IFRS 9, in assessing lifetime expected credit losses, it is needed to consider the recovery parameter for the assets that are no longer in default (adjusted to reflect the actual degree of the repeatedly defaulted asset's recovery). In the event of recovery from default, the Bank's model presupposes a 100% recovery each time the asset leaves the default status. In the event of a repeated default, this means that the asset has not recovered from default (has not been renewed by 100%).

The Bank uses both individual and collective assessments. Information is collected and analyzed individually on a separate financial instrument if it is material. In the event the application of an individual assessment is not appropriate, the Bank uses a collective assessment for a group or subgroup of financial instruments. The Bank allocates instruments by segments on the basis of similar credit risk characteristics.

As inputs for calculating expected credit losses, the Bank uses internal historical information in respect of defaults, recoveries received at default, expectations as to lives of financial instruments, periods of collateral sales, etc.

Incorporation of forward-looking information. Expected credit losses are calculated with reference to expectations regarding changes in a range of macroeconomic indicators. Indicators are selected and considered in models on the basis of the historical information analyzed in respect of the impact of changes on the level of credit risk for individual portfolios by customer segments and product types.

A projection of macroeconomic indicators has been developed by the Bank for the horizon of forecast of three years using three scenarios: baseline, optimistic, and pessimistic. In modelling the projection, the Bank has used both mathematical methods and assumptions and published data about future macroeconomic factors prepared for the period up to 2021 by the National Bank of Ukraine, the Ministry of Economic Development and Trade, and the Ministry of Finance of Ukraine, and international financial institutions.

The Bank discloses movements in expected credit losses by stages under financial instruments covered by the impairment requirements under IFRS 9:

Allowance for expected credit losses on due from other banks:

	Stage 1	Stage 2	Stage 3
1 January 2018	**602**	**-**	**62**
New loans to banks or purchased loans	1,383	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	(1,483)	-	1,483
Due from banks derecognized during the reporting period	(35)	-	-
Written off during the reporting period	-	-	-
Effect of changes in models or risk parameters	126	-	-
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	16	-	-
31 December 2018	**609**	**-**	**1,545**

25 Financial risk management (continued)

Allowance for expected credit losses on loans and advances to customers:

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired loans
1 January 2018	**14,755**	**13,574**	**217,485**	**-**
New loans to customers or purchased loans	19,143	-	-	(4,399)
Transfer to Stage 1	618	(618)	-	-
Transfer to Stage 2	(7,084)	64,565	(57,481)	-
Transfer to Stage 3	-	(581)	581	-
Loans derecognized during the reporting period	(6,604)	(10,808)	(7,060)	-
Written off during the reporting period	-	-	(34,722)	-
Effect of changes in models or risk parameters	(1,510)	(1,601)	(1,140)	-
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	(1,551)	7,953	50,945	-
31 December 2018	**17,767**	**72,484**	**168,608**	**(4,399)**

As at 31 December 2018, undiscounted initial impairment of originated credit-impaired loans recognized at the initial recognition and not included in allowances amounted to UAH 24,442 thousand (31 December 2017: nil).

Allowance for expected credit losses on other financial assets:

There were no movements in the allowance for expected credit losses on the financial asset represented by the guarantee coverage placed by the Bank in international payment systems of Visa and Master Card during the reporting period. As at 31 December 2018, the allowance amounted to UAH 90 thousand and related to Stage 1.

Guarantees and other loan commitments:

	Stage 1	Stage 2	Stage 3
1 January 2018	**3,641**	**-**	**-**
New guarantees and other loan commitments to customers	140	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	(126)	126	-
Transfer to Stage 3	-	-	-
Guarantees and other loan commitments derecognized during the reporting period	(1,593)	-	-
Effect of changes in models or risk parameters	(1,547)	-	-
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	17	(57)	-
31 December 2018	**532**	**69**	**-**

The Bank discloses movements in the gross carrying value of financial instruments covered by the impairment requirements of IFRS 9 by stages:

25 Financial risk management (continued)

Due from other banks:

	Stage 1	Stage 2	Stage 3
1 January 2018	**643,131**	**-**	**-**
New loans to banks or purchased loans	45,248	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	(26,753)	-	26,753
Due from banks derecognized during the reporting period	(507)	-	-
Written off during the reporting period	-	-	-
Changes due to modification that has not resulted in de-recognition during the reporting period	-	-	-
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	(88,846)	-	(25,277)
31 December 2018	**572,273**	**-**	**1,476**

Loans measured at amortized cost:

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired loans
1 January 2018	**4,848,325**	**281,874**	**665,880**	**-**
New loans to customers or purchased loans	4,460,430	-	-	80,622
Transfer to Stage 1	14,171	(14,171)	-	-
Transfer to Stage 2	(1,053,229)	1,314,996	(261,767)	-
Transfer to Stage 3	(34,721)	(24,642)	59,363	-
Loans derecognized during the reporting period	(2,779,908)	(229,509)	(78,628)	-
Written off during the reporting period	-	-	(34,721)	-
Changes due to modification that has not resulted in de-recognition during the reporting period	(17,061)	(7,196)	(3,813)	-
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	(226,777)	(139,071)	1,027	-
31 December 2018	**5,211,230**	**1,182,281**	**347,341**	**80,622**

Other financial assets:

There were no movements in credit risk on the financial asset by the guarantee coverage placed by the Bank in international payment systems of Visa and Master Card during the reporting period, with its gross carrying value, as at 31 December 2018, amounting to UAH 190,030 thousand. This asset was included in Stage 1 (12-month expected credit losses).

25 Financial risk management (continued)

Guarantees and other loan commitments:

	Stage 1	Stage 2	Stage 3
1 January 2018	**602,025**	**135**	**-**
New guarantees and other loan commitments to customers	409,091	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	(26,964)	26,964	-
Transfer to Stage 3	(18)	-	18
Guarantees and other loan commitments derecognized during the reporting period	(373,549)	(135)	-
Changes due to modification that has not resulted in de-recognition during the reporting period	-	-	-
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	4,135	291	(18)
31 December 2018	**614,720**	**27,255**	**-**

The Bank does not disclose the effect of modification on financial assets measured at amortized cost or fair value through other comprehensive income in the form of a separate table, since the modification of financial assets that took place during 2018 did not result in the transfer of modified assets with lifetime expected credit losses to the category of financial assets with 12-month expected credit losses.

Concentration risk. Concentration risk is determined by the Bank as a risk of possible losses due to concentration of the risk on particular instruments, individual transactions, and sectors of economy.

Concentrations of assets and liabilities by currencies, maturities, and geographical indicators are analyzed in relevant risk management policy sections.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates, and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of those limits in the event of more significant market movements. Overall authority for market risk is vested to ALCO.

Foreign currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Management monitors the Bank's currency positions in accordance with the regulations of the NBU and internally developed methodology.

The table below summarizes the Bank's exposure to foreign currency risk concentration as at 31 December 2018.

	As at 31 December 2018			
In Ukrainian Hryvnias and in thousands	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
UAH	4,745,482	4,105,269	-	640,213
USD	3,663,610	3,579,223	(74,128)	10,259
EUR	818,154	901,818	74,128	(9,536)
Other	9,394	7,265	-	2,129
Total	**9,236,640**	**8,593,575**	**-**	**643,065**

25 Financial risk management (continued)

The table below summarizes the Bank's exposure to foreign currency risk concentration as at 31 December 2017.

In Ukrainian Hryvnias and in thousands	As at 31 December 2017			
	Monetary financial assets	**Monetary financial liabilities**	**Derivatives**	**Net position**
UAH	4,311,123	3,721,075	-	590,048
USD	3,232,866	3,309,024	73,125	(3,033)
EUR	761,611	727,627	(73,125)	(39,141)
Other	33,973	31,734	-	2,239
Total	**8,339,573**	**7,789,460**	**-**	**550,113**

The above analysis includes only monetary financial assets and liabilities.

Currency risk concentrations on loan commitments as at 31 December 2018 were analyzed as follows:

In Ukrainian Hryvnias and in thousands	**UAH**	**USD**	**EUR**	**Other currencies**	**Total**
As at 31 December 2018:					
Loan commitments	48,463	-	-	-	48,463
Guarantees, letters of credit, and avals issued	369,599	210,732	13,559	-	593,890

Currency risk concentrations on loan commitments as at 31 December 2017 were analyzed as follows:

In Ukrainian Hryvnias and in thousands	**UAH**	**USD**	**EUR**	**Other currencies**	**Total**
As at 31 December 2017:					
Loan commitments	38,598	-	-	-	38,598
Guarantees, letters of credit, and avals issued	397,917	136,326	29,758	-	564,001

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

In Ukrainian Hryvnias and in thousands	As at 31 December 2018		As at 31 December 2017	
	Impact on profit or loss	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
USD strengthening by 10% (2017: strengthening by 10%)	1,026	1,026	(303)	(303)
USD weakening by 5% (2017: weakening by 5%)	(513)	(513)	152	152
EUR strengthening by 10% (2017: strengthening by 10%)	(954)	(954)	(3,914)	(3,914)
EUR weakening by 5% (2017: weakening by 5%)	477	477	1,957	1,957
Other currency strengthening by 10% (2017: strengthening by 10%)	213	213	224	224
Other currency weakening by 5% (2017: weakening by 5%)	(107)	(107)	(112)	(112)

25 Financial risk management (continued)

A negative amount in the table reflects a potential net reduction in the statement of profit or loss and other comprehensive income or changes in equity before income taxes, while a positive amount reflects a net potential increase before income tax.

The sensitivity was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

The above effect of changes in currency rates on the profit and equity relates to revaluation of open currency position only and does not take into account the potential decrease in credit quality of assets as a result of devaluation of Ukrainian Hryvnia.

Interest rate risk. 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 when unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In practice, management resets interest rates on both assets and liabilities based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement, which sets forth the new interest rate.

ALCO and Credit Committees are responsible for interest rate risk management, including minimum credit and maximum borrowing rates in respect of products, customer groups, and counterparties. Credit Committees are responsible for ensuring compliance with guidelines set by ALCO. At the same time, the corporate and retail business divisions recommend altering certain interest rates to ALCO subject to changes in market conditions or for internal reasons. Interest rate risk management is conducted using GAP analysis method, whereby the difference or gap between rate sensitive assets and rate sensitive liabilities is determined and analyzed.

The table below summarizes the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets (other than cash and balances with the National Bank of Ukraine) and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates:

In Ukrainian Hryvnias and in thousands	**On demand and less than 1 month**	**1–3 months**	**3–12 months**	**Over 1 year**	**Total**
31 December 2018					
Total financial assets	2,005,381	1,438,471	3,350,655	1,348,943	8,143,450
Total financial liabilities	(6,113,053)	(951,022)	(1,244,957)	(284,543)	(8,593,575)
Net interest sensitivity gap as at 31 December 2018	**(4,107,672)**	**487,449**	**2,105,698**	**1,064,400**	**(450,125)**
31 December 2017					
Total financial assets	2,856,093	988,209	2,683,000	699,570	7,226,872
Total financial liabilities	(5,604,258)	(450,422)	(1,434,028)	(300,752)	(7,789,460)
Net interest sensitivity gap as at 31 December 2017	**(2,748,165)**	**537,787**	**1,248,972**	**398,818**	**(562,588)**

The Bank's floating interest rate liabilities as at the end of 2018 were represented by other borrowed funds (Note 15).

As at 31 December 2018, if interest rates at that date had been 100 basis points lower (2017: 100 basis points lower) with all other variables held constant, profit for the year would have been UAH 2,135 thousand (2017: UAH 480 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities. If interest rates had been 100 basis points higher (2017: 100 basis points higher), with all other variables held constant, profit would have been UAH 2,135 thousand (2017: UAH 480 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities.

25 Financial risk management (continued)

The Bank monitors interest rates for its financial instruments. The table below summarizes nominal interest rates based on the reports reviewed by key management personnel. The sign "-" in the table below means that the Bank does not have the respective assets or liabilities in the corresponding currency as at the reporting date:

% p.a.	2018 UAH	2018 USD	2018 EUR	2018 Other currencies	2017 UAH	2017 USD	2017 EUR	2017 Other currencies
Assets								
Due from other banks:								
Correspondent accounts with other banks	0.0%	1.3%	0.0%	0.0%	0.1%	0.7%	0.0%	0.0%
Loans and advances to customers:								
Loans to legal entities	18.7%	8.8%	6.8%	-	18.1%	9.1%	7.1%	-
Investment securities measured at fair value through other comprehensive income	9.5%	-	-	-	14.5%	-	-	-
Investment securities measured at amortized cost	18.0%	7.0%	-	-	-	-	-	-
Liabilities								
Due to other banks:								
Correspondent accounts and overnight deposits of other banks	0.0%	1.9%	4.2%	0.0%	0.0%	2.5%	4.9%	0.0%
Term borrowings received	-	5.0%	3.5%	-	-	5.2%	6.9%	-
Current accounts	7.8%	0.6%	0.3%	0.0%	3.7%	1.1%	0.9%	0.0%
Deposits	9.6%	4.8%	3.8%	-	14.6%	5.3%	4.1%	-
Other borrowed funds	-	7.6%	-	-	-	6.5%	-	-
Subordinated debt	16.5%	7.0%	-	-	16.5%	8.0%	-	-

Other price risk. The Bank has no exposure to equity price risk (2017: no exposure to equity price risk).

Geographical risk concentration. The geographical concentration of the Bank's financial assets and liabilities as at 31 December 2018 is set out below:

In Ukrainian Hryvnias and in thousands	Ukraine	OECD countries	Other countries	Total
Financial assets				
Cash	687,234	-	-	687,234
Balances with the National Bank of Ukraine	405,956	-	-	405,956
Due from other banks	10,828	559,940	827	571,595
Loans and advances to customers	6,567,014	-	-	6,567,014
Investment securities measured at fair value through other comprehensive income	98	-	-	98
Investment securities measured at amortized cost	808,759	-	-	808,759
Other financial assets	195,984	-	-	195,984
Total financial assets	**8,675,873**	**559,940**	**827**	**9,236,640**
Financial liabilities				
Due to other banks	26,999	-	1,028,895	1,055,894
Current accounts	4,988,822	116,314	7,597	5,112,733
Deposits	1,911,722	118,742	43	2,030,507
Other borrowed funds	-	213,479	-	213,479
Other financial liabilities	37,637	-	-	37,637
Subordinated debt	143,325	-	-	143,325
Total financial liabilities	**7,108,505**	**448,535**	**1,036,535**	**8,593,575**
Net position on financial instruments	**1,567,368**	**111,405**	**(1,035,708)**	**643,065**
Loan commitments	568,263	74,090	-	642,353

25 Financial risk management (continued)

Financial assets, liabilities, and loan commitments have been allocated based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which it is physically held.

OECD assets and liabilities mainly include balances with counterparties in the USA, Germany, the UK, and Austria. Non-OECD concentrations mainly represent balances with counterparties in Montenegro.

The geographical concentration of the Bank's financial assets and liabilities as at 31 December 2017 is set out below:

In Ukrainian Hryvnias and in thousands	**Ukraine**	**OECD countries**	**Other countries**	**Total**
Financial assets				
Cash	598,297	-	-	598,297
Balances with the National Bank of Ukraine	514,404	-	-	514,404
Due from other banks	12,657	604,960	25,452	643,069
Loans and advances to customers	5,562,641	-	-	5,562,641
Investment securities measured at fair value through other comprehensive income	803,080	-	-	803,080
Investment securities measured at amortized cost	27,457	-	-	27,457
Other financial assets	190,625	-	-	190,625
Total financial assets	**7,709,161**	**604,960**	**25,452**	**8,339,573**
Financial liabilities				
Due to other banks	8,967	831	697,349	707,147
Current accounts	4,387,950	17,464	178,318	4,583,732
Deposits	1,966,870	194,433	-	2,161,303
Other borrowed funds	-	229,737	-	229,737
Other financial liabilities	21,883	-	-	21,883
Subordinated debt	85,658	-	-	85,658
Total financial liabilities	**6,471,328**	**442,465**	**875,667**	**7,789,460**
Net position on financial instruments	**1,237,833**	**162,495**	**(850,215)**	**550,113**
Loan commitments	602,599	-	-	602,599

Liquidity risk. Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and loan issuing. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by Assets and Liabilities Management Committee of the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of corporate and retail customer deposits. 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, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows. Treasury Department then maintains a portfolio of short-term liquid assets to ensure that sufficient liquidity is maintained within the Bank as a whole.

25 Financial risk management (continued)

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments, including deposits and contributions by shareholders. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. Management strives to maintain a balance between continuity of funding, and flexibility through the use of liabilities with a range of maturities. Deposits from customers and banks generally have short maturity and a large portion of them is repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk, and the Bank actively manages the risk through competitive pricing and constant monitoring of market trends.

The liquidity management of the Bank requires consideration of 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. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the National Bank of Ukraine. These ratios include:

- Instant liquidity ratio (H4), which is calculated as the ratio of highly liquid assets to liabilities payable on demand. As at 31 December 2018, the Bank had this ratio at the level of 49.48% (2017: 63.77%), with the statutory ratio set by the NBU at the level of not less than 20% (2017: 20%);
- Current liquidity ratio (H5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. As at 31 December 2018, the Bank had this ratio at the level of 45.29% (2017: 76.79%), with the statutory ratio set by the NBU at the level of not less than 40% (2017: 40%);
- Short-term liquidity ratio (H6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. As at 31 December 2018, the Bank had this ratio at the level of 93.39% (2017: 107.67%), with the statutory ratio set by the NBU at the level of not less than 60% (2017: 60%).

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 Treasury Department.

The table below shows liabilities as 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. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted 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 rates at the end of the reporting period.

25 Financial risk management (continued)

The maturity analysis of financial liabilities as at 31 December 2018 and 2017 based on undiscounted cash flows for financial liabilities was as follows:

In Ukrainian Hryvnias and in thousands	On demand and less than 1 month	1–3 months	3–12 months	Over 12 months	Total
31 December 2018					
Due to other banks	580,617	453,325	25,043	-	1,058,985
Current accounts	5,112,733	-	-	-	5,112,733
Deposits	379,772	299,109	1,217,019	185,485	2,081,385
Other borrowed funds	-	3,626	19,412	275,484	298,522
Other financial liabilities	37,637	-	-	-	37,637
Subordinated debt	1,127	2,255	44,648	153,233	201,263
Commitments to extend loans	48,463	-	-	-	48,463
Financial guarantees issued	458,063	-	-	-	458,063
Avals issued	135,827	-	-	-	135,827
Total potential future payments for financial liabilities as at 31 December 2018	**6,754,239**	**758,315**	**1,306,122**	**614,202**	**9,432,878**
31 December 2017					
Due to other banks	587,403	42,951	81,089	-	711,443
Current accounts	4,583,732				4,583,732
Deposits	417,857	197,351	1,404,575	233,523	2,253,306
Other borrowed funds	-	17,266	10,890	291,430	319,586
Other financial liabilities	21,883	-	-	-	21,883
Subordinated debt	1,323	1,711	7,699	127,726	138,459
Commitments to extend loans	38,598	-	-	-	38,598
Financial guarantees issued	429,123	-	-	-	429,123
Avals issued	134,878	-	-	-	134,878
Total potential future payments for financial liabilities as at 31 December 2017	**6,214,797**	**259,279**	**1,504,253**	**652,679**	**8,631,008**

Liquidity requirements to support calls under guarantees 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.

Current accounts and due to other banks are due on demand and have been reflected as such in these schedules. However, management estimates that demand on a majority of the accounts will occur at a significantly later date.

Deposits are classified in the above analysis based on contractual maturities. According to the Ukrainian Civil Code amendments adopted during 2015, individuals have a right to withdraw their term deposits prior to maturity only in cases where it is stipulated in the contract of bank term deposit.

25 Financial risk management (continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarized as follows as at 31 December 2018:

In Ukrainian Hryvnias and in thousands	On demand and less than 1 month	1-3 months	3-12 months	Over 12 months	Total
Financial assets					
Cash	687,234	-	-	-	687,234
Balances with the National Bank of Ukraine	405,956	-	-	-	405,956
Due from other banks	571,595	-	-	-	571,595
Loans and advances to customers	675,101	1,438,471	3,294,529	1,158,913	6,567,014
Investment securities measured at fair value through other comprehensive income	47	-	51	-	98
Investment securities measured at amortized cost	752,684	-	56,075	-	808,759
Other financial assets	6,058	-	-	189,926	195,984
Total financial assets	**3,098,675**	**1,438,471**	**3,350,655**	**1,348,839**	**9,236,640**
Financial liabilities					
Due to other banks	579,705	451,578	24,611	-	1,055,894
Current accounts	5,112,733	-	-	-	5,112,733
Deposits	381,958	285,966	1,185,340	177,243	2,030,507
Other borrowed funds	-	558	6,654	206,267	213,479
Other financial liabilities	37,637	-	-	-	37,637
Subordinated debt	1,021	-	35,006	107,298	143,325
Total financial liabilities	**6,113,054**	**738,102**	**1,251,611**	**490,808**	**8,593,575**
Net liquidity gap arising from financial instruments	**(3,014,379)**	**700,369**	**2,099,044**	**858,031**	**643,065**
Cumulative liquidity gap as at 31 December 2018	**(3,014,379)**	**(2,314,010)**	**(214,966)**	**643,065**	

The Bank has a significant cumulative liquidity gap of financial assets and liabilities up to 12 months. This liquidity gap arises from the fact that an important source of funding for the Bank as at 31 December 2018 were customer accounts and interbank deposits on demand. A significant part of current accounts is presented by accounts on demand (deposits 'on demand' and current accounts). Management believes that in spite of a substantial portion of deposits 'on demand' included in current accounts, diversification of those deposits and the past experience of the Bank indicate that those deposits provide a long-term and stable source of funding for the Bank. In addition, as at 31 December 2018, due to other banks included loans and deposits obtained from a related party (an entity under common control) in the amount of UAH 1,028,894 thousand that, if needed, may be extended for a respective period.

Subsequent to the reporting date, in March 2019, the Bank obtained a long-term funding for the period of 9 years in the amount of USD 8,000 thousand from an international organization (Note 31).

25 Financial risk management (continued)

The liquidity position of the Bank as at 31 December 2017 is set out below:

In Ukrainian Hryvnias and in thousands	On demand and less than 1 month	1–3 months	3–12 months	Over 12 months	Total
Financial assets					
Cash	598,297	-	-	-	598,297
Balances with the National Bank of Ukraine	514,404	-	-	-	514,404
Due from other banks	643,069	-	-	-	643,069
Loans and advances to customers	1,399,514	988,209	2,655,356	519,562	5,562,641
Investment securities available for sale	802,893	-	187	-	803,080
Investment securities held to maturity	-	-	27,457	-	27,457
Other financial assets	10,617	-	-	180,008	190,625
Total financial assets	**3,968,794**	**988,209**	**2,683,000**	**699,570**	**8,339,573**
Financial liabilities					
Due to other banks	584,975	42,020	80,152	-	707,147
Current accounts	4,583,732	-	-	-	4,583,732
Deposits	412,870	178,665	1,353,876	215,892	2,161,303
Other borrowed funds	-	15,393	-	214,344	229,737
Other financial liabilities	21,883	-	-	-	21,883
Subordinated debt	798	-	-	84,860	85,658
Total financial liabilities	**5,604,258**	**236,078**	**1,434,028**	**515,096**	**7,789,460**
Net liquidity gap arising from financial instruments	**(1,635,464)**	**752,131**	**1,248,972**	**184,474**	**550,113**
Cumulative liquidity gap as at 31 December 2017	**(1,635,464)**	**(883,333)**	**365,639**	**550,113**	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. A mismatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

26 Capital management

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine 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 statement of financial position. The amount of capital that the Bank managed as at 31 December 2018 was UAH 710,410 thousand (2017: UAH 608,089 thousand). Compliance with capital adequacy ratios 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 Management Board and Chief Accountant. Other objectives of capital management are evaluated annually.

The Bank's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

26 Capital management (continued)

During 2017, the National Bank of Ukraine conducted a diagnostic study and stress testing of the Bank under the NBU's Regulation # 59 dated 4 February 2016 "On Diagnostic Study of Banks". As a result, in December 2016, the Bank submitted to the NBU the action plan to increase capitalization (improve capital adequacy) for the period from 18 October 2016 to 1 January 2019. The action plan was approved by the Regulator on 21 March 2017. In 2018, the Bank fulfilled the mentioned capitalization plan. In 2018, the Regulator assessed the Bank's stability (stress testing of the Bank) pursuant to the NBU's Regulation # 141 dated 22 December 2017 "Regulation on Assessing Stability of Banks and Banking System of Ukraine". The assessment was held by the NBU using two scenarios: baseline and negative. Under the baseline scenario, the Bank does not require capitalization. Under the negative scenario, the Bank's need in capitalization amounted to UAH 294 million. To cover the above need, the Bank developed a restructuring plan and fulfilled it during 2018. As at 31 December 2018, the Bank fulfilled all planned actions and obtained confirmations from the NBU on the successful completion of the plan.

Under the current capital requirements set by the National Bank of Ukraine, banks should maintain a ratio of regulatory capital to risk weighted assets ('statutory capital ratio') above a prescribed minimum level. As at 31 December 2018, the minimum level required by the NBU was 10% (31 December 2017: 10%). The table below demonstrates the regulatory capital based on the Bank's reports prepared under regulatory requirements of the NBU before adjustments for the year and comprises:

In Ukrainian Hryvnias and in thousands	2018	2017
Core capital	530,192	447,657
Additional capital	289,014	211,961
Total regulatory capital	**819,206**	**659,618**
Capital adequacy ratio	**12.02%**	**12.41%**

27 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and internal 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 financial statements.

Tax contingencies. The Ukrainian tax legislation, which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. The Ukrainian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties.

The Ukrainian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax audits. 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 in the current situation. 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.

The 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 Bank.

27 Contingencies and commitments (continued)

Effective from 1 January 2018, the Law of Ukraine # 2245-VIII dated 7 December 2017 came into force "On Amendments to the Tax Code of Ukraine and Some Other Legislative Acts to Maintain a Balance of Budget Proceeds in 2018". Those amendments settle disputable issues on creating and using by banking institutions of provisions for impairment of assets, in particular, effective from 1 January 2018:

- The excess of provisions created by banking and financial institutions over the limit calculated in accordance with the Tax Code of Ukraine does not increase the financial result before tax (transition provisions are applied);
- Decrease (increase) in the financial result before tax by a positive (negative) difference (recorded in equity accounts of a bank) between the adjusted provisions on assets (including groups of assets) calculated as at the beginning of 2018 in accordance with the requirements of International Financial Reporting Standards to be applied effective from 2018 and the amount of provisions for impairment of assets in accordance with the requirements of International Financial Reporting Standards applied as at the end of 2017.

Capital expenditure commitments. As at 31 December 2018, the Bank had contractual capital expenditure commitments in respect of current repairs of premises for the total amount of UAH 1,107 thousand and improvement of ATMs for the total amount of UAH 540 thousand (2017: UAH 753 thousand).

Operating lease commitments. Where the Bank is a lessee, the future minimum lease payments under non-cancellable operating leases were as follows:

In Ukrainian Hryvnias and in thousands	**31 December 2018**	**31 December 2017**
Within 1 year	21,370	19,146
1–5 years	15	2
Total operating lease commitments	**21,385**	**19,148**

Loan commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Outstanding loan commitments were as follows:

In Ukrainian Hryvnias and in thousands	**31 December 2018**	**31 December 2017**
Guarantees issued	458,063	429,123
Avals	135,827	134,878
Irrevocable commitments to extend loans	48,463	38,598
Less: Provision in the form of cash deposit	(41,167)	(17,139)
Total loan commitments, less provisions in the form of cash deposits	**601,186**	**585,460**

27 Contingencies and commitments (continued)

The Bank had outstanding irrevocable commitments to extend loans in respect of overdrafts on card accounts of individuals. All other commitments to extend loans are revocable. With respect to credit risk on commitments to extend loans, the Bank is potentially exposed to loss in the 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 loans are contingent upon customers maintaining specific credit standards.

Guarantees, 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. The total outstanding contractual amount of undrawn guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Assets pledged and restricted in use. The Bank had assets pledged as collateral or otherwise restricted with the following gross carrying value:

In Ukrainian Hryvnias and in thousands	2018 Assets pledged	2017 Assets pledged
Loans and advances to customers used as a collateral under other borrowed funds (before allowance)	340,892	106,263
Guarantee cover within the payment systems of Visa and Master Card (before allowance)	190,030	180,008
Funds placed with other banks that are used as a guarantee cover	41,809	-
Total	**572,731**	**286,271**

Gross carrying value of the assets used as a collateral under the borrowing received from WORLDBUSINESS CAPITAL INC. (Note 15) that secure for fulfillment of obligations amounted to UAH 340,892 thousand (2017: UAH 106,263 thousand), with the actual amount of the collateral to be transferred to WORLDBUSINESS CAPITAL INC. in the event of failure to fulfill obligations as at 31 December 2018 amounting to UAH 212,880 thousand (2017: UAH 106,263 thousand).

28 Derivative financial instruments

Derivative financial instruments under foreign currency agreements entered into by the Bank mainly related to trading in over-the-stock market between professional market participants on the basis of standardized contracts. Derivative financial instruments have potentially favorable terms (i.e. are assets) or potentially unfavorable terms (i.e. are liabilities) due to fluctuations of interest rates in the market, exchange rates, or other variables related to those instruments. Total fair value of derivative financial instruments may significantly change from time to time.

Fair value of derivative financial instruments is determined at a forward exchange rate calculated using the current exchange rates in SPOT market at the date of fair value measurement; interest rates in the quoting currency and the quotation base for the relevant period by the date of a contract fulfillment year to year; the number of calendar days that remained to the contract's fulfillment; calendar base for calculating interest rates by quotation currencies and quotation bases.

As a SPOT exchange rate in transactions with derivative financial instruments on purchase and sale of foreign currencies for national currency, the Bank uses the current exchange rate of a relevant foreign currency against UAH in FOREX market at about 14.00 Kyiv time or first hours close to it applied by calculations in the same business day or the NBU's indicative. The exchange rate is expressed by UAH amount per one unit of foreign currency.

28 Derivative financial instruments (continued)

To determine a SPOT exchange rate in performing transactions with derivative financial instruments on purchase and sale of foreign currencies for another foreign currency, the Bank uses current exchange rates of one currency against another currency established by market exchange rates at about 12.00 Kyiv time in the international market (under the data of REUTERS).

Interest rates by quotation currencies and quotation bases are determined by the Bank as follows:

- For UAH, KIEBOR rate with the period depending on the number of days to a transaction fulfillment. KIEBOR (Kyiv Interbank Offered Rate) is a weighted average interest rate on interbank loans;
- For foreign currencies (USD, EUR, GBP, etc.), LIBOR rate with the period depending on the number of days to a transaction fulfillment. LIBOR (London Interbank Offered Rate) is a weighted average interest rate on interbank loans (updated on a daily basis at 13:30).

Fair value of debts under forward contracts entered into by the Bank as at 31 December 2018 is presented in the table below. The table contains contracts with settlement dates after the relevant reporting date; the contractual amounts are shown gross – before offsetting positions (and payments) by each counterparty. Those contracts are short-term by nature.

	2018	
In Ukrainian Hryvnias and in thousands	**Contracts with positive fair value**	**Contracts with negative fair value**
SWAP contracts: fair value at the reporting date		
- Contractual amount at the agreement exchange rate	-	74,128
- Contractual amount at the forward exchange rate	-	74,128
Net fair value of SWAP contracts (Note 16)	**-**	**-**

As at 31 December 2017, the Bank's liabilities on forward and SWAP contracts were as follows:

	2017	
In Ukrainian Hryvnias and in thousands	**Contracts with positive fair value**	**Contracts with negative fair value**
SWAP contracts: fair value at the reporting date		
- Contractual amount at the agreement exchange rate	-	73,125
- Contractual amount at the forward exchange rate	-	72,581
Net fair value of SWAP contracts (Note 16)	**-**	**(544)**

In 2018, the Bank reported losses on derivative financial instruments in the amount of UAH 2,054 thousand (2017: losses in the amount of UAH 8,015 thousand) in the statement of profit or loss and other comprehensive income.

29 Fair value of financial instruments

Fair value measurements are analyzed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgment in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level Three measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorized are as follows:

	31 December 2018			31 December 2017		
In Ukrainian Hryvnias and in thousands	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
FINANCIAL ASSETS MEASURED AT FAIR VALUE						
Investment securities measured at fair value through other comprehensive income						
- Domestic Government Loan Bonds	98	-	98	1,181	-	1,181
- Deposit certificates issued by the NBU	-	-	-	-	801,899	801,899
TOTAL FINANCIAL ASSETS MEASURED AT FAIR VALUE	**98**	**-**	**98**	**1,181**	**801,899**	**803,080**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE						
Derivative financial instruments with negative fair value						
- SWAP contracts	-	-	-	-	544	544
TOTAL FINANCIAL LIABILITIES MEASURED AT FAIR VALUE	**-**	**-**	**-**	**-**	**544**	**544**

As at 31 December 2018, there were no financial instruments measured at fair value and included in Level 2.

29 Fair value of financial instruments (continued)

The description of valuation method and description of inputs used in the fair value measurement for Level 2 measurements as at 31 December 2017:

In Ukrainian Hryvnias and in thousands	Fair value	Valuation technique	Inputs used
FINANCIAL ASSETS MEASURED AT FAIR VALUE			
Investment securities available for sale			
Deposit certificates issued by the NBU	801,899	Discounted cash flows	Market % rates
TOTAL FINANCIAL ASSETS MEASURED AT FAIR VALUE	**801,899**		

There were no changes in valuation methods for Level 2 recurring fair value measurements during the years ended 31 December 2018 and 2017.

(b) Non-recurring fair value measurements

The Bank had no respective balances as at the reporting date.

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analyzed by level in the fair value hierarchy and carrying value of assets not measured at fair value and fair values of which differed from carrying amounts as at the reporting date were as follows. Fair values of other financial assets are believed by management not to differ significantly from their carrying amounts.

In Ukrainian Hryvnias and in thousands	31 December 2018				31 December 2017			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS								
Loans and advances to customers								
Loans to legal entities	-	-	6,554,368	6,525,652	-	-	5,519,430	5,538,102
Loans to individuals:								
- Consumer loans	-	-	22,828	22,849	-	-	8,840	8,897
- Credit card loans	-	-	15,593	15,592	-	-	14,163	14,248
- Mortgage loans	-	-	1,842	2,033	-	-	577	784
- Car loans	-	-	883	888	-	-	622	610
Investment securities measured at amortized cost								
Deposit certificates issued by the NBU	-	752,688	-	752,684	-	-	-	-
Domestic Government Loan Bonds	57,868	-	-	56,075	28,067	-	-	27,457
TOTAL	**57,868**	**752,688**	**6,595,514**	**7,375,773**	**28,067**	-	**5,543,632**	**5,590,098**

29 Fair value of financial instruments (continued)

Fair values analyzed by levels in the fair value hierarchy and carrying value of liabilities not measured at fair value were as follows:

In Ukrainian Hryvnias and in thousands	2018 Level 1	2018 Level 2	2018 Level 3	2018 Carrying value	2017 Level 1	2017 Level 2	2017 Level 3	2017 Carrying value
FINANCIAL LIABILITIES								
Deposits								
- Deposits of legal entities	-	402,743	60,791	480,419	-	441,629	-	440,302
- Deposits of individuals	-	460,846	1,098,716	1,550,088	-	1,750,963	-	1,721,001
Subordinated debt								
Subordinated debt	-	-	135,913	143,325	-	-	103,156	85,658
TOTAL	**-**	**863,589**	**1,295,420**	**2,173,832**	**-**	**2,192,592**	**103,156**	**2,246,961**

The fair values in Level 2 and Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation method. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amounts. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Management believed that the fair values of current accounts of individuals and legal entities did not differ significantly from their carrying amounts.

For assets, the Bank used assumptions about the interest rates at which the counterparty could currently obtain a new borrowing from an unrelated lender. Liabilities were discounted at the Bank's own respective rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Bank.

30 Related party transactions

The Bank grants loans and advances, attracts deposits, and performs other transactions with related parties in the ordinary course of business. Parties are generally 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. Terms of transactions with related parties are established at the time of the transaction. Related parties comprise significant shareholders, members of the Supervisory Board and the Management Board, and their immediate family members.

30 Related party transactions (continued)

As at 31 December 2018, the outstanding balances with related parties were as follows:

In Ukrainian Hryvnias and in thousands	Significant shareholders and their family members	Entities under control of significant shareholders	Key management personnel and their family members	Other related parties-individuals
Loans and advances to customers				
Gross amount of loans and advances to customers in UAH (contractual interest rate: 9.8%–20%)	102	23,995	1,517	-
Provision for asset transactions	-	39	3	-
Due to other banks				
Demand deposits in USD (contractual interest rate: 1.5%–5.53%)	-	11,712	-	-
Demand deposits in EUR (contractual interest rate: 5%)	-	16,747	-	-
Demand deposits in GBP (contractual interest rate: 0%)	-	159	-	-
Demand deposits in RUB (contractual interest rate: 0%)	-	2	-	-
Short-term borrowings received in USD (contractual interest rate: 2%–7.9%)	-	393,426	-	-
Short-term borrowings received in EUR (contractual interest rate: 2%–9.7%)	-	464,044	-	-
Long-term deposits received in EUR (contractual interest rate: 3.7%)	-	142,804	-	-
Customer accounts				
Current accounts in UAH (contractual interest rate: 0%–19.5%)	2,410	143,071	3,125	926
Current accounts in USD (contractual interest rate: 0%–0.1%)	1,267	5,626	2,044	226
Current accounts in EUR (contractual interest rate: 0%)	435	3,845	835	844
Current accounts in GBP (contractual interest rate: 0%)	-	-	-	2,262
Term deposits in UAH (contractual interest rate: 13%–16%)	50	4,773	982	-
Term deposits in USD (contractual interest rate: 3%–5.5%)	65,584	-	16,957	40,515
Term deposits in EUR (contractual interest rate: 4%)	12,698	-	-	317
Subordinated debt in USD (contractual interest rate: 6%–8%)	107,829	-	-	-
Subordinated debt in UAH (contractual interest rate:16.5%)	-	35,496	-	-
Provision for vacations	4,268	-	621	-
Other financial and non-financial assets	-	100	-	-
Other financial and non-financial liabilities	-	6,775	-	-
Loan commitments (including irrevocable)	40,200	29,700	524	-
Guarantees issued	-	2,215	-	-
Claims on currency receipt under currency swap contracts	-	74,128	-	-
Liabilities on currency transfers under currency swap contracts	-	74,128	-	-

Other related parties-individuals are represented by the shareholders of the entities under control of significant shareholders, who may have an influence on business decisions of the Bank's shareholders.

As at 31 December 2018, collateral under the loan granted to third party included property rights on the deposit attracted from the Bank's related party for the total amount of UAH 142,714 thousand (31 December 2017: property rights under deposits attracted from the Bank's related parties in the total amount of UAH 186,094 thousand).

30 Related party transactions (continued)

The income and expense items with related parties for 2018 were as follows:

In Ukrainian Hryvnias and in thousands	Significant shareholders and their family members	Entities under control of significant shareholders	Key management personnel and their family members	Other related parties-individuals
Interest income	21	10,768	204	-
Interest expense	11,437	108,379	1,242	2,070
Fee and commission income	503	37,588	191	394
Fee and commission expenses	-	16,845	-	-
Income on modification and de-recognition of financial instruments	22	4,285	-	46
Expense on modification and de-recognition of financial instruments	31	169	2	-
Expense on allowances for impairment of loans	-	33	3	-
Administrative and other operating expenses	5,029	70,188	587	-

Remuneration to key management personnel for the year ended 31 December 2018 included short-term employee benefits that included salary and bonuses payable in cash amounting to UAH 120,829 thousand (2017: UAH 86,261 thousand). Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services. Key management personnel are those individuals that have the authority and responsibility for planning, directing, and controlling the activities of the Bank directly or indirectly, and include members of the Management Board and the Supervisory Board.

Aggregate amounts granted to and repaid by related parties during 2018 were as follows:

In Ukrainian Hryvnias and in thousands	Significant shareholders and their family members	Entities under control of significant shareholders	Key management personnel and their family members	Other related parties-individuals
Amounts granted to related parties during the year	331	397,466	5,167	5
Amounts repaid by related parties during the year	(337)	(363,725)	(3,903)	(5)

30 Related party transactions (continued)

As at 31 December 2017, the outstanding balances with related parties were as follows:

In Ukrainian Hryvnias and in thousands	Significant shareholders and their family members	Entities under control of significant shareholders	Key management personnel and their family members	Other related parties-individuals
Loans and advances to customers				
Gross amount of loans and advances to customers in UAH (contractual interest rate: 18%–20%)	102	3,176	104	-
Provision for asset transactions	-	1	-	-
Due to other banks				
Demand deposits in USD (contractual interest rate: 1.5%–5%)	-	4,395	-	-
Demand deposits in EUR (contractual interest rate: 5%)	-	15,200	-	-
Demand deposits in GBP (contractual interest rate: 0%)	-	115	-	-
Demand deposits in RUB (contractual interest rate: 0%)	-	31	-	-
Overnight borrowings received in USD (contractual interest rate: 2.6%)	-	38,180	-	-
Short-term borrowings received in USD (contractual interest rate: 2%–7.6%)	-	319,812	-	-
Short-term borrowings received in EUR (contractual interest rate: 2%–9.7%)	-	168,091	-	-
Long-term deposits received in EUR (contractual interest rate: 6.4%)	-	151,524	-	-
Customer accounts				
Current accounts in UAH (contractual interest rate: 0%–18%)	5,747	180,025	2,922	429
Current accounts in USD (contractual interest rate: 0%–9%)	66,886	36,001	7,784	34,747
Current accounts in EUR (contractual interest rate: 0%–5%)	28,518	1,574	518	862
Current accounts in GBP (contractual interest rate: 0%)	-	-	-	64
Term deposits in UAH (contractual interest rate: 11.5%–16%)	9,069	105,973	1,052	-
Term deposits in USD (contractual interest rate: 3%–6%)	-	12,108	11,245	6,971
Term deposits in EUR (contractual interest rate: 0%)	25	-	-	-
Subordinated debt in USD (contractual interest rate:8%)	50,155	-	-	-
Subordinated debt in UAH (contractual interest rate:16.5%)	-	35,503	-	-
Provision for vacations	4,051	-	542	-
Other financial and non-financial assets	1	271	-	-
Other financial and non-financial liabilities	1	4,758	20	3
Loan commitments (including irrevocable)	50	33,732	202	-
Guarantees issued	-	2,245	-	-
Claims on currency receipt under currency swap contracts	-	6,729	-	-
Liabilities on currency transfers under currency swap contracts	-	6,729	-	-

30 Related party transactions (continued)

The income and expense items with related parties for 2017 were as follows:

In Ukrainian Hryvnias and in thousands	Significant shareholders and their family members	Entities under control of significant shareholders	Key management personnel and their family members	Other related parties-individuals
Interest income	3	2,011	56	-
Interest expense	9,363	89,119	1,017	2,440
Fee and commission income	460	28,521	114	413
Fee and commission expenses	-	13,224	-	-
Administrative and other operating expenses	2,963	47,634	441	-

During 2017, the Bank recognized in equity gain on prolongation of borrowed funds in USD in the amount of UAH 2,450 thousand.

Aggregate amounts granted to and repaid by related parties during 2017 were as follows:

In Ukrainian Hryvnias and in thousands	Significant shareholders and their family members	Entities under control of significant shareholders	Key management personnel and their family members
Amounts granted to related parties during the year	462	88,132	3,219
Amounts repaid by related parties during the year	(362)	(87,449)	(3,624)

31 Events after the reporting period

In February 2019, the Bank entered into another agreement with WORLDBUSINESS CAPITAL, INC., USA, and, in March 2019, received a long-term borrowing for the period of 9 years in the amount of USD 8,000 thousand. The principal of the borrowing shall be repayable by thirty-four instalments at each repayment date effective from 20 December 2019. Contractual interest is accrued on the basis of 3-month LIBOR for USD and margin in the amount of 4.3%. Interest is repayable every three months over the contract period.

The borrowing was received against guarantees of OVERSEAS PRIVATE INVESTMENT CORPORATION, USA, with the purpose of promoting lending to small and medium businesses in Ukraine (in particular, at least 25% of funds should be spent on lending businesses owned or managed by women).