JOINT-STOCK COMPANY
OTP BANK

Financial Statements and
Independent Auditor’s Report
for the Year Ended 31 December 2018

JOINT-STOCK COMPANY OTP BANK

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JOINT-STOCK COMPANY OTP BANK

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 the financial position of Joint Stock Company "OTP Bank" (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 accordance with International Financial Reporting Standards ("IFRS").

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 in IFRS are insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the Bank's financial position and financial performance; and
- 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; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Bank for the year ended 31 December 2018 were approved by the Bank's management on 27 March 2019.

On behalf of the Bank's management:

Tamas Hak-Kovacs,	**Natalia Diuba,**
Chairman of the Management Board	Chief Accountant
27 March 2019	27 March 2019

PJSC "Deloitte & Touche USC"
48, 50A, Zhylyanska St.
Kyiv 01033
Ukraine

Tel: +38 (044) 490 9000
Fax: +38 (044) 490 9001
deloitte.ua

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JOINT-STOCK COMPANY OTP BANK:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of JOINT-STOCK COMPANY OTP BANK (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and 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 requirements of the Law of Ukraine "On accounting and financial reporting in Ukraine" ("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 receivable from customers Starting from 1 January 2018 the Bank applies IFRS 9 that significantly changes methodology and measurement process of ECL allowance on loans and receivable from 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 risk of default and measurement of expected credit losses on loans and advances to customers.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Allowances for ECL represent management's best estimate of the 12-moths ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets at the reporting date. They are calculated on a collective basis for portfolios of loans of a similar credit risk characteristics and on an individual basis for significant loans. The calculation of both collective and individual allowances for ECL is inherently judgmental. Collective ECL are calculated using statistical models, which approximate the impact of current and future economic and credit conditions on large portfolios of loans. The inputs to these models are subject to management judgment and model revisions are required. For individual assessment, judgment is required to estimate the expected future cash flows scenarios related to that loan. In addition, management's judgement is required to assess whether significant increase of credit risk ("SICR") has occurred since initial recognition. Allowances for ECL is determined as a key audit matter due to significant balance of loans and receivable from customers that, as at 31 December 2018 and 1 January 2018, amounted to UAH 22,059,052 thousand and UAH 17,045,017 thousand, respectively, and the judgements used in calculations, as discussed in Note 3 and Note 29.	• For collective ECL allowances, the appropriateness of the modeling 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, 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 information included in the management report and corporate governance report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the issuers annual report, which is expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the issuers annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Other Matter

The financial statements of JOINT-STOCK COMPANY OTP BANK for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 28 March 2018.

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 Law on accounting and financial reporting, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In 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 JOINT-STOCK COMPANY OTP BANK by those charged with governance Supervisory Board on 28 September 2018. We conducted audit from 28 September 2018 to the date of this report.

We confirm that the audit opinion is consistent with the additional report to the Supervisory Board.

We confirm that the prohibited non-audited services referred to ISA or requirements of Article 6, paragraph 4 of 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.

Pursuant to the requirements of Article IV paragraph 11 of the Instruction on the procedure for preparation and publication of financial statements of Ukrainian banks approved by the Resolution of the Board of the National Bank of Ukraine No. 373 dated 24 October 2011 (with amendments) ("Instruction No. 373"), we report the following:

- In our opinion, based on the work undertaken in the course of our audit of the Bank's financial statements, the Management report has been prepared in accordance with the requirements of the Article IV of the Instruction No. 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

Name: PJSC "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

27 March 2019

JOINT-STOCK COMPANY OTP BANK

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2018
In Ukrainian Hryvnias and in thousands

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Interest income	4, 26	4,133,371	3,035,594
Interest expense	4, 26	(1,226,343)	(1,087,530)
Net interest income before allowance for expected credit losses on interest bearing assets		2,907,028	1,948,064
Fee and commission income	6, 26	1,488,810	1,154,533
Fee and commission expense	6, 26	(345,284)	(216,492)
Net gain on foreign exchange and precious metals operations	7, 26	152,056	272,930
Net gain/(loss) on transactions with derivative financial instruments	8	164,224	(66,247)
Net gain/(loss) on investments measured at fair value through other comprehensive income (FVTOCI)		5,570	(10,581)
Net loss on modification of financial assets		(20,320)	-
Allowance for expected credit losses on interest bearing assets	5, 26	(393,928)	(393,649)
Recovery/(provision) for expected credit losses on other operations	5	4,344	(26,769)
Other income	26	53,944	66,442
Net non-interest profit		**1,109,416**	**780,167**
Operating profit		**4,016,444**	**2,728,231**
Operating expense	9, 26	(1,614,720)	(1,463,348)
Profit before income tax		**2,401,724**	**1,264,883**
Income tax expense	10	(427,414)	(243,518)
Net profit for the year		**1,974,310**	**1,021,365**
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to profit or loss:			
Change in fair value of investments measured at fair value through other comprehensive income		65,464	56,288
Impact of change in fair value on deferred income tax		-	(8,586)
Other comprehensive income		**65,464**	**47,702**
Total comprehensive income for the year		**2,039,774**	**1,069,067**
Earnings per share			
Weighted average number of outstanding ordinary shares	11	499,238	499,238
Basic and diluted earnings per share, UAH	11	3,955	2,046

Authorized for issue by management of JOINT-STOCK COMPANY OTP BANK and signed on its behalf by:

Tamas Hak-Kovacs,
Chairman of the Management Board

27 March 2019

Natalia Diuba,
Chief Accountant

27 March 2019

The accompanying notes on pages from 11 to 92 form an integral part of these financial statements.

JOINT-STOCK COMPANY OTP BANK

Statement of Financial Position
as at 31 December 2018
In Ukrainian Hryvnias and in thousands

	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and balances with the National Bank of Ukraine	12	2,320,458	2,182,720
Due from banks	13, 26	2,507,127	3,703,612
Loans to customers	14, 26	22,059,052	17,488,991
Investments measured at fair value through other comprehensive income	15	1,102,220	685,297
Investments measured at amortized cost	16	3,677,428	4,458,228
Property and equipment and intangible assets	17	478,898	405,146
Current income tax assets		127,402	179,705
Deferred income tax assets	10	177,315	467,237
Investment property	18	39,381	39,038
Other assets	19, 26	267,857	222,424
TOTAL ASSETS		**32,757,138**	**29,832,398**
LIABILITIES			
Due to banks and other financial institutions	20, 26	441	479
Customer accounts	21, 26	26,855,632	25,672,913
Other liabilities	22, 26	646,259	529,031
TOTAL LIABILITIES		**27,502,332**	**26,202,423**
EQUITY			
Share capital	23	6,186,023	6,186,023
Share premium	23	405,075	405,075
Other additional capital	23	1,236,294	1,236,294
Revaluation reserve for investments measured at fair value through other comprehensive income		67,683	2,219
Accumulated deficit		(2,640,269)	(4,199,636)
TOTAL EQUITY		**5,254,806**	**3,629,975**
TOTAL LIABILITIES AND EQUITY		**32,757,138**	**29,832,398**

Authorized for issue by management of JOINT-STOCK COMPANY OTP BANK and signed on its behalf by:

Tamas Hak-Kovacs,
Chairman of the Management Board

27 March 2019

Natalia Diuba,
Chief Accountant

27 March 2019

Ідентифікаційний код 21685166

The accompanying notes on pages from 11 to 92 form an integral part of these financial statements.

Statement of Changes in Equity
for the Year Ended 31 December 2018
In Ukrainian Hryvnias and in thousands

	Notes	Share capital	Share premium	Other additional capital	Revaluation reserve for investments measured at fair value through other comprehensive income	(Accumulated deficit)/ retained earnings	Total equity
31 December 2016		**6,186,023**	**405,075**	**1,236,294**	**(45,483)**	**(5,221,001)**	**2,560,908**
Gains on revaluation of investments measured at fair value through other comprehensive income		-	-	-	47,702	-	47,702
Total comprehensive income		-	-	-	-	1,021,365	1,021,365
31 December 2017		**6,186,023**	**405,075**	**1,236,294**	**2,219**	**(4,199,636)**	**3,629,975**
Impact on transition to IFRS 9 (allowance for expected credit losses on loans and financial liabilities)	3	-	-	-	-	(472,109)	(472,109)
Impact on transition to IFRS 9 (allowance for expected credit losses on investments measured at fair value through other comprehensive income)	3	-	-	-	27,410	(27,410)	-
Impact on transition to IFRS 9 (deferred income tax assets)	10					84,576	84,576
1 January 2018		**6,186,023**	**405,075**	**1,236,294**	**29,629**	**(4,614,579)**	**3,242,442**
Gains on revaluation of investments measured at fair value through other comprehensive income		-	-	-	38,054	-	38,054
Total comprehensive income		-	-	-	-	1,974,310	1,974,310
31 December 2018		**6,186,023**	**405,075**	**1,236,294**	**67,683**	**(2,640,269)**	**5,254,806**

Authorized for issue by management of JOINT-STOCK COMPANY OTP BANK and signed on its behalf by:

Tamas Hak-Kovacs,
Chairman of the Management Board

27 March 2019

Natalia Diuba,
Chief Accountant

27 March 2019

The accompanying notes on pages from 11 to 92 form an integral part of these financial statements.

JOINT-STOCK COMPANY OTP BANK

Statement of Cash Flows
for the Year Ended 31 December 2018
In Ukrainian Hryvnias and in thousands

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities			
Interest received		4,067,586	3,505,523
Interest paid		(1,235,182)	(1,120,321)
Fee and commission received		1,488,810	1,154,533
Fee and commission paid		(345,284)	(216,492)
Net gain on foreign exchange and banking metals operations		227,450	166,775
Net gain/(loss) on transactions with derivative financial instruments		166,613	(64,898)
Other income received		34,365	75,751
Operating expense paid		(1,459,051)	(1,238,979)
Cash flows from operating activities before movements in operating assets and liabilities		**2,945,307**	**2,261,892**
Changes in operating assets and liabilities			
Increase in loans to customers		(5,442,089)	(3,085,503)
Increase in other assets		(33,918)	(43,824)
Increase/(decrease) in due to banks		4,139	(71)
Increase in customer accounts		1,386,129	3,343,381
Increase/(decrease) in other liabilities		40,557	(136,570)
Cash (outflow)/inflow from operating activities before income tax		**(1,099,875)**	**2,339,305**
Income taxes paid		-	-
Net cash inflow from operating activities		**(1,099,875)**	**2,339,305**
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(159,284)	(153,914)
Proceeds on sale of property and equipment, intangible assets, and investment property		4,891	212,353
Purchase of investments measured at fair value through other comprehensive income		(23,144,576)	(23,120,160)
Proceeds on sale and repayment of investments measured at fair value through other comprehensive income		22,766,422	24,022,042
Purchase of investments measured at amortized cost		(98,270,000)	(85,714,000)
Proceeds on repayment of investments measured at amortized cost		99,050,003	83,864,004
Net cash inflow/(outflow) from investing activities		**247,456**	**(889,675)**

JOINT-STOCK COMPANY OTP BANK

Statement of Cash Flows
for the Year Ended 31 December 2018 (Continued)
In Ukrainian Hryvnias and in thousands

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Effect of changes in foreign exchange rates on cash and cash equivalents		(206,328)	444,125
Net (decrease)/increase in cash and cash equivalents		(1,058,747)	1,893,755
CASH AND CASH EQUIVALENTS, at the beginning of the year	**12**	**5,886,332**	**3,992,577**
CASH AND CASH EQUIVALENTS, at the end of the year	**12**	**4,827,585**	**5,886,332**

Authorized for issue by management of JOINT-STOCK COMPANY OTP BANK and signed on its behalf by:

Tamas Hak-Kovacs,
Chairman of the Management Board

27 March 2019

Natalia Diuba,
Chief Accountant

27 March 2019

The accompanying notes on pages from 11 to 92 form an integral part of these financial statements.

1. General information on the 2018 activities

JOINT-STOCK COMPANY OTP BANK (the "Bank") is a bank with 100% foreign capital. On 1 June 2006, an agreement was signed on the sale of 100% shares in the Bank to Hungary-based Open Joint Stock Company "Central Savings and Commercial Bank" (hereinafter, "OTP Bank Plc."). The permit of the Antimonopoly Committee of Ukraine was obtained on 15 August 2006. In accordance with Resolution of the Commission of the National Bank of Ukraine on Banking Supervision and Regulation # 266 dated 2 October 2006, OTP Bank Plc. also received the permission of the National Bank of Ukraine on the purchase of 100% in the Bank's share capital.

On 7 November 2006, an entry was made to the State Register of Banks of Ukraine that recorded the revised Charter of Closed Joint Stock Company "OTP Bank" due to the change of the Bank's name from Joint Stock Commercial Bank "Raiffeisenbank Ukraine" to Closed Joint Stock Company "OTP Bank". This event followed the completed procedure of the purchase by OTP Bank Plc. of Joint Stock Commercial Bank "Raiffeisenbank Ukraine" that was founded on the basis of Incorporation and Activities Agreement of Joint Stock Commercial Bank "Raiffeisenbank Ukraine" dated 13 November 1997 and the Decision of the Bank's Constituent Meeting dated 28 November 1997.

Pursuant to the requirements of the Law of Ukraine "On Joint Stock Companies" # 514-VI dated 17 September 2008, as subsequently amended, and in accordance with the Decision of the General Shareholders' Meeting dated 23 April 2009 (Minutes of Meeting # 53), Closed Joint Stock Company "OTP Bank" changed its name to PUBLIC JOINT STOCK COMPANY "OTP Bank".

In accordance with the Decision of the General Shareholders' Meeting dated 5 April 2018 (Minutes of Meeting # 77), PUBLIC JOINT STOCK COMPANY "OTP Bank" changed the type of joint stock company of JSC "OTP Bank" from public to private and, correspondingly, amended its name to JOINT-STOCK COMPANY OTP BANK.

Registered address of the Bank and its location is at: 43 Zhylianska Str., Kyiv, 01033, Ukraine.

In its activities, the Bank is governed by the Laws of Ukraine "On Banks and Banking", "On Securities and Stock Market", "On Accounting and Financial Reporting in Ukraine", the Civil Code of Ukraine, the Commercial Code of Ukraine, other effective laws of Ukraine, as well as regulations issued by the National Bank of Ukraine and other government authorities.

Participants (shareholders) of the Bank. As at 31 December 2018, the single shareholder of the Bank was represented by OTP Bank Plc., a legal entity duly incorporated under the laws of Hungary and located at: Nádor u. 16, Budapest, H-1051, Hungary.

The Parent, OTP Bank Plc., is a universal bank providing a full range of banking services to individuals and corporate clients. In Hungary, the OTP Group, one of the leading finance groups in the Hungarian banking market, comprises also large subsidiaries providing services in such spheres as insurance, real estate, factoring, leasing, and management of investment and pension funds.

OTP Bank Plc. was founded in 1949 as a state owned savings bank. In late 1990, the bank was reorganized into a limited liability public company and renamed to National Savings and Commercial Bank. Upon privatization that commenced in 1995, the government share in the bank's equity reduced to one privileged ("golden") share. At present, most of the bank's shareholdings are owned by domestic and foreign investors, both private and institutional.

Corporate organization of the Bank. The Bank performs its activities through a regional network that consists of 86 non-accounting operational divisions (2017: 85 divisions) (with four of them having Regional Directorates registered by the National Bank of Ukraine) and the Regional Directorate for Kyiv Region created within the structure of the Bank's Head Office. As at 31 December 2018, the number of the Bank's employees was 3,437 persons (2017: 3,417 persons).

1. General information on the 2018 activities (continued)

The Bank's licenses and permissions. Based on the License issued by the National Bank of Ukraine # 191 dated 5 October 2011, the Bank provides a full range of banking services.

In accordance with the effective legislation and based on the respective licenses issued by the National Commission for Securities and Stock Market of Ukraine, the Bank may be involved in depositary activities as a securities custodian and professional trading in securities in stock market: brokerage, dealer, and underwriting activities. The Bank is not involved in any activities in the sphere of material production, trade, and insurance, other than acting as an insurance intermediary. The Bank is a full-fledged member of the Individual Deposit Guarantee Fund.

The Bank's performance for the year of 2018 is disclosed in the notes to these financial statements.

2. Operating environment

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 the 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.

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 presidential and parliamentary elections, due in March and October 2019, respectively.

3. Summary of significant accounting policies

Statement of compliance. These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Standards Interpretations Committee ("IFRS IC").

The financial statements are presented in Ukrainian Hryvnias and in thousands, unless otherwise indicated.

These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

In Ukrainian Hryvnias and in thousands

3. Summary of significant accounting policies (continued)

In maintaining its accounting records, the Bank is governed by the Ukrainian legislation. These financial statements have been prepared from Ukrainian statutory accounting records maintained in accordance with the regulations of the National Bank of Ukraine and have been adjusted to conform to IFRS.

These adjustments include certain reclassifications to reflect the economic substance of underlying transactions, including reclassifications of certain assets and liabilities, income and expense to appropriate financial statement captions.

The same accounting policies, presentation, and methods of computation have been followed for 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 clarifications)
Amendments to IAS 40 "Investment Property"	"Transfers of Investment Property"
Amendments to IFRS	Annual Improvements to IFRS 2014–2016 Cycle
Interpretation of IFRS IC 22	"Foreign Currency Transactions and Advance Consideration"

Impact of initial application of IFRS 9 Financial Instruments. In the current year, the Bank has applied IFRS 9 "Financial Instruments" (as revised in July 2014) 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 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 statement of profit or loss using the effective interest rate method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net Gain/(Loss) on Trading Assets and Other Financial Assets Measured at FVTPL and Trading Liabilities' and 'Net Gain/(Loss) on Other Financial Instruments at FVTPL'.

3. Summary of significant accounting policies (continued)

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 points 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. For financial assets at FVTPL, transaction costs are recognized in profit or loss at initial recognition.

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 (see above). The fees included in this part of the Bank's statement of profit or loss 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 and loan syndication fees.

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

Net gain/(loss) on trading assets and other financial assets measured at FVTPL and trading liabilities. Net gain/(loss) on trading assets and other financial assets measured at FVTPL and trading liabilities includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading.

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, and are 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.

3. Summary of significant accounting policies (continued)

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.

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.

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.

3. Summary of significant accounting policies (continued)

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 does not 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.

Financial assets at FVTPL. Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model, other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on re-measurement recognized in profit or loss.

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. Changes in contractual cash flows are considered under the accounting policy on "Modification and Derecognition of Financial Assets" described below.

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;
- Due from banks;
- Loans to customers;
- Investment securities;
- Other financial assets;
- Financial guarantee contracts issued and loan commitments.

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).

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, ECLs are measured at an amount equal to the 12-month ECLs.

ECLs are a probability-weighted estimate of the present value of credit losses. 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 EIR.

- For undrawn loan commitments, the ECLs are the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and
- For financial guarantee contracts, the ECLs are the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor, or any other party.

3. Summary of significant accounting policies (continued)

The Bank measures ECLs on an individual basis, or on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

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 or issuer;
- 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 (see below) includes unlikeliness to pay indicators and a backstop 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:

- The borrower is past due more than 90 days on any material credit obligation to the Bank; or
- The borrower is unlikely to pay its credit obligations to the Bank in full.

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 ECL.

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 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.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. The weighting of these different scenarios forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a backstop 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 derecognition 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. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g., a change to the increase in the interest rate that arises when covenants are breached).

3. Summary of significant accounting policies (continued)

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. The Bank has an established forbearance policy, which applies for corporate and retail lending.

When a financial asset is modified, the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy, a modification results in derecognition when it gives rise to substantially different terms.

In the case where the financial asset is derecognized, the loss allowance for ECLs is re-measured at the date of derecognition 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 derecognition. 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.

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 derecognition, 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 derecognition, 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 derecognition, 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.

3. Summary of significant accounting policies (continued)

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 derecognition 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.

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 derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result 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.

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

Financial liabilities at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

3. Summary of significant accounting policies (continued)

A financial liability, other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination, may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on re-measurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Net Gain/(Loss) on Other Financial Instruments at FVTPL' line item in the statement of profit or loss.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL, all gains and losses are recognized in profit or loss.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Bank assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

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 rate method.

3. Summary of significant accounting policies (continued)

The effective interest rate 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.

Derecognition 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.

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 interest rate risk; credit risk; and foreign exchange rate risk. Derivatives held include foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps, and credit default 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 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 and not arising from a transfer of a financial asset, 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.

In Ukrainian Hryvnias and in thousands

3. Summary of significant accounting policies (continued)

The impact from the first application of IFRS 9 “Financial Instruments” on the statement of financial position as at 1 January 2018 is presented in the following table:

Measured at fair value through other comprehensive income	Measurement under IAS 39 as at 31 December 2017	Reclassified	Impact from adoption of IFRS 9 Stage 1	Stage 2	Stage 3	Originated credit-impaired assets	Measurement under IFRS 9 as at 1 January 2018
Investments measured at fair value through other comprehensive income	**685,297**	**-**	**(27,410)**	**-**	**-**	**-**	**657,887**
Investments measured at fair value through other comprehensive income before allowance for impairment losses	685,991	-	-	-	-	-	685,991
Allowance for impairment of investments	(694)	-	(27,410)	-	-	-	(28,104)

Measured at amortized cost	Measurement under IAS 39 as at 31 December 2017	Reclassified	Impact from adoption of IFRS 9 Stage 1	Stage 2	Stage 3	Originated credit-impaired assets	Measurement under IFRS 9 as at 1 January 2018
Due from banks	**3,703,612**	**-**	**2,291**	**-**	**-**	**-**	**3,705,903**
Due from banks before allowance for impairment losses	3,706,060	-	-	-	-	-	3,706,060
Allowance for impairment losses	(2,448)	-	2,291	-	-	-	(157)
Loans to customers	**17,488,991**	**-**	**60,316**	**(195,155)**	**(264,673)**	**(44,462)**	**17,045,017**
Loans to customers before allowance for impairment losses	23,497,953	83,549	-	-	-	-	23,581,502
Allowance for impairment losses	(6,008,962)	(83,549)	60,316	(195,155)	(264,673)	(44,462)	(6,536,485)
Investments measured at amortized cost	**4,458,228**	**-**	**-**	**-**	**-**	**-**	**4,458,228**
Contingencies and contractual commitments	**2,864,767**	**-**	**(30,426)**	**-**	**-**	**-**	**2,834,341**
Contingencies and contractual commitments before allowance for impairment losses	2,914,447	-	-	-	-	-	2,914,447
Allowance for losses on guarantees and other liabilities	(49,680)	-	(30,426)	-	-	-	(80,106)
Impact from transition to IFRS 9 on retained earnings			**32,181**	**(195,155)**	**(264,673)**	**(44,462)**	

3. Summary of significant accounting policies (continued)

IFRS 15 "Revenue from Contracts with Customers" (and amendments to IFRS 15) is applied to the reporting periods beginning on or after 1 January 2018. The new Standard has introduced a five-step model to be applied to the revenue that should be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed. Those changes have not had any material impact on the Bank's performance.

As the Standard is not applied to the revenue related to financial instruments and leases and, thus, has no effect on most revenues of the Bank, including interest income, net gain/(loss) on transactions with investment securities, rental income, the Bank applies in respect of them IFRS 9 "Financial Instruments" and IAS 17 "Leases".

Interpretation of IFRS IC 22 "Foreign Currency Transactions and Advance Consideration" is applied to the reporting periods beginning on or after 1 January 2018. The Interpretation addresses how to determine the 'date of transaction' when applying the Standard on accounting for foreign currency transactions (IAS 21 "The Effects of Changes in Foreign Exchange Rates"). It is applied in the cases when an entity pays or receives consideration in advance in a foreign currency. The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The adoption of the Interpretation has not had any impact on the Bank's financial statements.

The application of the following amendments to Standards has not had any impact on the Bank's financial position or performance and have nor resulted in any changes in the Bank's accounting policies and the amounts reported for the current or prior years:

- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for the annual periods beginning on or after 1 January 2018);
- Annual Improvements to IFRS 2014–2016 Cycle – Amendments to IAS 1 "Presentation of Financial Statement" and IAS 8 "Accounting Policies, Changes in Accounting Estimates (issued on 8 December 2016 and effective for the annual periods beginning on or after 1 January 2018);
- Amendments to IAS 40 "Investment Property" (issued on 8 December 2016 and effective for the annual periods beginning on or after 1 January 2018).

The accounting policies, presentation, and methods of computation that were applied only in the preparation of the Bank's financial statements for the year ended 31 December 2017

Recognition and measurement of financial instruments. The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of the financial assets and liabilities are recognized using settlement date accounting. All other transactions of purchases or sales of financial instruments are recognized when a business entity becomes a party of the agreement regarding the financial instrument's purchase.

According to the provisions of IAS 39 "Financial Instruments: Recognition and Measurement", financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'loans and receivables', 'held-to-maturity' investments, or 'available for sale' (AFS) financial assets.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities are initially recognized at fair value, plus, in the case of a financial asset or financial liability not recognized at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequently, financial assets and liabilities are carried at fair value, cost, or amortized cost depending on their classification.

Effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (except for future losses related to loan granting) 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.

Gains and losses on subsequent measurement. A gain or loss arising from the change in the fair value of a financial instrument classified as financial asset at fair value through profit or loss is recognized in profit or loss.

A gain or loss arising from the change in the fair value of a financial asset available for sale is recognized directly in other comprehensive income (except for impairment losses and gains and losses from exchange differences of debt financial instruments available for sale) until the asset is derecognized, when cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss. Interest related to a financial asset available for sale is recognized in profit or loss of the period when earned and calculated by using the effective interest rate method.

A gain or loss arising from financial assets and liabilities carried at amortized cost is recognized in profit or loss when the financial asset or financial liability is derecognized or impaired.

Derecognition of financial assets and liabilities

Financial assets*.* A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive cash flows from the asset; or (b) retains the right to receive cash flows from the asset but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether it has retained control over the asset.

3. Summary of significant accounting policies (continued)

If it has not retained control, the asset is derecognized. Where the Bank has retained control over the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities. A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

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

Due from banks. In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Balances due from banks with fixed maturity are subsequently measured at amortized cost using the effective interest rate method. Those balances that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from banks are carried net of allowance for impairment losses, if any.

Loans to customers. Loans to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans granted by the Bank are initially recognized at fair value, plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example, where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized in the statement of profit or loss and other comprehensive income. Subsequently, loans are carried at amortized cost using the effective interest rate method. Loans to customers are carried net of any allowance for impairment.

Loans write-off. Loans are written off against allowance for impairment losses in case of uncollectibility, including through repossession of collateral. Loans are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral, and the respective decision of the court is rendered. Subsequent recoveries of the amounts previously written off are included in other income.

Loans restructuring. Loans restructuring is performed by the Bank, whenever possible, instead of claims for collateral in order to prevent the quality deterioration of its loan portfolio and create favorable conditions for borrowers in meeting their debt obligations.

Restructuring contemplates using the following methods in different combinations and sequences, which include: rescheduling of interest and principal payments; adjusting the nominal interest rate on the loan; changing the maturity dates of the loans (extending); capitalizing the loan overdue amounts; capitalizing term and overdue interest; changing the currency of accounts payable; reassigning or transferring loan outstanding amounts.

3. Summary of significant accounting policies (continued)

When restructuring the loans, one of the key requirements is to maintain the principle of profitability consistency (the rule of even NPV*), according to which profitability of a lending transaction before and after restructuring should remain at the same level. In the event the said principle is maintained, a change in the schedule and form of the loan repayment (including through extending maturity dates), as well as a change in the nominal interest rate will not lead to adjustments in the carrying amounts of payables as a result of restructuring. Management monitors on a consistent basis the restructured loans in order to ensure and assess the possibility of borrowers to make future payments of interest and principal of the loan.

Non-performing loans. Loans are assigned with a non-performing status when interest or principal is delinquent, and further recovery of interest income is doubtful. The Bank's management decides to assign the loan with a non-performing status and initiate the loan recovery through the court proceedings.

Allowance for impairment of financial assets. The Bank accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses for financial assets which are carried at amortized cost are measured as the difference between carrying amounts and the present value of expected future cash flows (net of future loan losses), discounted at the financial asset's original effective interest rate. For the collateralized financial assets, the calculation of present value of future cash flows is represented by the cash flows that may arise from the enforced collection of collateral irrespective of the probability to collect it.

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, the previously recognized impairment loss is reversed.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of management, to cover relevant losses. Provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being individually material and on the basis of an individual or portfolio (group) evaluation of financial assets not being individually significant.

Future cash flows within a group of financial assets that are collectively assessed for impairment are calculated based on the contractual cash flows of the assets and management's experience with respect to changes in the overdue amounts of the borrowers grouped on the basis of similar characteristics of credit risk. To determine the recoverable amount that might be received from a group of financial assets with reference to the experience gained, the historical data are adjusted with regard to the existing conditions that were not considered in the prior periods, whereas, the conditions that existed in the past and do not exist currently are eliminated.

The impairment losses are recognized in profit or loss when incurred as a result of one or more events after the initial recognition of the asset ('loss event'), and the total amount of impairment is deducted from the amount of assets as recorded in the statement of financial position. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency, operational and financial risk exposures, default in repayment of the interest and principal, probability of bankruptcy or financial reorganization, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets. Basic criteria considered in determining the financial assets' impairment are their overdue status and possibility of realizing the respective collateral.

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* NPV (Net Present Value) is the net present value (amortized cost) of a financial instrument calculated by using the effective interest rate method.

3. Summary of significant accounting policies (continued)

For the financial assets recorded at cost, the impairment losses represent the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial asset. Such impairment losses are not reversed.

The Bank accounts for impairment losses on financial assets at amortized cost using the allowance account, and for financial assets measured at cost, through direct write off.

Commitments related to lending. The Bank assumes commitments related to lending, including, obligations to grant loans and liabilities related to the issued financial guarantees, letters of credit, etc. Financial guarantee contracts issued by the Bank are credit guarantees that provide for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts issued are initially recognized at fair value, which is supported by the amount of fees and commissions received. Subsequently, they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 "Provisions, Contingent Liabilities, and Contingent Assets"; and (b) the amount initially recognized, less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts issued, recognized on the straight-line basis. Loan commitments, being commitments to grant loans on the specified terms, are measured in accordance with IAS 37.

Investments available for sale. Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held to maturity investments, or (c) financial assets at fair value through profit or loss.

Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time and which can be sold to cover the liquidity needs or as a result of fluctuations of interest rates and market prices. Such investments are recorded at fair value. Gains or losses from the re-measurement of investments available for sale to the fair value are recognized in other comprehensive income, except for impairment losses and profits, until the cumulative gain or loss initially recognized in other comprehensive income is excluded from equity and included in profit or loss for the year; and interest income accrued using the effective interest method is recognized directly in profit or loss.

The Bank uses quoted market prices to determine the fair value for the Bank's investments available for sale. If the market for investments is not active, the Bank establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing, and independent parties, reference to the current fair value of another, substantially identical instrument, discounted cash flow analysis, and other applicable methods.

If there is a valuation technique commonly used by market participants to price the instrument, and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique.

When there is objective evidence that available for sale financial assets have been impaired, the cumulative loss previously recognized in other comprehensive income is removed from equity and recognized in profit or loss. And the cumulative loss is calculated as the difference between the purchase cost (reduced by the amount of the principal repayments and amortization) and current fair value, less any impairment losses recognized in profit or loss.

3. Summary of significant accounting policies (continued)

Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment recognized in profit or loss, are carried in the statement of profit or loss and other comprehensive income for the period. Reversals of such impairment losses on equity instruments are not recognized in the statement of profit or loss and other comprehensive income.

Held to maturity investments. Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortized cost using the effective interest rate method, less any impairment.

If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the next two financial years.

The accounting policies, presentation, and methods of computation that have been followed in the current year as were applied in the preparation of the Bank's financial statements for the year ended 31 December 2017

Going concern. These financial statements have been prepared assuming that the Bank is a going concern and will continue operations for the foreseeable future. Management and shareholders are intending further develop the Bank's operations in Ukraine. Management believes that the going concern assumption is appropriate for the Bank's financial statements, considering its appropriate capital adequacy, the shareholders' intentions to support the Bank, and the historical experience which evidences that current liabilities will be refinanced in the normal course of business.

Functional currency. Items included in the financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances (the "functional currency"). The functional currency of these financial statements is Ukrainian Hryvnia ("UAH"). All amounts are rounded to the nearest UAH thousands, unless otherwise indicated.

Offsetting. Financial assets and financial 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 settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of profit or loss and other comprehensive income unless required or permitted by any accounting Standard or Interpretation, and as specifically disclosed in the accounting policies of the Bank. In accounting for the transfer of financial assets that do not result in derecognition of such assets, the Bank does not offset the assets transferred and the underlying liabilities.

Cash and cash equivalents. Cash and balances with the National Bank of Ukraine for the purposes of the statement of financial position include cash on hand and balances on correspondent and time deposit accounts with the National Bank of Ukraine. For the purposes of the statement of cash flows, cash and cash equivalents include assets which may be converted to the respective cash amount within a short period of time, namely: cash on hand, unrestricted balances on correspondent accounts with the National Bank of Ukraine, due from banks, and repurchase agreements with original maturity within 90 days, except for guarantee deposits and other restricted balances. For the purposes of the statement of cash flows, the minimum reserve deposit required by the National Bank of Ukraine is not included as a cash equivalent due to restrictions on its availability.

3. Summary of significant accounting policies (continued)

Repurchase and reverse repurchase agreements. Securities sold under repurchase agreements ("repos") are accounted for as collateralized financing transactions, and the securities sold continue to be carried in the statement of financial position, while the counterparty's liabilities are included in repayment amounts under the repurchase agreements within deposits and due from banks or current accounts and deposits from customers, as appropriate. The difference between selling and purchase back prices represents the interest expense and is recognized in profit or loss over the term of the purchase back agreement by using the effective interest rate method. Securities purchased under sale back agreements ("reverse repos") are accounted for as amounts receivable under the sale back agreements in due from banks or loans to customers, as appropriate. The difference between purchase and sale prices represents the interest income and is recognized in profit or loss over the term of the sale back agreement by using the effective interest rate method. In the event that assets purchased under reverse repurchase are sold to third parties, liabilities on the return of the securities are accounted for as liabilities and are measured at fair value.

Derivative financial instruments. In the normal course of business, the Bank enters into various derivative financial instruments, including forwards and swaps to manage currency and liquidity risks and for trading purposes. Derivative financial instruments entered into by the Bank are not designated as hedges and do not qualify for hedge accounting. 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. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

Derivatives are included in other assets or other liabilities in the statement of financial position. Gains and losses resulting from these instruments are included in other income in the statement of profit or loss and other comprehensive income.

Taxation. Income tax expense represents the sum of the current and deferred tax expense.

***Current income tax*.** Current income tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted during the reporting period.

***Deferred income tax*.** Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. Summary of significant accounting policies (continued)

Deferred tax is recognized in the statement of profit or loss and other comprehensive income, except when it relates to items related directly to equity, in which case the deferred tax is also recognized within equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Ukraine also has various other taxes which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of profit or loss and other comprehensive income.

Property and equipment and intangible assets. Property and equipment and intangible assets are carried at historical cost, less any accumulated depreciation or amortization and any recognized impairment losses.

Historical cost of property and equipment items consists of their original cost, including all expenditures directly attributable to the acquisition, delivery, installation, and commissioning of the assets.

All intangible assets of the Bank have finite useful lives and include mainly software and licenses for the use of software products.

Depreciation and amortization are charged on the carrying value of property and equipment and intangible assets and are designed to write off assets over their estimated useful economic lives. They are calculated on a straight line basis.

In 2018, the useful lives of property and equipment and intangible assets were reviewed, the useful lives of property and equipment items were brought in line with requirements of the Tax Code of Ukraine, and the useful lives of intangible assets were determined in accordance with the Provision on the Procedure of Accounting for Property and Equipment and Intangible Assets of JSC "OTP Bank".

Leasehold improvements are depreciated or amortized over the shorter of the lease period and the useful life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Major expenditures for improvement of property and equipment items that extend the initially expected benefits from their use increase the original or revalued cost of the assets. Repairs and maintenance expenditures are recognized by the Bank as expense as incurred.

An item of property and equipment and intangible asset is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

The gain or loss arising on the disposal an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income.

3. Summary of significant accounting policies (continued)

Construction in progress is accounted for at cost. Upon the construction completion, the assets are included in the group of buildings and constructions at cost. Construction in progress is not depreciated until the asset is ready for its intended use.

The carrying amounts of property and equipment and intangible assets are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. Where carrying value exceeds this estimated recoverable amount, assets are written down to their recoverable amount.

The recoverable amount is the higher of fair value, less costs to sell, and value in use. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss, the depreciation and amortization charge for property and equipment and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Investment property. Non-current assets are classified as investment property when they are represented by property items (land, buildings or part of a building, or their combination) and are held by the Bank for the receipt of lease (rental) payments or capital appreciation, or both. At initial recognition of the investment property, the Bank measures and carries it at cost, which includes the purchase price of the property and all expenditures directly attributable to its acquisition.

Expenditures on routine service, repairs, and maintenance of the investment property items are included in the statement of profit or loss and other comprehensive income when incurred.

Subsequent to initial recognition, the Bank carries the investment property items at historical cost (cost), net of accumulated depreciation and recognized impairment loss.

The Bank uses a straight-line method for depreciation of all its investment property items (except for the land plot), the depreciation rate of 5%–6.7%, and the useful lives of buildings – 20 years, and structures – 15 years. The land plot is not depreciated.

In 2018, the useful lives of investment property were reviewed, and the Bank approved their periods in accordance with the Provision on the Procedure of Accounting for Property and Equipment and Intangible Assets of JSC "OTP Bank".

Contingent assets. Contingent assets are not recognized in the statement of financial position, but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities. Contingent liabilities are not recognized in the statement of financial position, but are disclosed unless the possibility of any outflow in settlement is remote.

Provisions for contingent liabilities. Provisions for contingent liabilities are recognized 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 obligation can be made. Provisions for contingent liabilities are measured in accordance with IAS 37 "Provisions, Contingent Liabilities, and Contingent Assets" and require estimates and judgments on behalf of management.

3. Summary of significant accounting policies (continued)

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs. Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue, or cancellation of the Bank's own equity instruments.

Share capital and share premium. Contributions to share capital are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Reporting Period" and disclosed accordingly.

Equity reserves. The reserves recorded in equity (other comprehensive income) in the Bank's statement of financial position include a revaluation reserve which comprises changes in fair value of available-for-sale investments.

Staff costs. Salary related costs, contributions to the state social funds, expense on annual paid vacations, payments of sick leaves, bonuses and non-cash benefits are accrued in the year when the respective services were provided by employees. In accordance with the requirements of the Ukrainian legislation, the Bank makes contributions (payments) to the following state social funds: the State Pension Fund of Ukraine, social security, unemployment, and professional accident insurance funds.

Contributions paid to the state social funds are recognized as the Bank's expense when incurred. Staff costs include amounts of provision for vacations and bonuses. The Bank has no other obligations under post-retirement benefits or other significant compensated benefits requiring accrual.

Foreign currency transactions. The financial statements of the Bank are presented in Ukrainian Hryvnias ("UAH"), the currency of the primary economic environment in which the Bank operates (its functional currency). Monetary assets and liabilities denominated in currencies, other than the Bank's functional currency (foreign currencies), are translated into UAH at the official exchange rates prevailing at the reporting date.

The carrying amounts of assets and liabilities denominated in foreign currencies are carried in the statement of financial position at the official exchange rates prevailing at the dates of their origination and reassessed using the exchange rates at the reporting dates. Foreign currency denominated income and expense are recorded at the official exchange rates prevailing at the dates of their origination and not on settlement dates and, when a cash-basis method is applied, at the exchange rates on settlement dates. All gains and losses arising as a result of such translation are included in net gain/(loss) on foreign currency transactions.

In Ukrainian Hryvnias and in thousands

3. Summary of significant accounting policies (continued)

Rates of exchange. The official exchange rates as at 31 December 2018 and 2017 used by the Bank in the preparation of the financial statements were as follows:

	31 December 2018	31 December 2017
UAH/USD 1	27.688264	28.067223
UAH/EUR 1	31.714138	33.495424
UAH/CHF 1	28.248096	28.618783

Segment reporting. The Bank defines the following operating segments of its activities: treasury segment, corporate business segment, medium and small business segment, retail business segment, and other transactions.

Adoption of new and revised IFRS

The Bank has not applied the following new and revised IFRS that have been issued but are not yet effective:

Standards/Interpretations	Effective for the annual accounting periods beginning on or after
IFRS 16 "Leases"	1 January 2019
Interpretation of IFRS IC 23 "Uncertainty Over Income Tax Treatments"	1 January 2019
Annual Improvements to IFRS 2015–2017 Cycle (amendments to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes", and IAS 23 "Borrowing Costs")	1 January 2019
Amendments to IAS 19 "Employee Benefits" – Plan amendment, curtailment, or settlement	1 January 2019
Amendments to References to the Conceptual Framework in IFRS	1 January 2020

The new Standards and Interpretations listed in the table above are expected to have no significant impact on the Bank's operations, except IFRS 16.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for the annual periods beginning on or after 1 January 2019). The new Standard specifies how an IFRS reporter will recognize, measure, present, and disclose leases. All lease arrangements will result in a lessee obtaining the right of use of the asset from commencement of the lease, as well as funding if lease payments are made during a particular period of time. Accordingly, IFRS 16 removes the classification of leases as operating or finance, as it was earlier stipulated by IAS 17 "Leases", and, instead, provides a single lessee accounting model requiring that lessees recognize: (a) assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value; and (b) depreciation of lease items separately from interest on lease obligations in the statement of profit or loss and other comprehensive income. As for lessor accounting, IFRS 16 has mostly retained the accounting requirements that had been earlier stipulated by IAS 17.

According to the preliminary estimates, the Bank presumes that, in the event IFRS 16 is adopted, the quantitative impact on the assets will amount to UAH 423,407 thousand, which will not have a material effect on the values of economic ratios, in particular, adequacy of regulatory capital and regulatory capital proper.

3. Summary of significant accounting policies (continued)

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the financial statements in accordance with IFRS requires that management of the Bank make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the reporting date, and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Although those estimates are based on the most recent information available to management on current actions and events, actual results may differ from these estimates under different assumptions or conditions.

The following estimates and judgments are considered important to reflect the Bank’s financial position:

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 judgment 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.

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. 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 ECL changes because the credit risk of the portfolios differs.

3. Summary of significant accounting policies (continued)

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.

Fair value of buildings and constructions obtained as collateral**.** The Bank determines the cost of buildings and constructions (property) obtained as collateral under lending transactions at fair value. Since, as at 31 December 2018, there was no active real estate market for certain types of buildings and constructions available, and the existing property valuation standards and rules do not contain the procedure for measuring the market value of the property in the crisis conditions, in reality, when determining the value of the collateralized property, its assessed value is used which was arrived at mainly through the judgment of professional appraisers, and not from the analysis of market factors. Assessment of the fair value of property requires making judgments and using assumptions regarding comparability of property items and other factors. Considering the above, the allowance for loan impairment may be affected by the assessed property value applied in the conditions of the crisis or its consequences. Accounting estimates related to the property appraisals in the absence of active market-based prices are considered to be a key source of uncertainty due to the fact that: (i) they are highly susceptible to change from period to period and (ii) a potential impact from recognition of such estimates may be material.

Initial recognition of related party transactions**.** In the course of normal business activities, the Bank transacts with its related parties. IFRS 9 requires accounting for financial instruments at initial recognition at fair value. In view of absence of an active market for such transactions, to determine whether the transactions were performed at market or non-market prices, judgments are used. Such judgments are based on pricing for similar financial instruments and transactions therewith, including analysis of effective interest rates and parameters of the arrangements made.

Tax legislation**.** Due to the presence in the Ukrainian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties, and interest. Tax records remain open to review by the tax authorities for three years.

Deferred tax assets**.** Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Estimation of probability is based on management's forecast of future taxable profit and is supplemented with subjective judgments by management of the Bank.

In Ukrainian Hryvnias and in thousands

4. Net interest income before allowance for expected credit losses on interest bearing assets

Net interest income, before allowance for expected credit losses on interest bearing assets, comprised:

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income		
Interest income on financial assets measured at amortized cost:		
- Interest income on assets at Stage 3	317,848	262,075
- Interest income on assets at Stages 1-2	3,695,174	2,637,868
Interest income on financial assets measured at fair value	120,349	135,651
Total interest income	**4,133,371**	**3,035,594**
Interest income on financial assets:		
Interest income on loans to customers	3,566,556	2,536,108
Interest income on investments measured at amortized cost	366,983	340,670
Interest income on investments measured at fair value through other comprehensive income	120,349	135,651
Interest income on balances due from banks	79,483	23,165
Total interest income	**4,133,371**	**3,035,594**
Interest expense		
Interest expense on financial liabilities measured at amortized cost:		
Interest expense on customer accounts	(1,220,828)	(1,080,560)
Interest expense on due to banks and other financial institutions	(4,147)	(3,946)
Interest expense on own debt bonds	(1,368)	(3,024)
Total interest expense	**(1,226,343)**	**(1,087,530)**
Net interest income before allowance for expected credit losses on interest bearing assets	**2,907,028**	**1,948,064**

In Ukrainian Hryvnias and in thousands

5. Allowance for expected credit losses, other provisions

Movements in allowance for expected credit losses on interest bearing assets were as follows:

	Due from banks	**Loans to customers**	**Investments measured at fair value through other comprehensive income**	**Total**
31 December 2016	**3,393**	**9,920,977**	**-**	**9,924,370**
(Recovery)/provision	(1,152)	394,107	694	393,649
Effect of foreign exchange fluctuations	207	57,677	-	57,884
Write-off of assets	-	(1,343,886)	-	(1,343,886)
Effect of loan sales	-	(3,019,913)	-	(3,019,913)
31 December 2017	**2,448**	**6,008,962**	**694**	**6,012,104**
Impact on adoption of IFRS 9	(2,291)	527,523	27,410	552,642
1 January 2018	**157**	**6,536,485**	**28,104**	**6,564,746**
Provision of allowance for expected credit losses	1,127	388,088	4,713	393,928
Effect of foreign exchange fluctuations	7	(77,976)	(1,153)	(79,122)
Write-off of assets	-	(317,502)	-	(317,502)
Effect of loan sales	-	(924,423)	-	(924,423)
Adjustment of interest income	-	67,490	-	67,490
31 December 2018	**1,291**	**5,672,162**	**31,664**	**5,705,117**

Loans to customers sold to factoring companies are disclosed in Note 14.

In Ukrainian Hryvnias and in thousands

5. Allowance for expected credit losses, other provisions (continued)

Movements in allowances for expected credit losses on other operations were as follows:

	Other assets	Guarantees and other commitments	Total
31 December 2016	**31,981**	**17,257**	**49,238**
(Recovery)/provision	(4,147)	30,916	26,769
Effect of foreign exchange fluctuations	(36)	1,507	1,471
Write-off of assets	(3,154)	-	(3,154)
31 December 2017	**24,644**	**49,680**	**74,324**
Impact on adoption of IFRS 9	-	30,426	30,426
1 January 2018	**24,644**	**80,106**	**104,750**
Provision/(recovery) of allowance for expected credit losses	6,285	(10,629)	(4,344)
Effect of foreign exchange fluctuations	(19)	(682)	(701)
Write-off of assets	(15,526)	-	(15,526)
31 December 2018	**15,384**	**68,795**	**84,179**

In Ukrainian Hryvnias and in thousands

6. Fee and commission income and expense

Fee and commission income and expense comprised:

	Year ended 31 December 2018	Year ended 31 December 2017
Fee and commission income		
Settlement and cash operations with clients	692,090	576,378
Foreign currency transactions	290,357	242,769
Plastic cards operations	247,217	172,411
Loans granted	83,561	39,040
Guarantees issued	61,844	48,321
Fees on agent operations	43,688	17,164
Fees on insurance partners	37,872	9,521
Securities operations	8,294	6,720
Other income	23,887	42,209
Total fee and commission income	**1,488,810**	**1,154,533**
Fee and commission expense		
Plastic cards operations	(196,895)	(125,448)
Agent fees	(79,948)	(38,493)
Settlements	(53,930)	(44,893)
Securities operations	(1,084)	(316)
Other expense	(13,427)	(7,342)
Total fee and commission expense	**(345,284)**	**(216,492)**

7. Net gain on foreign exchange and precious metals operations

Net gain on foreign exchange and precious metals operations comprised:

	Year ended 31 December 2018	Year ended 31 December 2017
Dealing, net	227,450	166,775
Translation differences, net	(75,394)	106,155
Total net gain on foreign exchange and precious metals operations	**152,056**	**272,930**

In Ukrainian Hryvnias and in thousands

8. Net gain/(loss) on transactions with derivative financial instruments

Net gain/(loss) on transactions with derivative financial instruments was as follows:

	Year ended 31 December 2018	**Year ended 31 December 2017**
Dealing result	166,613	(60,248)
Change in fair value	(2,389)	(5,999)
Total gain/(loss) on transactions with derivative financial instruments	**164,224**	**(66,247)**

9. Operating expense

Operating expense comprised:

	Year ended 31 December 2018	**Year ended 31 December 2017**
Staff costs	683,525	614,218
Operating leases	153,368	135,054
Property and equipment maintenance	135,860	128,018
Salary related taxes and charges	123,028	109,234
Depreciation and amortization	94,467	78,601
Contributions to Individual Deposit Guarantee Fund	81,215	74,121
Professional services	62,055	62,703
Advertising costs	48,835	39,521
Communication services	21,398	24,512
Security expenses	11,593	10,282
Taxes, other than income tax	10,017	15,930
Stationery	7,024	5,226
Write down of repossessed property to net realizable value (Note 19)	6,542	16,608
Cash collection costs	6,146	4,613
Business trips	4,802	3,618
Entertainment expense	3,500	2,626
Losses on impairment of property and equipment (Note 17)	3,335	-
Data processing and information system maintenance	2,703	2,550
Professional training	2,498	1,991
Insurance	1,007	781
Professional membership fees	655	554
Charity and sponsorship expenses	547	509
Losses on impairment of investment property (Note 18)	441	1,205
Fines and penalties	123	6,865
Losses on disposal of property and equipment and intangible assets	74	198
Other expenses	149,962	123,810
Total operating expense	**1,614,720**	**1,463,348**

In Ukrainian Hryvnias and in thousands

10. Income taxes

Temporary differences as at 31 December 2018 and 2017 were as follows:

	31 December 2018	31 December 2017
Deductible temporary differences:		
Allowance for credit losses	823,257	1,646,514
Provisions for liabilities	68,871	49,680
Property and equipment and intangible assets	74,504	79,344
Investments measured at fair value through other comprehensive income	-	(3,201)
Losses on sale of securities	9,536	10,581
Other temporary differences	8,916	4,777
Total deductible temporary differences	**985,084**	**1,787,695**
Net deductible temporary differences	**985,084**	**1,787,695**
Net deferred tax assets	**177,315**	**321,785**
Tax losses carried forward	-	145,452
Net deferred income tax assets	**177,315**	**467,237**

The income tax rate applicable for the years ended 31 December 2018 and 2017 was 18%.

Reconciliation of income tax expense and accounting profit for the years ended 31 December 2018 and 2017 was as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Profit before income tax	**2,401,724**	**1,264,883**
Tax at the statutory tax rate	432,310	227,679
Tax effect of permanent differences	(4,896)	15,839
Income tax expense	**427,414**	**243,518**
Current income tax expense	52,303	571
Deferred income tax expense	375,111	242,947
Income tax expense	**427,414**	**243,518**
Deferred income tax assets		
At the beginning of the period	**(467,237)**	**(720,744)**
Impact on adoption of IFRS 9	(84,576)	-
Adjusted balance at the beginning of the period	**(551,813)**	**(720,744)**
Tax effect of changes in revaluation reserve for investments measured at fair value through other comprehensive income	(613)	10,560
Deferred income tax expense	375,111	242,947
At the end of the period	**(177,315)**	**(467,237)**

In Ukrainian Hryvnias and in thousands

11. Earnings per share

	Year ended 31 December 2018	**Year ended 31 December 2017**
Net profit for the year	1,974,310	1,021,365
Weighted average number of outstanding ordinary shares	499,238	499,238
Basic and diluted earnings per share, UAH	**3,955**	**2,046**

During the years ended 31 December 2018 and 2017, no financial instruments issued by the Bank that had a potential impact on its shares were in circulation. Basic earnings per share were equal to diluted earnings per share.

12. Cash and balances with the National Bank of Ukraine

	31 December 2018	**31 December 2017**
Balances with the National Bank of Ukraine	1,587,308	1,351,904
Cash	733,150	830,816
Total cash and balances with the National Bank of Ukraine	**2,320,458**	**2,182,720**

Cash and cash equivalents for the purposes of the statement of cash flows comprised the following:

	31 December 2018	**31 December 2017**
Cash and balances with the National Bank of Ukraine	2,320,458	2,182,720
Correspondent accounts with banks (Note 13):	**2,489,606**	**3,479,086**
In Ukraine	12,218	7,125
In OECD countries	2,415,257	3,405,399
In other countries	62,131	66,562
Loans	**-**	**224,526**
In OECD countries	-	224,526
Loans under repo transactions	**17,521**	**-**
In Ukraine	17,521	-
Total cash and cash equivalents	**4,827,585**	**5,886,332**

In Ukrainian Hryvnias and in thousands

13. Due from banks

Due from banks comprised:

	31 December 2018	31 December 2017
Correspondent accounts with banks	2,490,379	3,481,487
Loans to banks	-	224,573
Loans under repo transactions	18,039	-
Allowance for credit losses	(1,291)	(2,448)
Total due from banks	**2,507,127**	**3,703,612**

As of 31 December 2018 and 2017, the Bank pledged securities that were used as a collateral under repo agreements in the amount of UAH 18,039 thousand and nil, respectively.

As of 31 December 2018 and 2017, included in due from banks was accrued interest in the amount of UAH 1,487 thousand and UAH 35 thousand, respectively.

As of 31 December 2018, due from two banks for the total amount of UAH 1,376,170 thousand individually exceeded 10% of the Bank’s equity. As at 31 December 2017, due from three banks for the total amount of UAH 3,107,499 thousand individually exceeded 10% of the Bank’s equity.

As of 31 December 2018 and 2017, the maximum credit risk exposure on due from banks amounted to UAH 2,507,127 thousand and UAH 3,703,612 thousand, respectively.

Credit quality of due from banks is disclosed in Note 29.

14. Loans to customers

Loans to customers comprised:

	31 December 2018	31 December 2017
Loans to legal entities and individual entrepreneurs	17,495,830	15,511,405
Consumer loans to individuals	6,106,219	3,393,511
Mortgage loans to individuals	3,359,928	3,953,255
Finance leases payable	583,837	638,912
Loans under repo agreements	184,113	-
Other loans to individuals	1,287	870
Loans to customers before allowance for credit losses	**27,731,214**	**23,497,953**
Less: Allowance for credit losses	(5,672,162)	(6,008,962)
Total loans to customers	**22,059,052**	**17,488,991**

In Ukrainian Hryvnias and in thousands

14. Loans to customers (continued)

As of 31 December 2018 and 2017, the Bank pledged securities that were used as a collateral under repo agreements in the amount of UAH 184,113 thousand and nil, respectively.

As of 31 December 2018 and 2017, included in loans to customers was interest accrued in the amount of UAH 1,383,450 thousand and UAH 662,682 thousand, respectively.

Movements in allowance for credit losses are disclosed in Note 5.

Collateral and other instruments to mitigate credit risk. The amount and type of collateral required by the Bank depend on its assessment of the credit risk exposure in respect of a specific counterparty. The Bank has introduced basic acceptability principles for different types of collateral and assessment parameters. Main types of the collateral obtained include:

- For individual lending – residential property and other real estate, motor vehicles;
- For commercial lending – non-residential property (commercial property, other real estate assets, equipment, inventories and rights thereon, cash on deposit accounts).

The Bank's management monitors the market value of collateral. If required, the Bank re-assesses its value.

Revaluation of the collateral held by the Bank, in the event its value differs significantly from the fair value, is performed by: a) determining the property's market value by independent certified appraisers or by the Bank's employees possessing respective qualifications; b) adjusting the value of property groups against items with similar technical characteristics, designation, and operating conditions.

The Bank does not hold any collateral which is allowed to sell or re-pledge in the event the collateral owner performs its obligations.

The table below summarizes the proportionate amounts of loans secured by collateral, rather than the fair value of the collateral itself:

	31 December 2018	31 December 2017
Guarantees	146,689	119,274
Secured loans:	16,077,621	14,560,182
Loans secured by other real estate	8,153,896	8,113,605
Loans secured by residential properties	2,338,932	2,950,136
Loans secured by equipment, inventory, and rights thereon	4,818,033	2,873,129
Loans secured by securities	184,113	-
Loans secured by cash or guarantee deposits with the Bank	582,647	623,312
Unsecured loans	11,506,904	8,818,497
Loans to customers before allowance for credit losses	**27,731,214**	**23,497,953**
Less: Allowance for credit losses	(5,672,162)	(6,008,962)
Total loans to customers	**22,059,052**	**17,488,991**

In Ukrainian Hryvnias and in thousands

14. Loans to customers (continued)

The table below summarizes the proportionate amounts of credit-impaired loans to customers secured by collateral, rather than the fair value of the collateral itself:

	31 December 2018
Guarantees	-
Secured loans:	4,070,781
Loans secured by other real estate	2,084,789
Loans secured by residential properties	1,605,742
Loans secured by equipment, inventory, and rights thereon	365,798
Loans secured by cash or guarantee deposits with the Bank	14,452
Unsecured loans	3,191,602
Loans to customers before allowance for expected credit losses	**7,262,383**
Less: Allowance for expected credit losses	(5,212,157)
Total loans to customers	**2,050,226**

As of 31 December 2018 and 2017, a significant amount of corporate loans (99.9% of loans to customers) was granted to the companies operating in Ukraine, which represents a significant geographical concentration in one region (Note 29).

As of 31 December 2018 and 2017, the Bank granted loans to three and eleven groups of customers for the total amount of UAH 1,837,582 thousand and UAH 4,494,151 thousand, respectively, which individually exceeded 10% of the Bank’s equity.

As of 31 December 2018 and 2017, the maximum credit risk exposure on loans to customers amounted to UAH 22,059,052 thousand and UAH 17,488,991 thousand, respectively. As at 31 December 2018 and 2017, the maximum credit risk exposure on contingent lending commitments and undrawn credit lines amounted to UAH 5,437,308 thousand and UAH 2,864,767 thousand, respectively (Note 24). Credit quality of loans to customers is disclosed in Note 29.

As of 31 December 2018 and 2017, the maximum credit risk exposure on loans to customers registered in Crimea and Donetska and Luhanska regions comprised the following:

	31 December 2018	31 December 2017
Loans to customers registered in Donetska and Luhanska regions	674,076	490,743
Loans to customers registered in Crimea	86	124
Total loans to customers registered in Crimea and Donetska and Luhanska regions, less allowance	**674,162**	**490,867**
Less: Allowance for expected credit losses on loans to customers registered in Donetska and Luhanska regions	(414,275)	(490,743)
Less: Allowance for expected credit losses on loans to customers registered in Crimea	(56)	(124)
Total loans to customers registered in Crimea and Donetska and Luhanska regions	**259,831**	**-**

In Ukrainian Hryvnias and in thousands

14. Loans to customers (continued)

As of 31 December 2018 and 2017, the maximum credit risk exposure on contingent lending commitments and undrawn credit lines granted by the Bank to customers registered in Crimea and customers registered in Donetska and Luhanska regions amounted to UAH 334 thousand, UAH 19,462 thousand and UAH 333 thousand, UAH 16,793 thousand, respectively.

In 2018, the Bank sold a portion of its loan portfolio the value of which, before allowance, amounted to UAH 1,046,959 thousand for UAH 122,536 thousand. As a result of the transaction, the allowances were written-off for the amount of UAH 924,423 thousand (Note 5). In 2017, the Bank sold a portion of its loan portfolio the value of which, before allowance, amounted to UAH 3,451,341 thousand for UAH 431,428 thousand. As a result of the transaction, the allowances were written-off for the amount of UAH 3,019,913 thousand (Note 5).

As of 31 December 2018 and 2017, loans to customers included the finance lease receivables disclosed as follows:

	31 December 2018	
	Minimum lease payments	**Present value of minimum lease payments**
Receivables under finance leases		
Up to 1 year	96,811	44,958
From 1 to 5 years	593,960	464,157
Over 5 years	81,642	74,722
Total investments in finance leases	**772,413**	**583,837**
Unearned finance income on finance leases	(188,576)	-
Allowance for expected credit losses on finance leases	(84,046)	(84,046)
Net investments in finance leases	**499,791**	**499,791**
Current finance leases receivable		38,486
Non-current finance leases receivable		461,305
Net investments in finance leases		**499,791**

In Ukrainian Hryvnias and in thousands

14. Loans to customers (continued)

	31 December 2017	
	Minimum lease payments	**Present value of minimum lease payments**
Receivables under finance leases		
Up to 1 year	148,471	104,907
From 1 to 5 years	599,070	437,595
Over 5 years	111,191	96,410
Total investments in finance leases	**858,732**	**638,912**
Unearned finance income on finance leases	(219,820)	-
Allowance for impairment losses on finance leases	(86,849)	(86,849)
Net investments in finance leases	**552,063**	**552,063**
Current finance leases receivable		90,647
Non-current finance leases receivable		461,416
Net investments in finance leases		**552,063**

15. Investments measured at fair value through other comprehensive income

Investments measured at fair value through other comprehensive income comprised:

	31 December 2018	31 December 2017
Debt securities:		
- Government	1,133,150	684,641
- Corporate entities and banks	734	1,350
Debt securities measured at fair value through other comprehensive income	**1,133,884**	**685,991**
Allowance for credit losses	(31,664)	(694)
Total investments measured at fair value through other comprehensive income	**1,102,220**	**685,297**

As of 31 December 2018 and 2017, included in investments measured at fair value through other comprehensive income was accrued interest in the amount of UAH 14,808 thousand and UAH 12,480 thousand, respectively.

In Ukrainian Hryvnias and in thousands

15. Investments measured at fair value through other comprehensive income (continued)

Credit quality of investments measured at fair value through other comprehensive income is disclosed in Note 29.

As of 31 December 2018 and 2017, the Bank pledged securities that were used as a collateral under repo agreements in the amount of UAH 202,152 thousand and nil, respectively.

16. Investments measured at amortized cost

As of 31 December 2018 and 2017, investments measured at amortized cost included government debt securities in the amount of UAH 3,677,428 thousand and UAH 4,458,228 thousand, respectively.

As of 31 December 2018 and 2017, included in investments measured at amortized cost was accrued interest in the amount of UAH 7,440 thousand and UAH 8,237 thousand, respectively.

17. Property and equipment and intangible assets

Property and equipment and intangible assets comprise the following:

	Buildings and other real estate	Furniture and equipment	Other non-current tangible assets	Vehicles	Construction in progress	Intangible assets	Total
At cost							
31 December 2016	**142,163**	**305,115**	**100,770**	**10,366**	**21,827**	**495,903**	**1,076,144**
Additions and internal transfers	7,179	57,907	14,328	6,491	10,900	60,372	157,177
Disposals	(15,777)	(38,622)	(5,039)	(896)	(6)	(87,056)	(147,396)
31 December 2017	**133,565**	**324,400**	**110,059**	**15,961**	**32,721**	**469,219**	**1,085,925**
Additions and internal transfers	75	71,571	16,956	11,716	8,631	62,619	171,568
Disposals	-	(9,815)	(6,556)	(1,372)	(5,174)	(9,036)	(31,953)
Impairment	(3,335)	-	-	-	-	-	(3,335)
31 December 2018	**130,305**	**386,156**	**120,459**	**26,305**	**36,178**	**522,802**	**1,222,205**
Accumulated depreciation and amortization							
31 December 2016	**23,460**	**252,589**	**95,814**	**8,292**	**-**	**359,368**	**739,523**
Charges for the year	2,770	24,193	4,446	1,173	-	44,912	77,494
Eliminated on disposals	(5,182)	(38,190)	(5,038)	(773)	-	(87,055)	(136,238)
31 December 2017	**21,048**	**238,592**	**95,222**	**8,692**	**-**	**317,225**	**680,779**
Charges for the year	2,764	30,179	9,273	2,016	-	49,800	94,032
Eliminated on disposals	-	(9,735)	(6,556)	(1,372)	-	(13,841)	(31,504)
31 December 2018	**23,812**	**259,036**	**97,939**	**9,336**	**-**	**353,184**	**743,307**
Net book value							
31 December 2018	**106,493**	**127,120**	**22,520**	**16,969**	**36,178**	**169,618**	**478,898**
31 December 2017	**112,517**	**85,808**	**14,837**	**7,269**	**32,721**	**151,994**	**405,146**

In Ukrainian Hryvnias and in thousands

17. Property and equipment and intangible assets (continued)

As of 31 December 2018 and 2017, included in property and equipment and intangible assets were no:

- Property and equipment in respect to which restrictions on ownership, use, and disposal exist;
- Property and equipment and intangible assets pledged;
- Property and equipment that are temporarily out of use (laid up, modernized, etc.);
- Property and equipment withdrawn from operations for sale;
- Intangible assets with restricted title of ownership;
- Increase or decrease in property and equipment and intangible assets during the reporting period arising from revaluation and impairment that were recognized or reversed directly in equity.

As of 31 December 2018 and 2017, included in property and equipment and intangible assets were fully depreciated property and equipment and amortized intangible assets in the amount of UAH 419,734 thousand and UAH 423,572 thousand, respectively.

18. Investment property

Investment property comprised:

At cost:	
31 December 2016	**183,747**
Repossessed properties	71,830
Reclassified from repossessed properties	1,258
Disposals	(214,697)
Impairment losses	(1,205)
31 December 2017	**40,933**
Repossessed properties	6,110
Reclassified from repossessed properties	1,922
Disposals	(7,280)
Impairment losses	(441)
31 December 2018	**41,244**
Accumulated depreciation:	
31 December 2016	**6,512**
Charges for the year	1,107
Transfer depreciation	84
Eliminated on disposals	(5,808)
31 December 2017	**1,895**
Charges for the year	435
Eliminated on disposals	(467)
31 December 2018	**1,863**
Net book value:	
31 December 2018	**39,381**
31 December 2017	**39,038**

In Ukrainian Hryvnias and in thousands

18. Investment property (continued)

As of 31 December 2018 and 2017, fair values of investment property items amounted to UAH 37,884 thousand and UAH 47,891 thousand, respectively.

Fair values of investment property items were determined by independent appraisers based on the market comparison approach that reflects the transaction prices of similar real estate, as well as using the discounted cash flow method and income capitalization method, which corresponds to the category of Level 3 of fair value hierarchy.

19. Other assets

Other assets comprised:

	31 December 2018	31 December 2017
Other financial assets		
Receivables and settlement/transit accounts	98,898	88,193
Income accrued	51,224	36,344
Derivative financial assets	2,183	178
Other financial assets before allowance for credit losses	**152,305**	**124,715**
Less: Allowance for credit losses	(12,248)	(22,556)
Total other financial assets	**140,057**	**102,159**
Other non-financial assets:		
Properties repossessed by the Bank as a collateral holder	61,879	56,703
Prepaid expenses	47,257	53,216
Inventories	15,519	6,787
Precious metals	4,645	2,675
Taxes recoverable and prepaid, other than income taxes	1,103	1,932
Prepayments for property and equipment and intangible assets	273	694
Other advances and prepayments	260	346
Other non-financial assets before allowance for credit losses	**130,936**	**122,353**
Less: Allowance for credit losses	(3,136)	(2,088)
Total other non-financial assets	**127,800**	**120,265**
Total other assets	**267,857**	**222,424**

Movements in allowances for expected credit losses on other assets for the years ended 31 December 2018 and 2017 are disclosed in Note 5.

In Ukrainian Hryvnias and in thousands

19. Other assets (continued)

Write down of the properties repossessed by the Bank as a collateral holder to net realizable value for the years ended 31 December 2018 and 2017 amounted UAH 6,542 thousand and UAH 16,608 thousand, respectively.

As of 31 December 2018 and 2017, derivative financial assets included the fair value of forward contracts in the amount of UAH 2,180 thousand and UAH 34 thousand, respectively, and swap agreements in the amount of UAH 3 thousand and UAH 144 thousand, respectively.

Credit quality of other financial assets is disclosed in Note 29.

20. Due to banks and other financial institutions

Due to banks and other financial institutions comprised:

	31 December 2018	**31 December 2017**
Borrowings from international financial institutions	315	352
Correspondent accounts of other banks	126	127
Total due to banks and other financial institutions	**441**	**479**

As of 31 December 2018 and 2017, included in due to banks and other financial institutions was accrued interest in the amount of UAH 1 thousand and UAH 1 thousand, respectively.

21. Customer accounts

Customer accounts comprised:

	31 December 2018	**31 December 2017**
Current accounts and deposits repayable on demand	22,703,028	21,773,502
Term deposits	4,152,604	3,899,411
Total customer accounts	**26,855,632**	**25,672,913**

As of 31 December 2018 and 2017, included in customer accounts was interest accrued in the amount of UAH 61,180 thousand and UAH 70,998 thousand, respectively.

As of 31 December 2018 and 2017, customer accounts amounting to UAH 2,759,618 thousand (10.3%) and UAH 2,662,687 thousand (10.4%) were due to twenty customers and eight customers, respectively, which represents a significant concentration.

In Ukrainian Hryvnias and in thousands

21. Customer accounts (continued)

As of 31 December 2018 and 2017, customer accounts amounting to UAH 710,622 thousand and 740,517 thousand, respectively, were used as a collateral to secure for loans granted to customers, guarantees and letters of credit issued, and other transactions related to contingent obligations as follows:

	31 December 2018	31 December 2017
Loans to customers	628,939	664,609
Guarantees	81,683	75,908
Total customer accounts used as a collateral	**710,622**	**740,517**

22. Other liabilities

Other liabilities comprised:

	31 December 2018	31 December 2017
Other financial liabilities		
Provision for unused vacations and bonuses	262,852	238,015
Transit and settlement accounts	175,544	131,859
Payables to other counterparties	28,412	27,866
Payables for property and equipment	13,342	1,941
Derivative financial liabilities	4,572	6,177
Other	13,065	14,983
Total other financial liabilities	**497,787**	**420,841**
Other non-financial liabilities		
Allowance for losses on guarantees and other commitments	68,795	49,680
Deferred income	51,324	35,436
Payables on contributions to Individual Guarantee Deposit Fund	22,700	18,354
Taxes payable, other than income taxes	5,561	4,647
Other	92	73
Total other non-financial liabilities	**148,472**	**108,190**
Total other liabilities	**646,259**	**529,031**

Movements in allowance for losses on guarantees and other commitments for the years ended 31 December 2018 and 2017 are disclosed in Note 5.

As of 31 December 2018 and 2017, derivative financial liabilities included the fair value of swap agreements in the amount of nil and UAH 6,177 thousand, respectively, and the fair value of forward contracts in the amount of UAH 4,572 thousand and nil, respectively.

In Ukrainian Hryvnias and in thousands

23. Share capital, share premium, and other additional capital

	31 December 2018	31 December 2017
Number of outstanding ordinary shares	499,238	499,238
Authorized and paid-in share capital	6,186,023	6,186,023
Share premium	405,075	405,075
Other additional capital	1,236,294	1,236,294
Total share capital, share premium, and other additional capital	**7,827,392**	**7,827,392**

As of 31 December 2018 and 2017, authorized and paid-in share capital consisted of 499,238 and 499,238 ordinary shares, respectively, at par value of UAH 12,390.93 each.

All shares have been issued in a non-certificated form and are owned by one shareholder of the Bank – OTP Bank Plc. – a legal entity under the laws of Hungary.

The Bank has not issued any bearer and privileged shares.

The Bank’s shareholders are entitled to:

(i) Participate in the management of the Bank in accordance with the procedures specified in the Bank’s Charter and internal regulations of the Bank;
(ii) Participate in distribution of the Bank’s profits and obtain its interest (dividends). The right to profits (dividends) is proportionate to the number of shares owned by respective shareholders at the beginning of dividends distribution;
(iii) Receive complete and reliable information about the Bank’s activities;
(iv) Use the shares held by them in accordance with the procedures determined by the effective legislation of Ukraine;
(v) Purchase preemptively the shares additionally issued by the Bank pro rata to the shareholder’s interest in the Bank’s share capital in the event the Bank conducts private placement of its shares;
(vi) Propose on any issues included to the agenda of the Bank’s general shareholders’ meetings;
(vii) In the event of the Bank’s liquidation, receive a portion of the property value pro rata to their shareholdings.

The Bank has not placed any shares designed for issue under options and sales contracts terms.

The Bank’s distributable profits to shareholders are limited to the amount of its reserves as disclosed in its statutory accounts in accordance with the requirements to accounting and reporting of banking institutions in Ukraine. Non-distributable reserves are represented by a reserve fund which is created as required by the effective legislation and statutory regulations of the National Bank of Ukraine in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The Bank’s reserve is created upon the shareholders’ decision in the amount envisaged by the law, provided the contributions amount to at least 5 percent of the Bank’s net profits. This reserve has been created in accordance with the Bank’s Charter that provides for the creation of the reserve for these purposes.

In Ukrainian Hryvnias and in thousands

23. Share capital, share premium, and other additional capital (continued)

As of 31 December 2018 and 2017, the share premium totaling to UAH 405,075 thousand and UAH 405,075 thousand, respectively, represented an excess of contributions received over the nominal value of the shares issued.

In 2018 and 2017, all ordinary shares were ranked equally and carried one vote.

To comply with requirements of the National Bank of Ukraine, in 2009, the Bank obtained a guarantee issued by the Parent. The guarantee was recognized by the Bank in the amount of UAH 1,632,338 thousand based on the guarantee agreement dated 23 December 2009 entered into with OTP Bank Plc.

In 2010, the guarantee agreement was canceled and OTP Bank Plc. paid the amount of USD 155,255 thousand to reimburse for it, which, as at 31 December 2018 and 2017, was accounted for in other additional capital in the amount of UAH 1,236,294 thousand.

During 2018 and 2017, the Bank paid no dividends to its shareholders.

24. Contingencies and contractual commitments

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risks in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral, or security are impaired, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As of 31 December 2018 and 2017, the nominal or contractual amounts of contingent liabilities were as follows:

	31 December 2018	31 December 2017
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments:	1,744,989	1,412,759
Guarantees issued	1,696,592	1,245,772
Import letters of credit	27,058	123,364
Avals	21,339	43,623
Irrevocable undrawn credit lines	3,761,114	1,501,688
Contingent liabilities and credit commitments before allowance for credit losses on guarantees and other liabilities	**5,506,103**	**2,914,447**
Less: Allowance for credit losses on guarantees and other liabilities	(68,795)	(49,680)
Total contingent liabilities and credit commitments	**5,437,308**	**2,864,767**

In Ukrainian Hryvnias and in thousands

24. Contingencies and contractual commitments (continued)

Movements in allowances for credit losses on contingent liabilities and credit commitments as at 31 December 2018 and 2017 are disclosed in Note 5.

Operating lease commitments. Where the Bank is a lessee, the future minimum lease payments under non-cancelable operating leases as at 31 December 2018 and 2017 were as follows:

	31 December 2018	31 December 2017
Within one year	134,037	117,235
Later than one year and not later than five years	135,627	109,711
Total operating lease commitments	**269,664**	**226,946**

Legal proceedings. The Bank's management believes that, as a result of legal proceedings, the Bank may incur losses, thus, as at 31 December 2018, it created a provision for potential litigation costs in the amount of UAH 77 thousand (2017: UAH 73 thousand).

Other contractual commitments. As of 31 December 2018, total amount of contractual commitments of the Bank relating to purchase of property and equipment amounted to UAH 1,420 thousand, including: real estate in the amount of UAH 250 thousand, other equipment in the amount of UAH 225 thousand, construction and premises improvement in the amount of UAH 945 thousand. Contractual commitments in respect of intangible assets and other software amounted to UAH 2,678 thousand and USD 455 thousand, respectively.

As of 31 December 2017, total amount of contractual commitments of the Bank relating to purchase of property and equipment amounted to UAH 1,395 thousand, including: real estate in the amount of UAH 605 thousand, other equipment in the amount of UAH 678 thousand, construction and premises improvement in the amount of UAH 112 thousand. Contractual commitments in respect of intangible assets and other software amounted to UAH 546 thousand.

Taxation. The Ukrainian economy is characterized by the increased tax burden and unexpectedness of the tax system. Banks act not only as taxpayers, but also perform functions of tax agents and intermediaries between taxpayers and the state, which increases tax risks.

Imperfect rule-making technique may lead to imposition of additional tax liabilities, fines, and penalties. The Bank's management, based on its interpretation of the tax legislation, believes it has accrued all effective taxes.

As of 31 December 2018, the Bank had no contingent obligations related to tax issues and no opened or pending legal cases in part of potential imposition of penalty sanctions.

25. Operating segments

Segment reporting format is based on the internal management accounting that reflects distribution of the Bank's business by segments in accordance with management's responsibilities. Business segments are represented as independent business units that generate revenues and incur expenses, and operating performance of which is monitored by the Bank's management on a regular basis.

25. Operating segments (continued)

Corporate business segment. Corporate business includes big corporations, government enterprises and institutions, ministries, local government authorities, transnational corporations, medium-size companies (with the annual turnover exceeding UAH 50 million), as well as finance industry companies: brokerage, insurance and leasing companies, credit unions, pension funds.

Medium and small business segment. Medium and small business segment covers medium-size companies (with the annual turnover of less than UAH 50 million), including professionals and individual entrepreneurs.

Retail business segment. Retail business segment covers private customers, including those using private banking services and the Bank's employees.

Treasury segment. Treasury segment includes relationships with international finance institutions, treasury and investment banking transactions trading in foreign currencies, and transactions with securities.

Other transactions. Other transactions are represented by all other transactions that are not attributable to business segments.

Methods. Methodology for calculating the operating segment profitability is based on transfer pricing methodology. Income and operating expense are calculated on an agreement-by-agreement basis or individual customer accounts, whereas administrative overheads are accounted for by cost centers and allocated by segments on a pro rata basis in accordance with the existing allocation methodology. Administrative overheads are allocated by using the following bases: number of employees, area of the space occupied (square meters), number of customers, agreements/accounts, and fixed interest determined with the help of expert appraisal. One of the key methodology principles contemplates that the total management results should be in line with the total financial performance of the Bank.

Net profit on foreign exchange operation is allocated to treasury as managing currency risk is performed by Treasury function.

One of the key criteria for assessment of the segment's profitability is profit before tax, the amount of which, within management reports, is monitored by the Bank's management on a monthly basis.

Information about geographical areas. Information by geographical segments for 2018 and 2017 was not prepared, since, during the whole period of its existence, the Bank operated solely within the territory of Ukraine.

Information about major customers. The Bank has no significant concentrations of revenue generated from external customers.

In Ukrainian Hryvnias and in thousands

25. Operating segments (continued)

Information on profit/(loss), assets and liabilities of operating segments

						Year ended 31 December 2018
	Corporate	**SME**	**Retail**	**Treasury**	**Other**	**Total**
Interest income from external customers	2,049,753	161,223	1,355,580	566,815	-	4,133,371
Interest expense from external customers	(706,000)	(116,675)	(398,153)	(5,515)	-	(1,226,343)
Intersegment interest margin on assets	(1,329,679)	(116,048)	(640,182)	(570,040)	-	(2,655,949)
Intersegment interest margin on liabilities	1,108,975	434,031	759,810	4,731	-	2,307,547
Marginal income/(expense) on assets	720,074	45,175	715,398	(3,225)	-	1,477,422
Marginal income/(expense) on liabilities	402,975	317,356	361,657	(784)	-	1,081,204
Transformation results	-	-	-	348,402	-	348,402
Marginal income	**1,123,049**	**362,531**	**1,077,055**	**344,393**	**-**	**2,907,028**
Net fee and commission income	486,007	249,282	408,237	-	-	1,143,526
Trading result	-	-	-	321,850	-	321,850
Other income	-	-	-	-	49,245	49,245
GROSS INCOME	**1,609,056**	**611,813**	**1,485,292**	**666,243**	**49,245**	**4,421,649**
Allowance for expected credit losses, net loss on modification of financial assets, and net loss on derecognition of financial assets/liabilities	79,184	(70,813)	(401,176)	(5,515)	(6,885)	(405,205)
GROSS INCOME AFTER ALLOWANCE	**1,688,240**	**541,000**	**1,084,116**	**660,728**	**42,360**	**4,016,444**
OPERATING EXPENSE	(320,195)	(225,421)	(984,940)	(37,351)	(46,813)	(1,614,720)
PROFIT/(LOSS) BEFORE TAX	**1,368,045**	**315,579**	**99,176**	**623,377**	**(4,453)**	**2,401,724**
Income tax expense	-	-	-	-	(427,414)	(427,414)
NET PROFIT/(LOSS)	**1,368,045**	**315,579**	**99,176**	**623,377**	**(431,867)**	**1,974,310**
Additions to property and equipment, intangible assets, and investment property	-	-	-	-	177,678	177,678
Depreciation and amortization	-	-	-	-	(94,467)	(94,467)
Impairment of property and equipment and investment property	-	-	-	-	(3,776)	(3,776)
ASSETS	**15,301,804**	**945,260**	**5,812,066**	**7,288,224**	**3,409,784**	**32,757,138**
LIABILITIES	**10,968,238**	**5,091,275**	**10,796,119**	**5,013**	**641,687**	**27,502,332**

In Ukrainian Hryvnias and in thousands

25. Operating segments (continued)

					Year ended 31 December 2017	
	Corporate	**SME**	**Retail**	**Treasury**	**Other**	**Total**
Interest income from external customers	1,576,343	88,124	871,640	499,487	-	3,035,594
Interest expense from external customers	(618,723)	(67,773)	(394,064)	(6,970)	-	(1,087,530)
Intersegment interest margin on assets	(1,027,302)	(76,863)	(517,185)	(517,182)	-	(2,138,532)
Intersegment interest margin on liabilities	1,087,450	323,460	649,450	6,129	-	2,066,489
Marginal income/(expense) on assets	549,041	11,261	354,455	(17,695)	-	897,062
Marginal income/(expense) on liabilities	468,727	255,687	255,386	(841)	-	978,959
Transformation results	-	-	-	72,043	-	72,043
Marginal income	**1,017,768**	**266,948**	**609,841**	**53,507**	**-**	**1,948,064**
Net fee and commission income	405,851	196,609	335,562	19	-	938,041
Trading result	-	-	-	196,102	-	196,102
Other income	-	-	-	-	66,442	66,442
GROSS INCOME	**1,423,619**	**463,557**	**945,403**	**249,628**	**66,442**	**3,148,649**
Allowance for credit losses	(168,812)	(57,268)	(203,509)	1,136	8,035	(420,418)
GROSS INCOME AFTER ALLOWANCE	**1,254,807**	**406,289**	**741,894**	**250,764**	**74,477**	**2,728,231**
OPERATING EXPENSE	(314,233)	(193,684)	(863,859)	(38,671)	(52,901)	(1,463,348)
PROFIT/(LOSS) BEFORE TAX	**940,574**	**212,605**	**(121,965)**	**212,093**	**21,576**	**1,264,883**
Income tax expense	-	-	-	-	(243,518)	(243,518)
NET PROFIT/(LOSS)	**940,574**	**212,605**	**(121,965)**	**212,093**	**(221,942)**	**1,021,365**
Additions to property and equipment, intangible assets, and investment property	-	-	-	-	229,007	229,007
Depreciation and amortization	-	-	-	-	(78,601)	(78,601)
Impairment of property and equipment and investment property	-	-	-	-	(1,205)	(1,205)
ASSETS	**12,199,232**	**844,926**	**4,407,733**	**8,846,657**	**3,533,850**	**29,832,398**
LIABILITIES	**11,181,341**	**4,420,980**	**9,575,575**	**479**	**1,024,048**	**26,202,423**

In Ukrainian Hryvnias and in thousands

26. Related party transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

The Bank had the following balances outstanding as at 31 December 2018 and 2017 with its related parties:

	31 December 2018		31 December 2017	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Due from banks	696,170	2,507,127	1,980,523	3,703,612
- Parent	634,039		1,913,961	
- Entities under joint control or significant influence	62,131	-	66,562	-
Loans to customers before allowance for credit losses	698,250	27,731,214	327,512	23,497,953
- Entities under joint control or significant influence	697,628	-	325,950	-
- Key management personnel	622	-	1,562	-
Allowance for credit losses on loans to customers	(4,503)	(5,672,162)	(1,768)	(6,008,962)
- Entities under joint control or significant influence	(4,500)	-	(1,630)	-
- Key management personnel	(3)	-	(138)	-
Other assets	663	267,857	168	222,424
- Parent	468	-	150	-
- Entities under joint control or significant influence	195	-	18	-
		-	-	-
Due to banks and other financial institutions	126	441	127	479
- Parent	124		125	
- Entities under joint control or significant influence	2	-	2	-
Customer accounts	217,138	26,855,632	67,708	25,672,913
- Entities under joint control or significant influence	184,340	-	37,351	-
- Key management personnel	32,798	-	30,357	-
		-		-
Other liabilities	52,024	646,259	57,896	529,031
- Parent	2,720	-	5,069	-
- Entities under joint control or significant influence	19,937	-	21,142	-
- Key management personnel	29,367	-	31,685	-
Irrevocable commitments on loans and undrawn credit lines	50,098	3,761,114	10	1,501,688
- Entities under joint control or significant influence	49,839	-	-	-
- Key management personnel	259	-	10	

In Ukrainian Hryvnias and in thousands

26. Related party transactions (continued)

Included in the statement of profit or loss and other comprehensive income for the years ended 31 December 2018 and 2017 were the following amounts which arose due to the transactions with related parties:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	109,678	4,133,371	28,264	3,035,594
- Parent	2,329	-	3,346	-
- Entities under joint control or significant influence	107,237	-	24,761	-
- Key management personnel	112	-	157	-
Interest expense	(7,456)	(1,226,343)	(37,120)	(1,087,530)
- Parent	-	-	-	-
- Entities under joint control or significant influence	(6,138)	-	(35,774)	-
- Key management personnel	(1,318)	-	(1,346)	-
Fee and commission income	3,849	1,488,810	2,224	1,154,533
- Parent	27	-	27	-
- Entities under joint control or significant influence	3,822	-	2,197	-
Fee and commission expense	(7,910)	(345,284)	(3,790)	(216,492)
- Parent	(7,862)	-	(3,767)	-
- Entities under joint control or significant influence	(48)	-	(23)	-
Net gain on foreign exchange and precious metals operations	96,894	152,056	192,905	272,930
- Parent	84,364	-	188,836	-
- Entities under joint control or significant influence	12,530	-	4,069	-
Net gain/(loss) on transactions with financial assets and liabilities measured at fair through profit or loss	119,093	164,224	(40,965)	(66,247)
- Parent	119,093	-	(40,965)	-
Allowance for credit losses on interest bearing assets	(192)	(393,928)	(1,574)	(393,649)
- Parent	-	-	15	-
- Entities under joint control or significant influence	(327)	-	(1,592)	-
- Key management personnel	135	-	3	-
Other income	430	53,944	418	66,442
- Entities under joint control or significant influence	430	-	418	-
Operating expense	(180,146)	(1,614,720)	(187,064)	(1,463,348)
- Parent	(10,156)	-	(9,594)	-
- Entities under joint control or significant influence	(85,546)	-	(83,381)	-
- Key management personnel	(84,444)	-	(94,089)	-

In Ukrainian Hryvnias and in thousands

26. Related party transactions (continued)

During the years ended 31 December 2018 and 2017, remuneration to key management personnel comprised:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel	(84,444)	(806,553)	(94,089)	(723,452)
- Current employee benefits	(84,444)	-	(94,089)	-

Financial instruments recognized as a result of transactions with related parties are initially recognized at fair value by using management judgments.

27. Fair value of financial instruments

IFRS define fair value as 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.

Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis.

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table provides information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s), and inputs used):

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key inputs
	31 December 2018	31 December 2017		
1) Derivative financial assets	2,183	178	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contractual forward rates discounted at a rate that reflects the credit risk of various counterparties
2) Investments measured at fair value through other comprehensive income	400,009	343,529	Level 1	Quoted bid prices in an active market

In Ukrainian Hryvnias and in thousands

27. Fair value of financial instruments (continued)

Financial assets/ financial liabilities	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key inputs**
	31 December 2018	**31 December 2017**		
3) Investments measured at fair value through other comprehensive income	702,211	341,768	Level 2	Discounted cash flows. Future cash flows are estimated based on the inputs that are observable, either directly or indirectly, and the estimates use one or more observable quoted prices for orderly transactions in the markets that are not considered active
4) Derivative financial liabilities	4,572	6,177	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contractual forward rates discounted at a rate that reflects the credit risk of various counterparties

Securities are transferred between levels of fair value hierarchy when methods of their valuation change. Transfers from Level 1 occur when, as at the reporting date, there are no market quotations that were available as at the previous reporting date. In addition, if valuation as at the reporting date uses the present value of cash flows based on the observable market data, then such securities are included into Level 2 of the fair value hierarchy. In the event the information used differs from the observable market data, then such securities are included into Level 3 of the fair value hierarchy. Transfers from Levels 2 and 3 to Level 1 take place when, as at the reporting date, the securities have market prices in an active market, which were not available as at the previous reporting date.

As at 31 December 2018 and 2017, there were no transfers between the levels of fair value hierarchy.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required). Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values:

	31 December 2018		**31 December 2017**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Loans to customers	22,059,052	21,944,797	17,488,991	17,466,693
Customer accounts	26,855,632	26,859,173	25,672,913	25,677,898

In Ukrainian Hryvnias and in thousands

27. Fair value of financial instruments (continued)

The fair values of foreign currency denominated loans to individuals cannot be measured reliably, since, due to the regulatory limitations introduced by the National Bank of Ukraine, the market for these financial instruments during 2018 and 2017 was not available, and it is impracticable to obtain sufficient market data or apply any other valuation technique to such instruments. As at 31 December 2018 and 2017, the carrying amounts of such loans were UAH 88,158 thousand and UAH 254,952 thousand, respectively.

				31 December 2018
	Level 1	**Level 2**	**Level 3**	**Total**
Loans to customers	-	-	21,856,639	21,856,639
Customer accounts	-	-	26,859,173	26,859,173

				31 December 2017
	Level 1	**Level 2**	**Level 3**	**Total**
Loans to customers	-	-	17,234,039	17,211,741
Customer accounts	-	-	25,677,898	25,677,898

The fair values of the financial assets and financial liabilities included in Level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

28. Capital management

The Bank's objectives in its capital management are to:

1) Comply with the requirements to the capital established by the National Bank of Ukraine;
2) Be able to operate and develop in accordance with the Bank's strategic plans;
3) Cover adverse consequences of varied risks assumed by the Bank in the course of its operations;
4) Maintain a sufficient capital base at the level required to ensure the capital adequacy at the level of at least 8% under the Basel Accord.

The Bank's policies in respect of the capital management include determining the effective level of its capital that ensure its long-term value for the shareholder, i.e. establishing objectives and rules of the Bank's capital management in order to optimize the shareholders' requirements to their investments in meeting the following restrictions:

- Comply with the capital requirements established by supervisory authorities;
- The capital level that meets the requirements of investors and rating agencies in ensuring the Bank's access to funds in global and domestic capital markets.

To determine an actual level of the capital considering its business risks, the Bank consistently monitors the quality of its assets and off-balance liabilities, adjusts correspondingly their values by creating provisions for estimated (potential) losses from counterparties' obligations.

A quantitative capital assessment is complemented by qualitative, comprehensive discussions. The respective results are summarized in the form of goals regarding the required level of capital, including strategic objectives as to the ways of maintaining its sufficient level.

In Ukrainian Hryvnias and in thousands

28. Capital management (continued)

The capital structure of the Bank consists of instruments and equity, comprising share capital, share capital in the process of registration, reserves, and other additional capital as disclosed in the statement of changes in equity.

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee:

	31 December 2018	**31 December 2017**
Movements in Tier 1 capital		
As at the beginning of the year	**3,629,975**	**2,560,908**
Effect of changes in accounting policies	(387,533)	-
Adjusted balance as at the beginning of the year	**3,242,442**	**2,560,908**
Reserves disclosed	2,012,364	1,069,067
As at the end of the year	**5,254,806**	**3,629,975**
Composition of regulatory capital		
Tier 1 capital:		
Share capital	6,186,023	6,186,023
Share premium	405,075	405,075
Other additional capital	1,236,294	1,236,294
Reserves disclosed	(2,572,586)	(4,197,417)
Total qualifying Tier 1 capital	**5,254,806**	**3,629,975**
Total regulatory capital	**5,254,806**	**3,629,975**
Capital adequacy ratios:		
Tier 1 capital	18.4%	15.1%
Total capital	18.4%	15.1%

Quantitative measures established by regulation to ensure capital adequacy require that the Bank maintain minimum amounts and ratios of total (8%) and Tier 1 capital (4%) to risk weighted assets.

29. Risk management policies

Management of risks is fundamental to the Bank's banking activities and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives.

Credit risk. The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk management and monitoring is performed, within set limits of authority, by Risk Management Department, Credit Committees, and other collective decision-making committees, and the Bank's Management Board.

Before any application is reviewed by Credit Committee, all recommendations on credit processes (borrower's limits approved, amendments made to loan agreements, etc.) are reviewed and approved by Risk Management Department. Daily risk management is performed by an appropriate department within Risk Management structure.

The Bank structures levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to borrowers, products, and other segments. Limits on the structure of the loan portfolio are set by Risk Management Department and are approved by Assets and Liabilities Management Committee. Actual exposures against limits are monitored on a daily basis.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees. However, a significant portion of loans is represented by loans to individuals, where such facilities cannot always be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in the amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. using limits to mitigate the risk and continuous monitoring.

The Bank monitors the term to maturity on off-balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

29. Risk management policies (continued)

Significant increase in credit risk. Credit risk assessment is performed from the date of initial recognition till the date of derecognition. The Bank recognizes expected credit losses on financial assets as the first stage of impairment ("Stage 1") if, at the reporting date, the credit risk of financial assets has not increased significantly from their initial recognition. The Bank recognizes expected credit losses on financial assets as the second stage of impairment ("Stage 2") if, at the reporting date, the credit risk of financial assets has increased significantly from their initial recognition.

The main factors that indicate that a significant increase in credit risk occurred are:

- Overdue payments for the period of over 30 days;
- Restructuring;
- A substantial devaluation of the national currency against the exposure currency without relevant foreign currency denominated collateral;
- Deterioration of the financial asset's rating to the specified level/to the relevant level or, in comparison with the historical value, to the determined level;
- For mortgage loans, the ratio of debt to collateral exceeding 125%;
- Existing default indicators under other financial assets of the Retail Business borrower;
- As a result of the monitoring process with the use of the Early Warning system, financial assets of the Corporate Business borrower are assigned a worse risk status.

The Bank recognizes expected credit losses on financial assets as the third stage of impairment ("Stage 3") if, at the reporting date, the financial assets have objective evidence of impairment. Stage 3 financial assets are the financial assets in respect of which there is objective evidence of expected loss or one or more events are observed that have a negative impact on the expected cash flows under such financial assets.

The main indicators that evidence for inclusion of financial assets to Stage 3 include:

- Significant financial difficulties of the counterparty/issuer;
- Breach of the contract terms, such as default or past due payment meeting the default definition;
- Provision by the Bank of favorable terms to a borrower for economic reasons related to financial difficulties of the borrower that the Bank would not otherwise consider;
- A high probability of a bankruptcy or other financial reorganization;
- The market becomes inactive for a financial asset as a result of financial difficulties;
- Acquisition or origination of a financial asset with significant discount which reflects incurred credit losses;
- As a result of the monitoring process with the use of the Early Warning system, business lines of the Corporate Business borrower is assigned the worst risk status.

The Bank considers a comprehensive effect of several events that cannot be identified as a single event that has caused impairment.

Internal credit risk ratings. Financial assets are graded as follows: amounts due from banks are graded according to the current credit ratings issued by internationally reputable rating agencies, and, in their absence, according to the rating system internally developed by the Bank; investments are graded in accordance with the current credit rating of Ukraine assigned by internationally regarded agencies; loans to customers are graded according to the rating system developed by the Bank.

29. Risk management policies (continued)

Credit risk of financial assets is assessed on an individual or portfolio basis. Financial assets for the purpose of calculating expected credit losses are divided into significant and insignificant. Significant assets include corporate clients whose amounts due, at the measurement date, exceed the equivalent of EUR 400 thousand. Loans that are treated as insignificant and possessing similar credit risk characteristics are assessed on a portfolio basis, and others – on an individual basis.

Incorporation of forward-looking information*.* The Bank uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECLs. The Bank involves experts of OTP Group who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting. The Bank uses external and internal information for building the 'base case' scenario of estimated economic variables together with a representative range of other forward-looking scenarios. External information applied includes economic data and forecasts published by government statistical bodies. The Bank uses probabilities for identified scenarios. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Bank has not made changes in the estimation techniques or significant assumptions made during the reporting period.

Measurement of ECLs*.* The key inputs used for measuring ECLs are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

As explained above, these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. The estimation is based on historical information and current conditions, adjusted to take into account estimates of future conditions that will impact PD.

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 any collateral. The LGD models for secured assets consider: collateral coverage, sale discounts, time to realization of collateral, cost of realization of collateral, and historical data about level and time of recovery. LGD models for unsecured assets consider time of recovery and recovery rates after default.

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as repayment in accordance with the contractual schedule, changes in utilization of undrawn commitments, and credit mitigation actions taken before default.

The Bank measures ECLs for financial assets in Stage 2 or 3 considering the risk of default over the maximum contractual period (including extension options) over which the Bank is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice.

The measurement of ECLs is based on probability weighted average credit loss. As a result, the measurement of the credit risk should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items).

For the purposes of assessing expected credit losses for loans to customers, other financial assets, due from banks that are subject to impairment requirements under IFRS 9, the Bank allocates those financial assets into five risk levels, depending on the days past due and default indicators, in particular:

	Loans to customers	**Other financial assets**	**Due from banks**
LEVEL 1	Not past due (DPD = 0)	Not past due (1–5 днів)	Not past due (DPD = 0)
LEVEL 2	1–30 days past due	6–30 days past due	1–3 days past due
LEVEL 3	31–60 days past due	31–60 days past due	4-5 days past due
LEVEL 4	61–90 days past due	61–90 days past due	6-7 days past due
LEVEL 5 (default)	Default status	Default status	Default status

For the purposes of assessing expected credit losses for investments that are subject to impairment requirements under IFRS 9, the Bank allocates those assets to four risk levels in accordance with the ratings assigned by international rating agencies (Fitch, Moody's, S&P). Level 1 corresponds to rantings from AAA to A-, Level 2 corresponds to rantings from BBB+ to B-, Level 3 corresponds to rantings from CCC+ to CCC-, and Level 4 (default) corresponds to rating CC.

An analysis of the Bank's **credit risk exposure per class of financial asset, internal rating, and "stage"** is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For contingent and loan commitments, the amounts in the table represent the amounts committed.

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

			Reporting date	
Loans to customers	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs (not impaired)**	**Stage 3 Lifetime ECLs (impaired)**	**Purchased or originated credit impaired financial instruments**
LEVEL 1	17,986,451	2,050,680	2,158,222	683,273
LEVEL 2	281,054	88,054	51,568	300,100
LEVEL 3	-	40,821	26,471	93,841
LEVEL 4	-	21,771	21,469	11,625
LEVEL 5 (default)	-	-	3,826,512	89,302
Total	**18,267,505**	**2,201,326**	**6,084,242**	**1,178,141**

			Reporting date
Other financial assets	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs (not impaired)**	**Stage 3 Lifetime ECLs (impaired)**
LEVEL 1	136,921	-	-
LEVEL 2	-	-	-
LEVEL 3	-	-	-
LEVEL 4	-	-	-
LEVEL 5 (default)	-	-	15,384
Total	**136,921**	**-**	**15,384**

Gross carrying value of due from banks as at 31 December 2018 was at Stage 1 and Level 1. Gross carrying value of investments measured at fair value through other comprehensive income and investments at amortized cost was at Stage 1 and Level 2.

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

The following tables analyze information on significant changes in gross carrying value of financial assets during the period, as well as movements in expected losses during 2018 by classes of financial assets:

Customer accounts – change in gross carrying value of financial instruments subject to impairment requirements under IFRS 9 by Stages	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs (not impaired)**	**Stage 3 Lifetime ECLs (impaired)**	**Purchased or originated credit impaired loans**
1 January, reporting year	**13,226,359**	**1,488,662**	**7,419,856**	**1,446,625**
New loans to customers or purchased loans	17,178,700	-	-	24,877
Transfer from Stage 1, 12-month ECLs	(2,031,817)	1,479,187	420,083	-
Transfer from Stage 2, Lifetime ECLs (not impaired loans)	170,625	(319,430)	56,201	-
Transfer from Stage 3, Lifetime ECLs (impaired loans)	16,421	80,052	(115,184)	-
Loans derecognized during the reporting period	(9,932,653)	(398,872)	(498,412)	(100,837)
Written off during the reporting period	-	-	(1,210,992)	(30,933)
Restructured loans	(2,449)	(392)	(17,479)	-
Effect of other changes (including foreign exchange rate fluctuations)	(357,681)	(127,881)	30,169	(161,591)
Reporting date	**18,267,505**	**2,201,326**	**6,084,242**	**1,178,141**

Due from banks – change in gross carrying value of financial instruments subject to impairment requirements under IFRS 9 by Stages	**Stage 1 12-months ECLs**
1 January, reporting year	**3,706,060**
New due from banks	198,048
Transfer from Stage 1, 12-month ECLs	-
Transfer from Stage 2, Lifetime ECLs (not impaired loans)	-
Transfer from Stage 3, Lifetime ECLs (impaired loans)	-
Due from banks derecognized during the reporting period	(218,419)
Written off during the reporting period	-
Effect of other changes (including foreign exchange rate fluctuations)	(1,177,271)
Reporting date	**2,508,418**

Investments measured at amortized cost – change in gross carrying value of financial instruments subject to impairment requirements under IFRS 9 by Stages	**Stage 1 12-months ECLs**
1 January, reporting year	**4,458,228**
Purchased investments	3,667,428
Transfer from Stage 1, 12-month ECLs	-
Transfer from Stage 2, Lifetime ECLs (not impaired investments)	-
Transfer from Stage 3, Lifetime ECLs (impaired investments)	-
Investments derecognized during the reporting period	(4,458,228)
Written off during the reporting period	-
Effect of other changes (including foreign exchange rate fluctuations)	-
Reporting date	**3,677,428**

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

Investments measured at fair value through other comprehensive income – change in gross carrying value of financial instruments subject to impairment requirements under IFRS 9 by Stages	**Stage 1 12-months ECLs**
1 January, reporting year	**685,991**
Purchased investments	1,109,888
Transfer from Stage 1, 12-month ECLs	-
Transfer from Stage 2, Lifetime ECLs (not impaired investments)	-
Transfer from Stage 3, Lifetime ECLs (impaired investments)	-
Investments derecognized during the reporting period	(656,647)
Written off during the reporting period	-
Effect of other changes (including foreign exchange rate fluctuations)	(5,348)
Reporting date	**1,133,884**

Guarantees and other loan commitments – change in gross carrying value of financial instruments subject to impairment requirements under IFRS 9 by Stages	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs (not impaired)**
1 January, reporting year	**2,777,873**	**136,574**
New guarantees and other loan commitments to customers	4,789,457	-
Transfer from Stage 1, 12-month ECLs	(24,769)	24,342
Transfer from Stage 2, Lifetime ECLs (not impaired guarantees and other loan commitments)	107,158	(107,158)
Transfer from Stage 3, Lifetime ECLs (impaired guarantees and other loan commitments)	-	-
Guarantees and other loan commitments derecognized during the reporting period	(2,163,807)	(22,842)
Effect of other changes (including foreign exchange rate fluctuations)	(10,677)	(48)
Reporting date	**5,475,235**	**30,868**

Other financial assets – change in gross carrying value of financial instruments subject to impairment requirements under IFRS 9 by Stages	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs (not impaired)**	**Stage 3 Lifetime ECLs (impaired)**
1 January, reporting year	**100,071**	**-**	**24,644**
New other assets	69,917	-	7,172
Transfer from Stage 1, 12-month ECLs	-	-	-
Transfer from Stage 2, Lifetime ECLs (not impaired other assets)	-	-	-
Transfer from Stage 3, Lifetime ECLs (impaired other assets)	-	-	-
Other assets derecognized during the reporting period	(32,812)	-	(878)
Written off during the reporting period	-	-	(15,526)
Effect of other changes (including foreign exchange rate fluctuations)	(255)	-	(28)
Reporting date	**136,921**		**15,384**

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

Loans to customers – change in expected credit losses of financial instruments subject to impairment requirements under IFRS 9 by Stages	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs (not impaired)**	**Stage 3 Lifetime ECLs (impaired)**	**Purchased or originated initially impaired loans**
1 January, reporting year	**217,742**	**283,551**	**5,631,632**	**403,560**
New loans to customers or purchased loans	385,754	-	-	-
Transfer from Stage 1, 12-month ECLs	(256,448)	170,323	145,163	-
Transfer from Stage 2, Lifetime ECLs (not impaired loans)	1,977	(59,410)	27,394	-
Transfer from Stage 3, Lifetime ECLs (impaired loans)	352	14,007	(27,271)	-
Loans derecognized during the reporting period	(147,199)	(94,533)	(167,177)	(32,784)
Written off during the reporting period	-	-	(1,210,992)	(30,933)
Effect of changes in models or risk parameters	(23,164)	(26,622)	436,145	109,071
Restructured loans	-	-	-	-
Effect of other changes (including foreign exchange rate fluctuations)	(2,428)	(3,897)	(65,562)	(6,089)
Reporting date	**176,586**	**283,419**	**4,769,332**	**442,825**

Due from banks – change in expected credit losses of financial instruments subject to impairment requirements under IFRS 9 by Stages	**Stage 1 12-months ECLs**
1 January, reporting year	**157**
New due from banks	1,001
Transfer from Stage 1, 12-month ECLs	
Transfer from Stage 2, Lifetime ECLs (not impaired)	
Transfer from Stage 3, Lifetime ECLs (impaired)	
Due from banks derecognized during the reporting period	
Written off during the reporting period	
Effect of changes in models or risk parameters	126
Effect of other changes (including foreign exchange rate fluctuations)	7
Reporting date	**1,291**

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

Investments measured at fair value through other comprehensive income – change in expected credit losses of financial instruments subject to impairment requirements under IFRS 9 by Stages	Stage 1 12-months ECLs
1 January, reporting year	**28,104**
New investments	26,987
Transfer from Stage 1, 12-month ECLs	-
Transfer from Stage 2, Lifetime ECLs (not impaired)	-
Transfer from Stage 3, Lifetime ECLs (impaired)	-
Investments derecognized during the reporting period	(27,410)
Written off during the reporting period	-
Effect of changes in models or risk parameters	5,136
Effect of other changes (including foreign exchange rate fluctuations)	(1,153)
Reporting date	**31,664**

Guarantees and other loan commitments – change in expected credit losses of financial instruments subject to impairment requirements under IFRS 9 by Stages	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs (not impaired)
1 January, reporting year	**54,350**	**25,756**
New guarantees and other loan commitments to customers	44,338	-
Transfer from Stage 1, 12-month ECLs	(2,327)	2,326
Transfer from Stage 2, Lifetime ECLs (not impaired)	687	(24,495)
Transfer from Stage 3, Lifetime ECLs (impaired)	-	-
Guarantees and other loan commitments derecognized during the reporting period	(47,779)	(1,261)
Written off during the reporting period	-	-
Effect of changes in models or risk parameters	17,688	194
Effect of other changes (including foreign exchange rate fluctuations)	(647)	(35)
Reporting date	**66,310**	**2,485**

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

Other financial assets – change in expected credit losses of financial instruments subject to impairment requirements under IFRS 9 by Stages	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs (not impaired)	Stage 3 Lifetime ECLs (impaired)
1 January, reporting year	-	-	**24,644**
New other assets	4,027	-	-
Transfer from Stage 1, 12-month ECLs	(4,027)	-	4,027
Transfer from Stage 2, Lifetime ECLs (not impaired)	-	-	-
Transfer from Stage 3, Lifetime ECLs (impaired)	-	-	-
Other assets derecognized during the reporting period	-	-	(878)
Written off during the reporting period	-	-	(15,526)
Effect of changes in models or risk parameters	-	-	3,136
Effect of other changes (including foreign exchange rate fluctuations)	-	-	(19)
Reporting date	-	-	**15,384**

The table below analyzes the effect of modifications on financial assets measured at amortized cost or fair value through other comprehensive income for the year ended 31 December 2018:

	Reporting period ended 31 December 2018
Amortized cost of financial assets before modification (Lifetime ECLs)	1,094,557
Modification result of financial assets (Lifetime ECLs)	(20,320)
Gross carrying value of modified financial assets, at the end of the reporting period, transferred to 12-month ECLs	137,405

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

The following table details the carrying value of assets that are neither past due nor impaired, assets that are individually and collectively impaired, and the aging of those that are past due but not impaired:

			Financial assets past due but not impaired								
	Neither past due nor impaired	**Allowance for unimpaired assets**	**0–3 months**	**3–6 months**	**From 6 months to 1 year**	**More than one year**	**Financial assets that have been individually impaired**	**Allowance for impairment losses calculated individually**	**Financial assets that have been collectively impaired**	**Allowance for impairment losses calculated collectively**	**Total as at 31 December 2017**
Due from banks	3,706,060	(2,448)	-	-	-	-	-	-	-	-	3,703,612
Loans to customers	15,222,018	(537,747)	716,814	-	-	-	6,765,692	(4,697,749)	793,429	(773,466)	17,488,991
Investments available for sale	685,297	-	-	-	-	-	-	-	-	-	685,297
Investments held to maturity	4,458,228	-	-	-	-	-	-	-	-	-	4,458,228
Other financial assets	101,590	-	-	-	-	-	23,125	(22,556)	-	-	102,159

Financial assets are graded as follows: amounts due from banks are graded according to the current credit ratings issued by internationally regarded agencies, and, in their absence, according to the rating system developed by the Bank; investments available for sale are graded in accordance with the current credit rating of Ukraine assigned by internationally regarded agencies; loans to customers are graded according to the rating system developed by the Bank.

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

The following table details the credit ratings of financial assets held by the Bank that are neither past due nor impaired:

							31 December 2017
	AAA	**AA**	**A**	**BBB**	**Below BBB**	**Not rated**	**Total**
Due from banks	-	15,896	237,954	1,368,958	66,882	2,013,922	3,703,612
Loans to customers	-	563,003	3,238,042	3,359,396	3,672,594	3,952,601	14,785,636
Investments available for sale	-	-	-	-	685,297	-	685,297
Investments held to maturity	-	-	-	-	4,458,228	-	4,458,228
Other financial assets	-	-	-	-	-	101,590	101,590

The description of credit ratings is presented as follows:

Investment grade financial assets have ratings from AAA to BBB:

AAA	- Debts of the highest credit quality, with minimum credit risk exposure;
AA	- Debts of high credit quality, with very low credit risk exposure;
A	- Debts of satisfactory credit quality, with low credit risk exposure;
BBB	- Debts of adequate credit quality, which have some credit risk exposure and are considered medium grade liabilities possessing certain speculative characteristics.

Financial assets which have ratings lower than BBB are classed at a speculative grade.

Liquidity risk

Risk substance. Liquidity of the Bank is defined as ability to meet its current financial liabilities on a timely basis and in full as they come due. This risk arises from inability to manage incidental cash outflows or changes in funding sources, as well as failure to fulfill its off-balance sheet obligations.

***Objective of liquidity risk management*.** The objective of liquidity risk management is to ensure sufficient reliable funds to meet the Bank's obligations in full and on a timely basis to customers, lenders, and other counterparties and to achieve the target rates of assets and profitability growth, which contemplates:

a) Managing on a daily basis cash balances and nostro accounts in order to ensure timely settlements and payments, performance of the obligatory provision requirements, and compliance with the NBU's liquidity ratios at each reporting date;
b) Ensuring funds for sustainable growth of business as envisaged by credit and investment policies of the Bank;
c) Creating a stock of liquid reserves against a possible liquidity crisis – abrupt outflow of customers' funds and/or a sudden closer of access to resource markets.

***Liquidity risk management policies*.** Assets and Liabilities Management Committee which is delegated by the Bank's Management Board with functions to manage assets and liabilities determines the strategy for maintaining sufficient liquidity basing on the Parent's approaches and approves it in the form of liquidity risk management policies as a part of assets and liabilities management policies.

29. Risk management policies (continued)

In order to manage liquidity, the Bank sets up limits to the maximum volume of certain on-balance sheet items, monitors the amount of gaps between maturities of assets and liabilities as a measure of risk level to which the Bank is exposed, diversifies external funding sources, plans funds to finance the Bank's credit and investment policies.

A significant attention is given to concentrations in loan portfolio and deposits, as well as the liquidity level of existing assets. Assets and Liabilities Management Committee annually reviews its plan of anti-recessionary measures in the event of liquidity crisis.

***Liquidity risk management processes*.** Internal liquidity risk management processes, alongside with other risks, include:

1) Identifying sources of risks and measuring their volumes, which is monthly performed by Assets and Liabilities Management Department on the basis of operating system data;
2) Managing risk – a respective function is locally delegated to Assets and Liabilities Management Committee which regularly receives information on the risk volume to which the Bank is exposed from Assets and Liabilities Management Department and complies with the respective limits. At the consolidated level, risk management is performed by a respective committee of the Parent which receives information on the risk exposure on a quarterly basis;
3) Monitoring the compliance with limits on the risk volume, which is monthly performed by Assets and Liabilities Management Department, with subsequent reporting to Assets and Liabilities Management Committee and the Parent;
4) Monitoring on a daily basis the compliance with regulatory requirements and internal limits;
5) Assessing the efficiency of strategic and operating liquidity management, which is the function of Assets and Liabilities Management Committee.

***Methods*.** To manage an adequate level of liquidity, the Bank performs a complex analysis of the following factors:

- Structure of the Bank's assets and their distribution by maturity (a special attention is given to the volume of available high-liquid assets);
- Volume, structure, and diversity of liabilities (firstly, the share of obligations is analyzed in liabilities, term and demand funds, due amounts to individuals and legal entities and other banks, stability of borrowing facilities, and dependence on expensive or unstable funds sources);
- Level of concentration of assets and liabilities (by counterparties, instruments, and remaining maturities);
- Analysis of cash flows by assets and liabilities type and by currencies;
- Performing stress testing for identification of the level of possible liquidity risk and compliance with the NBU ratios.

Liquidity is managed by national and foreign currencies. National currency liquidity management is de-centralized and is a full responsibility of a local Assets and Liabilities Management Committee. Foreign currency liquidity management is performed centrally on the level of the Parent using a method of the pool of funds.

Assets and Liabilities Management Committee consistently monitors its liquid position and employs a combined approach to liquidity management – in order to ensure timely fulfillment of the Bank's obligations.

29. Risk management policies (continued)

Liquidity management through assets is based on maintaining the adequate supply of high-liquid assets, which allows meeting provision requirements, norms established by the NBU and which serves as a source for covering a temporary liquidity deficit. This approach is especially effective in the event of continued liquidity crisis and in other cases when the access to money markets is limited or missing. Liquidity management through liabilities is based on attracting interbank funding to cover temporary needs in liquidity.

Essential elements of liquidity management include analysis of credit and investment policies of the Bank and election of the most effective funding sources in accordance with the intended use of funds, as well as development of the emergency plan in case of liquidity crisis containing a clear description of crisis indicators, actions of employees responsible for anti-recessionary management, data flows and sources for replenishment of liquid funds.

In the event of liquidity crisis, a Plan of Anti-recessionary Measures determines key factors that might help in identifying the crisis at early stages and establishes clear procedures to regulate the information flows and actions of the staff engaged to manage the anti-crisis process.

Liquidity risk is managed by setting limits to volumes of operating liquidity or short-term gaps between maturities of assets and liabilities. The control of compliance with limits refers to matching the actual amounts of relevant open positions and restrictions imposed on them. In the event of failure to comply with the limit, origination reasons are analyzed, and a plan of measures is proposed with the aim of removing the deficiency or changing the existing system of limits.

The following tables present the analysis of liquidity risk between assets and liabilities based on the carrying values of financial assets and liabilities as presented in the statement of financial position. The tables were drawn on the basis of contractual maturity.

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29. Risk management policies (continued)

	Weighted average effective interest rate	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Maturity undefined	31 December 2018 Total
NON-DERIVATIVE FINANCIAL ASSETS:								
Cash and balances with the National Bank of Ukraine		2,320,458	-	-	-	-	-	2,320,458
Due from banks	0.5%	2,507,127	-	-	-	-	-	2,507,127
Loans to customers	11.6%	3,348,928	4,653,265	7,261,042	5,462,228	1,333,589	-	22,059,052
Investments measured at fair value through other comprehensive income	11.7%	115,148	441,768	527,135	17,435	734	-	1,102,220
Investments measured at amortized cost	17.3%	3,677,428	-	-	-	-	-	3,677,428
Other financial assets		137,874	-	-	-	-	-	137,874
Total non-derivative financial assets		**12,106,963**	**5,095,033**	**7,788,177**	**5,479,663**	**1,334,323**	**-**	**31,804,159**
Derivative financial assets		2,183	-	-	-	-	-	2,183
TOTAL FINANCIAL ASSETS		**12,109,146**	**5,095,033**	**7,788,177**	**5,479,663**	**1,334,323**	**-**	**31,806,342**
NON-DERIVATIVE FINANCIAL LIABILITIES								
Due to banks and other financial institutions		126	-	-	315	-	-	441
Customer accounts	4.4%	26,188,877	339,679	262,618	64,458	-	-	26,855,632
Other financial liabilities		493,215	-	-	-	-	-	493,215
Guarantees issued and similar commitments		1,733,896	-	-	-	-	-	1,733,896
Irrevocable commitments on loans and undrawn credit lines		3,703,412	-	-	-	-	-	3,703,412
Total non-derivative financial liabilities		**32,119,526**	**339,679**	**262,618**	**64,773**	**-**	**-**	**32,786,596**
Derivative financial liabilities		1,487	-	3,085	-	-	-	4,572
TOTAL FINANCIAL LIABILITIES		**32,121,013**	**339,679**	**265,703**	**64,773**	**-**	**-**	**32,791,168**
Liquidity gap		(20,011,867)	4,755,354	7,522,474	5,414,890	1,334,323		
Cumulative liquidity gap		(20,011,867)	(15,256,513)	(7,734,039)	(2,319,149)	(984,826)		

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

	Weighted average effective interest rate	Up to 1 month	From 1 t 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Maturity undefined	31 December 2017 Total
NON-DERIVATIVE FINANCIAL ASSETS:								
Cash and balances with the National Bank of Ukraine		2,182,720	-	-	-	-	-	2,182,720
Due from banks		3,703,612	-	-	-	-	-	3,703,612
Loans to customers	10.7%	4,615,822	1,856,781	5,823,312	3,758,752	1,434,324	-	17,488,991
Investments measured at fair value through other comprehensive income	6.0%	656	1,683	537,323	145,635	-	-	685,297
Investments measured at amortized cost	13.7%	4,458,228	-	-	-	-	-	4,458,228
Other financial assets		101,981	-	-	-	-	-	101,981
Total non-derivative financial assets		**15,063,019**	**1,858,464**	**6,360,635**	**3,904,387**	**1,434,324**	**-**	**28,620,829**
Derivative financial assets		178	-	-	-	-	-	178
TOTAL FINANCIAL ASSETS		**15,063,197**	**1,858,464**	**6,360,635**	**3,904,387**	**1,434,324**	**-**	**28,621,007**
NON-DERIVATIVE FINANCIAL LIABILITIES								
Due to banks and other financial institutions		128	-	-	-	351	-	479
Customer accounts	4.5%	25,531,271	49,028	87,521	5,093	-	-	25,672,913
Other financial liabilities		414,664	-	-	-	-	-	414,664
Guarantees issued and similar commitments		1,372,250	-	-	-	-	-	1,372,250
Irrevocable commitments on loans and undrawn credit lines		1,492,517	-	-	-	-	-	1,492,517
Total non-derivative financial liabilities		**28,810,830**	**49,028**	**87,521**	**5,093**	**351**	**-**	**28,952,823**
Derivative financial liabilities		6,177	-	-	-	-	-	6,177
TOTAL FINANCIAL LIABILITIES		**28,817,007**	**49,028**	**87,521**	**5,093**	**351**	**-**	**28,959,000**
Liquidity gap		(13,753,810)	1,809,436	6,273,114	3,899,294	1,433,973		
Cumulative liquidity gap		(13,753,810)	(11,944,374)	(5,671,260)	(1,771,966)	(337,993)		

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

Liquidity gap, which arose during the years ended 31 December 2018 and 2017 on assets and liabilities with maturities less than one year, is appropriately managed by the Bank.

The major portion of interest bearing liabilities is represented by both demand deposits of customers and short-term deposits that allow early termination, thus, they are included to the category requiring repayment up to one month. Based on a going concern assumption, effective maturity of core deposits is considered to be indefinite.

Deposits of customers are repayable on demand and when they are due. Commonly, demand deposits are more stable facilities, and they are not withdrawn within one month. The Bank's liquidity risk management includes assessing major current accounts, i.e. the stable portion of deposits. As at 31 December 2018 and 2017, the stable portion of customers' deposits, calculated as amount of customer accounts as at year end less standard deviation of deposits for the last three years, amounted to UAH 18,777,003 thousand and UAH 17,226,574 thousand, respectively.

Thus, as at 31 December 2018 and 2017, the excess of the Bank's current liabilities over its current assets calculated with reference to the stable portion of customers' deposits as liabilities the actual maturities of which were treated as indefinite amounted to UAH 11,042,964 thousand and UAH 11,555,314 thousand, respectively.

A further analysis of the liquidity risk is presented in the following tables in accordance with IFRS 7 "Financial Instruments: Disclosures". The amounts disclosed in these tables do not correspond to the amounts recorded in the statement of financial position, as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the statement of financial position under the effective interest rate method.

The following tables have been prepared based on contractual maturity.

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	31 December 2018 Total
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	126	-	-	315	-	441
Customer accounts	26,085,880	353,356	285,825	69,757	-	26,794,818
Other financial liabilities	493,215	-	-	-	-	493,215
Guarantees issued and similar commitments	1,733,896	-	-	-	-	1,733,896
Commitments on loans and unused credit lines	3,703,412	-	-	-	-	3,703,412
Non-derivative financial liabilities	**32,016,529**	**353,356**	**285,825**	**70,072**	**-**	**32,725,782**
Swap agreements	317,139	-	-	-	-	317,139
Forward contracts	328,549	-	30,773	-	-	359,322
Derivative financial liabilities	**645,688**	**-**	**30,773**	**-**	**-**	**676,461**
TOTAL FINANCIAL LIABILITIES	**32,662,217**	**353,356**	**316,598**	**70,072**	**-**	**33,402,243**

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	31 December 2017 Total
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	128	-	-	-	351	479
Customer accounts	25,489,585	52,740	94,867	5,623	-	25,642,815
Other financial liabilities	414,664	-	-	-	-	414,664
Guarantees issued and similar commitments	1,372,250	-	-	-	-	1,372,250
Commitments on loans and unused credit lines	1,492,517	-	-	-	-	1,492,517
Non-derivative financial liabilities	**28,769,144**	**52,740**	**94,867**	**5,623**	**351**	**28,922,725**
Swap agreements	1,004,863	-	-	-	-	1,004,863
Forward contracts	103,196	-	-	-	-	103,196
Derivative financial liabilities	**1,108,059**	**-**	**-**	**-**	**-**	**1,108,059**
TOTAL FINANCIAL LIABILITIES	**29,877,203**	**52,740**	**94,867**	**5,623**	**351**	**30,030,784**

Market risk

***Risk substance*.** The Bank is exposed to market (price) risk as unexpected fluctuations in market prices may adversely affect its financial and real assets carried on the statement of financial position or recorded on off-balance accounts. However, in addition to the existing risk factors that are beyond management's direct control and level of their volatility, the necessary precondition of market risk is the existence of open position determining a sensitivity level of the financial institution to fluctuations of market indicators. Considering insignificant amounts of investments in securities with non-fixed returns and property and equipment, management is mainly focused on managing interest rate and foreign currency risks belonging to the group of market (price) risks.

***Objective of market risk management*.** The objective of market risk management is to achieve the intended profitability level of the Bank at acceptable risk for shareholders, i.e. mitigate losses from unexpected fluctuations in interest and foreign exchange rates.

***Risk management policies*.** Market risks are managed at two levels: at the level of the OTP Group and locally.

Assets and Liabilities Management Committee which is delegated by the Bank's Management Board with functions to manage assets and liabilities determines the strategy for managing market risk basing on the OTP Group's approaches and approves it in the form of interest rate and foreign currency risk management policies as a part of assets and liabilities management policies.

Risk management is defined as determining a tolerance level to a respective risk, i.e. the maximum permissible losses from fluctuations in market indicators, and establishing limits to the amount of the respective open positions the Bank is exposed to.

29. Risk management policies (continued)

Management strategy is realized through coordinated management of the assets and liabilities structure and setting minimum/maximum interest rates for interest bearing assets/liabilities.

Risk management processes. Internal market risk management processes consist of the following:

1) Identifying risk sources and measuring their volumes, which is monthly performed by Assets and Liabilities Management Department independently from the units involved in market activities on the basis of operating system data;
2) Managing risk – the respective function is locally delegated to Assets and Liabilities Management Committee which regularly receives information on the risk volume to which the Bank is exposed from Assets and Liabilities Management Department and complies with the respective limits. At the consolidated level, risk management is performed by the respective committee of the Parent which receives information on the risk exposure on a quarterly basis;
3) Monitoring the compliance with limits on the risk volume, which is monthly performed by Assets and Liabilities Management Department, with subsequent reporting to Assets and Liabilities Management Committee and the Parent;
4) Assessing the efficiency of strategic and operating liquidity management, which is the function of Assets and Liabilities Management Committee.

Interest rate risk. The Bank treats interest rate risk as a risk of impact of the movements in market interest rates on the future cash flows or fair value of financial assets and liabilities.

The main objective of interest rate risk management is to decrease the impact of changes in interest rates on equity by limiting and reducing the amount of possible losses which the Bank may incur on open positions from adverse changes in market conditions. Policies of interest rate risk management include describing basic criteria for management, managing, and monitoring interest rate risk in the Bank.

Identifying risk sources is performed through the analysis of the existing structure of interest-bearing assets and liabilities. Analysis of interest gaps by remaining maturities (for fixed interest rate assets and liabilities) or by next interest rate change dates (for floating interest rate assets and liabilities or variable interest rate instruments) is convenient for determining positions that expose the Bank to interest rate risk.

The Bank assesses its interest rate risk based on the sensitivity analysis towards interest rate fluctuations and movements in economic value of equity as a result of even changes in the yield curve by specified interest points. Estimates include interest rate risk by all on-balance and off-balance positions of the Bank for instruments with fixed and variable interest rates.

To obtain a quantitative estimation of changes in economic value of equity due to fluctuations in interest rates within a long-term period, a duration concept is applied.

The Parent centrally sets a limit to the volume of decrease in economic value of equity for subsidiary banks – not more than 20% of regulatory capital, and Assets and Liabilities Management Committee shall ensure minimum gaps between change dates of interest bearing assets and liabilities by changing parameters of certain large transactions and modifying the existing standards of banking products and pricing policies. The intended level of interest income is achieved through spread management.

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

Monitoring of weighted average nominal interest rates of interest bearing financial instruments as at 31 December 2018 and 2017 was as follows:

					As at 31 December 2018, (%)
	UAH	**USD**	**EUR**	**Other currencies**	**Interest rate**
FINANCIAL ASSETS					
Due from banks	0.01	1.50	(0.27)	0.02	Fixed/ variable
Loans to customers	14.74	6.54	5.62	6.82	Fixed/ variable
Investments measured at fair value through other comprehensive income	18.43	5.65	4.04	-	Fixed
Investments measured at amortized cost	17.31	-	-	-	Fixed
FINANCIAL LIABILITIES					
Customer accounts:					
Current accounts and deposits repayable on demand	5.39	0.11	0.02	-	Fixed/ variable
Term deposits	13.11	1.58	1.43	0.01	Fixed

					As at 31 December 2017, (%)
	UAH	**USD**	**EUR**	**Other currencies**	**Interest rate**
FINANCIAL ASSETS					
Due from banks	-	-	-	-	Fixed/ variable
Loans to customers	11.47	3.51	4.60	0.73	Fixed/ variable
Investments measured at fair value through other comprehensive income	16.18	6.33	4.00	-	Fixed/ variable
Investments measured at amortized cost	13.67	-	-	-	Fixed
FINANCIAL LIABILITIES					
Customer accounts:					
Current accounts and deposits repayable on demand	5.72	0.11	0.01	-	Fixed/ variable
Term deposits	12.35	0.49	0.10	0.10	Fixed

The following table presents the sensitivity to interest rate risk. Used percentage of interest rate multiplied by the value of financial assets and liabilities based, considering the tax rate, is the expected level of impact on profit/(loss) and equity.

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

The effect on profit or loss and equity was as follows:

	As at 31 December 2018		As at 31 December 2017	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Impact on profit or loss before tax				
Sensitivity of financial assets	293,458	(293,458)	226,325	(226,325)
Sensitivity of financial liabilities	(268,556)	268,556	(256,729)	256,729
Net impact on profit or loss and equity	**20,420**	**(20,420)**	**(24,931)**	**24,931**

Foreign currency risk. Currency risk is defined as the risk that the value of the Bank's assets, liabilities, or off-balance sheet items denominated in foreign currencies will be adversely affected by changes in foreign currency exchange rates.

Currency risk is managed by setting limits against which the estimated foreign currency risk is compared on a daily basis.

In accordance with the Bank's asset and liability management policies, foreign currency risk impact is measured in two ways: on the one hand, as currency position in an individual currency and, on the other hand, as total open currency position.

Compliance with limits is monitored through comparing the actual amount of the respective open positions and the restrictions established for them. In the event of failure to comply with the limits, reasons of their origination are analyzed and a plan of measures is proposed to remove them or proposals to amend the existing system of limits.

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	UAH	USD USD 1 = UAH 27.688264	EUR EUR 1 = UAH 31.714138	Other currencies	Precious metals	31 December 2018 Total
FINANCIAL ASSETS						
Cash and balances with the National Bank of Ukraine	2,068,915	135,695	103,621	12,227	-	2,320,458
Due from banks	18,699	1,083,318	1,217,083	188,025	2	2,507,127
Loans to customers	15,193,581	5,947,842	895,410	22,219	-	22,059,052
Investments measured at fair value through other comprehensive income	519,628	284,957	297,635	-	-	1,102,220
Investments measured at amortized cost	3,677,428	-	-	-	-	3,677,428
Other financial assets	120,038	11,231	8,788	-	-	140,057
TOTAL FINANCIAL ASSETS	**21,598,289**	**7,463,043**	**2,522,537**	**222,471**	**2**	**31,806,342**
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	317	124	-	-	-	441
Customer accounts	16,833,556	6,956,168	2,850,173	211,884	3,851	26,855,632
Other financial liabilities	424,233	37,391	32,057	4,106	-	497,787
TOTAL FINANCIAL LIABILITIES	**17,258,106**	**6,993,683**	**2,882,230**	**215,990**	**3,851**	**27,353,860**
CURRENCY POSITION	**4,340,183**	**469,360**	**(359,693)**	**6,481**	**(3,849)**	
Accounts payable on contracts with derivative financial instruments	(30,773)	(693,200)	-	-	-	(723,973)
Accounts receivable on contracts with derivative financial instruments	329,607	27,688	364,713	-	-	722,008
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**298,834**	**(665,512)**	**364,713**	**-**	**-**	**(1,965)**
NET POSITION	**4,639,017**	**(196,152)**	**5,020**	**6,481**	**(3,849)**	

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

	UAH	USD USD 1 = UAH 28.067223	EUR EUR 1 = UAH 33.495424	Other currencies	Precious metals	31 December 2017 Total
FINANCIAL ASSETS						
Cash and balances with the National Bank of Ukraine	1,821,248	234,237	112,702	14,533	-	2,182,720
Due from banks	1,828	971,709	2,601,727	128,348	-	3,703,612
Loans to customers	13,073,060	3,725,350	627,599	62,982	-	17,488,991
Investments measured at fair value through other comprehensive income	52,396	317,715	315,186	-	-	685,297
Investments measured at amortized cost	4,458,228	-	-	-	-	4,458,228
Other financial assets	85,500	11,714	4,945	-	-	102,159
TOTAL FINANCIAL ASSETS	**19,492,260**	**5,260,725**	**3,662,159**	**205,863**	**-**	**28,621,007**
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	354	125	-	-	-	479
Customer accounts	16,530,502	6,268,919	2,661,306	207,996	4,190	25,672,913
Other financial liabilities	375,190	13,888	30,231	1,532	-	420,841
TOTAL FINANCIAL LIABILITIES	**16,906,046**	**6,282,932**	**2,691,537**	**209,528**	**4,190**	**26,094,233**
CURRENCY POSITION	**2,586,214**	**(1,022,207)**	**970,622**	**(3,665)**	**(4,190)**	
Accounts payable on contracts with derivative financial instruments	(18,227)	(71,571)	(1,018,261)	-	-	(1,108,059)
Accounts receivable on contracts with derivative financial instruments	82,338	1,019,722	-	-	-	1,102,060
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**64,111**	**948,151**	**(1,018,261)**	**-**	**-**	**(5,999)**
NET POSITION	**2,650,325**	**(74,056)**	**(47,639)**	**(3,665)**	**(4,190)**	

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

Foreign currency risk sensitivity. The following table details sensitivity of the Bank's financial performance and equity to 10% (31 December 2017: 10%) increase and decrease in USD and EUR official exchange rate against UAH. 10% (31 December 2017: 10%) is the sensitivity rate used by the Bank when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for 10% (31 December 2017: 10%) change in foreign currency rates.

	As at 31 December 2018		As at 31 December 2017	
	UAH/USD +10%	UAH/USD -10%	UAH/USD +10%	UAH/USD -10%
Impact on profit or loss and equity	(16,084)	16,084	(6,073)	6,073

	As at 31 December 2018		As at 31 December 2017	
	UAH/EUR +10%	UAH/EUR -10%	UAH/EUR +10%	UAH/EUR -10%
Impact on profit or loss and equity	412	(412)	(3,906)	3,906

Limitations of sensitivity analysis. The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical way.

Geographical risk. The main requirement of the Parent presupposes complying with the limit levels established in the countries where counterparty banks are located. Estimation and management of the risk is performed in accordance with the Regulations on Country Risk Management. The document has been developed by the Bank's employees according to the procedures of the Parent that aim primarily at using principles regarding the assigned ratings of respective countries.

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

Geographical belonging of corporate borrowers is established in accordance with the criteria of their registration. In accordance with the Bank's corporate credit policies, its target customers are legal entities that are residents of Ukraine. Non-residents may be financed in exceptional cases if they belong to big Ukrainian groups of related companies. As at 31 December 2018 and 2017, the Bank had no non-resident borrowers.

Concentration of assets and liabilities by regions is presented below:

	Ukraine	Non-OECD countries	OECD countries	31 December 2018 Total
FINANCIAL ASSETS				
Cash and balances with the National Bank of Ukraine	2,320,458	-	-	2,320,458
Due from banks	29,739	62,131	2,415,257	2,507,127
Loans to customers	22,057,498	891	663	22,059,052
Investments measured at fair value through other comprehensive income	1,102,220	-	-	1,102,220
Investments measured at amortized cost	3,677,428	-	-	3,677,428
Other financial assets	139,589	3	465	140,057
TOTAL FINANCIAL ASSETS	**29,326,932**	**63,025**	**2,416,385**	**31,806,342**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	315	2	124	441
Customer accounts	26,367,905	133,775	353,952	26,855,632
Other financial liabilities	496,583	-	1,204	497,787
TOTAL FINANCIAL LIABILITIES	**26,864,803**	**133,777**	**355,280**	**27,353,860**
NET POSITION	**2,462,129**	**(70,752)**	**2,061,105**	

In Ukrainian Hryvnias and in thousands

29. Risk management policies (continued)

	Ukraine	Non-OECD countries	OECD countries	31 December 2017 Total
FINANCIAL ASSETS				
Cash and balances with the National Bank of Ukraine	2,182,720	-	-	2,182,720
Due from banks	7,125	66,562	3,629,925	3,703,612
Loans to customers	17,483,679	4,324	988	17,488,991
Investments measured at fair value through other comprehensive income	685,297	-	-	685,297
Investments measured at amortized cost	4,458,228	-	-	4,458,228
Other financial assets	101,955	59	145	102,159
TOTAL FINANCIAL ASSETS	**24,919,004**	**70,945**	**3,631,058**	**28,621,007**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	473	2	4	479
Customer accounts	25,166,300	166,978	339,635	25,672,913
Other financial liabilities	418,269	2,447	125	420,841
TOTAL FINANCIAL LIABILITIES	**25,585,042**	**169,427**	**339,764**	**26,094,233**
NET POSITION	**(666,038)**	**(98,482)**	**3,291,294**	

30. Events after the reporting period

In January 2019, JSC "OTP Bank" acquired a 100% interest in the share capital of LLC "OTP Factoring Ukraine".

No other events occurred subsequent to the reporting date that might be considered material by users of the Bank's financial statements. In particular, there were no: business combinations, discontinuance or any decisions to discontinue operations, other material acquisitions and assets restructuring, court rulings in favor of plaintiffs that might expose the Bank to material financial liabilities.