

**JOINT STOCK COMPANY
“UKRSIBBANK”
(Code 09807750)**

Consolidated Financial Statements
and Independent Auditor’s Report
for the Year Ended
31 December 2019

JOINT STOCK COMPANY "UKRSIBBANK" (Code 09807750)

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INDEPENDENT AUDITOR'S REPORT

To Shareholders of JOINT STOCK COMPANY "UKRSIBBANK":

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of JOINT STOCK COMPANY "UKRSIBBANK" (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and the preparation of financial statements 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 Consolidated Financial Statements" section of our report. We are independent of the Group 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 consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Why the matter was determined to be a key audit matter

Allowances for expected credit losses on loans and advances to customers at amortized cost

The Group assesses allowance for expected credit losses ("ECL") on loans and advances to customers measured at amortized cost using models and techniques as required by IFRS 9 Financial Instruments.

The models and techniques applied for ECL calculation use data from both external and internal sources, as well as complex and subjective judgments of the Group's management.

How the matter was addressed in the audit

We updated our understanding of the Group'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 at amortized cost.

With the assistance of internal credit risk and actuarial experts, we assessed the methodology, models, and techniques used by management of the Group to measure expected credit losses for compliance with IFRS 9 Financial Instruments.

Why the matter was determined to be a key audit matter

Key areas of judgments and estimates regarding the assessment of allowance for ECL on loans and advances to customers at amortized cost comprise:

- Assessment of a significant increase in credit risk and risk of default for determining the stage of impairment of loans and advances to customers at amortized cost;
- Measurement of expected credit losses taking into account macroeconomic forecasts and historical information on credit losses incurred.

Calculation of allowances for expected credit losses is inherently judgmental. We consider this issue as a key audit matter because of subjectivity of certain assumptions used in the assessment of ECL and a significant amount of loans and advances to customers at amortized cost, as outlined in Note 4 and Note 23.

How the matter was addressed in the audit

Our audit procedures for allowance of expected credit losses assessed on collective basis included the following:

- For allowance for expected credit losses for loans to corporate clients we tested design and implementation of control procedures for internal credit ratings assessment, which are used to assess whether there was a significant increase in credit risk and event of default at the reporting date and to measure expected credit losses. We involved internal credit risk and actuarial experts to review back-testing of probability of default performed by the Group and assess possible impact on ECL in the current year. For loss given default ("LGD") we performed analysis of collateral values and type and evaluated possible impact on ECL.
- For allowance for expected credit losses for loans to individual clients we involved internal credit risk and actuarial experts to assess appropriateness of models, including segmentation for portfolios of loans with shared risk characteristics. We assessed appropriateness of management judgments in determination of significant increase in credit risk, probability of default and loss given default and performed alternative calculations based on relevant internal and external historical information and forward-looking expectations. We compared results obtained with the calculations of management.

On a risk based sample basis, using all available information on selected loans and advances to customers, we assessed the correctness of the impairment stage determination.

We checked the completeness and accuracy of the data used in collective models for calculating expected credit losses, including historical data, as well as the accuracy and completeness of disclosures made in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Consolidated management report and Issuer report, which also includes the Corporate governance report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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 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 consolidated 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 a 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

On 23 March 2018, the meeting of the Supervisory Board, the body representing those charged with governance, appointed us as the auditor of JOINT STOCK COMPANY "UKRSIBBANK". In view of the previous renewals and reappointments, we conducted audit from 18 June 2018 to the date of this report.

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

We confirm that the prohibited non-audited services referred to ISA or requirements of Article 6, paragraph 4 of 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 Group 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 Group's consolidated 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 consolidated 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 Group obtained during our audit of the Group's consolidated financial statements. We have nothing to report in this respect.

Basic Information about Audit Firm

Full name: LLC "Deloitte & Touche Ukrainian Services Company".

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

"LLC "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".

LLC "Deloitte & Touche UKR"

07 April 2020

Certified Auditor



Natalia Samoilova

Certificate of Banks' Auditor # 0202

Issued by the Audit Chamber of Ukraine on 24 December 2014

on the basis of Resolution of the Audit Chamber of Ukraine #304/2

Registration Number in the Register of Auditors and Auditing Entities 102404

LLC "Deloitte & Touche Ukrainian Services Company"

48, 50a Zhylianska Str., Kyiv, 01033, Ukraine

Director



Yevhen Zanoza

Certificate of Banks' Auditor # 0018

Issued by the Audit Chamber of Ukraine on 24 March 1994

on the basis of Resolution of the Audit Chamber of Ukraine #13,

Registration Number in the Register of Auditors and Auditing Entities 102250

LLC "Deloitte & Touche Ukrainian Services Company"

48, 50a Zhylianska Str., Kyiv, 01033, Ukraine

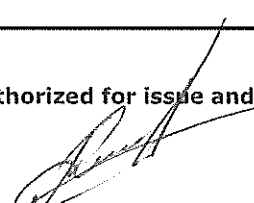
JOINT STOCK COMPANY "UKRSIBBANK" (Code 09807750)

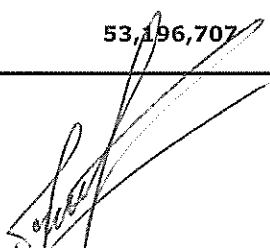
Consolidated Statement of Financial Position as at 31 December 2019

In Ukrainian Hryvnias and in thousands

	Notes	31 December 2019	31 December 2018
ASSETS			
Cash on hand	7	2,190,833	2,332,174
Balances with the National Bank of Ukraine and mandatory reserves	7	3,135,959	2,458,291
Due from other financial institutions at amortized cost	8	10,151,526	12,320,451
Derivatives	26	20,577	12,402
Loans and advances to customers at amortized cost	9	21,371,168	26,137,962
Securities and investments	10	13,341,326	5,463,313
Property and equipment	11	1,230,895	1,199,684
Investment property		4	172
Intangible assets	11	521,688	475,165
Deferred tax assets and current income taxes prepaid	22	609,829	445,469
Assets held for sale	12	-	212,880
Other assets	13	622,902	985,098
TOTAL ASSETS		53,196,707	52,043,061
LIABILITIES			
Due to other financial institutions at amortized cost		3,979	5,927
Derivatives	26	702	7,387
Customer accounts	14	45,340,073	41,098,991
Current income tax liabilities	22	4,263	-
Other liabilities	15	740,342	1,094,043
Subordinated debt	16	249,348	3,066,893
TOTAL LIABILITIES		46,338,707	45,273,241
EQUITY			
Share capital	17	5,069,262	5,069,262
Share premium	17	811,229	811,229
Revaluation reserves		981	981
Retained earnings		968,424	881,501
Total equity attributable to the Group		6,849,896	6,762,973
Non-Controlled Interest		8,104	6,847
TOTAL EQUITY		6,858,000	6,769,820
TOTAL LIABILITIES AND EQUITY		53,196,707	52,043,061

Authorized for issue and signed by:


A. B. Kashperuk,
Acting Chairman of the Management Board of
JSC "UKRSIBBANK"


H. P. Opachanska,
Chief Accountant –
Head of Financial and Tax Accounting Department at
Finance Division of JSC "UKRSIBBANK"

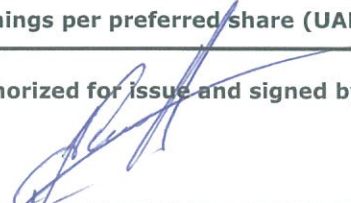
26 March 2020

JOINT STOCK COMPANY "UKRSIBBANK" (Code 09807750)

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2019 In Ukrainian Hryvnias and in thousands

	Notes	For 12 months of 2019	For 12 months of 2018
Interest income	19	5,236,310	4,585,703
Interest expense	19	(1,030,138)	(705,472)
Fee and commission income	20	2,304,140	2,147,998
Fee and commission expense	20	(567,564)	(523,862)
Net gain on revaluation of foreign currencies, trading operations with foreign currencies and derivatives	26	567,787	486,016
Net gain on securities and investments at fair value through profit or loss		10,603	37
Net (loss)/gain on other activities		(79,927)	6,370
Impairment of assets held for sale	12	-	(7,966)
Gain on investments in associates	12	-	42,333
Net income from banking activities		6,441,211	6,031,157
Staff related costs		(1,964,264)	(1,612,708)
Administrative and other operating expense	21	(1,089,509)	(993,165)
Depreciation and amortization of premises, leasehold improvements, equipment, and intangible assets		(353,682)	(282,854)
Net operating income		3,033,756	3,142,430
(Impairment losses)/recovery of allowance	23	(153,286)	121,282
Net operating income		2,880,470	3,263,712
Net income on non-current assets		29,589	35,462
Profit before income tax		2,910,059	3,299,174
Income tax expense	22	(295,015)	(510,324)
Net profit for the reporting period		2,615,044	2,788,850
Total comprehensive income for the reporting period		2,615,044	2,788,850
Profit attributable to:			
Owners of the Group		2,613,787	2,788,304
Non-controlling interest		1,257	546
Profit for the year		2,615,044	2,788,850
Total comprehensive income attributable to:			
Owners of the Group		2,613,787	2,788,304
Non-controlling interest		1,257	546
Total comprehensive income for the year		2,615,044	2,788,850
Earnings per ordinary share (UAH per share)	18	2.76	2.95
Earnings per preferred share (UAH per share)	18	83.55	89.10

Authorized for issue and signed by:


A. B. Kashperuk,
Acting Chairman of the Management Board of
JSC "UKRSIBBANK"


H. P. Opachanska,
Chief Accountant –
Head of Financial and Tax Accounting Department at
Finance Division of JSC "UKRSIBBANK"

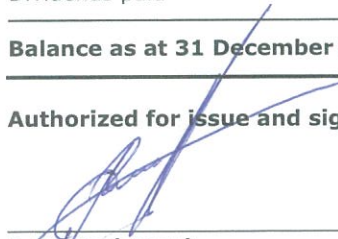
26 March 2020

JOINT STOCK COMPANY "UKRSIBBANK" (Code 09807750)

Consolidated Statement of Changes in Equity
for the Year Ended 31 December 2019
In Ukrainian Hryvnias and in thousands

Notes	Attributable to the Group's owners					Non-controlling interest	Total equity
	Share capital	Share premium	Revaluation reserves	Retained earnings/ (accumulated deficit)	Total		
Balance as at 31 December 2017 (with the effect of the first application of IFRS 9)	5,069,262	811,229	981	(703,145)	5,178,327	6,301	5,184,628
Disposal of subsidiaries	-	-	-	(3,658)	(3,658)	-	(3,658)
Profit for the year	-	-	-	2,788,304	2,788,304	546	2,788,850
Total comprehensive income for 2018	-	-	-	2,788,304	2,788,304	546	2,788,850
Dividends paid	17	-	-	(1,200,000)	(1,200,000)	-	(1,200,000)
Balance as at 31 December 2018	5,069,262	811,229	981	881,501	6,762,973	6,847	6,769,820
Profit for the year	-	-	-	2,613,787	2,613,787	1,257	2,615,044
Total comprehensive income for 2019	-	-	-	2,613,787	2,613,787	1,257	2,615,044
Dividends paid	17	-	-	(2,526,864)	(2,526,864)	-	(2,526,864)
Balance as at 31 December 2019	5,069,262	811,229	981	968,424	6,849,896	8,104	6,858,000

Authorized for issue and signed by:


A. B. Kashperuk,
 Acting Chairman of the Management Board of
 JSC "UKRSIBBANK"


H. P. Opachanska,
 Chief Accountant –
 Head of Financial and Tax Accounting Department at
 Finance Division of JSC "UKRSIBBANK"

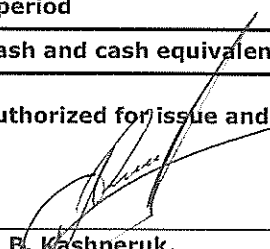
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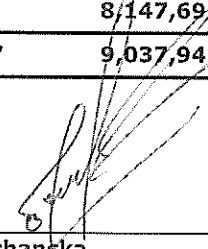
JOINT STOCK COMPANY "UKRSIBBANK" (Code 09807750)

Consolidated Statement of Cash Flows under Direct Method for the Year Ended 31 December 2019 In Ukrainian Hryvnias and in thousands

	Notes	For 12 months of 2019	For 12 months of 2018
Cash flows from operating activities			
Interest income received		5,138,850	4,532,735
Interest expense paid		(1,038,511)	(692,359)
Gains received on trading operations with foreign currencies and derivatives		520,267	390,559
Fee and commission income received		2,298,023	2,156,480
Fee and commission expense paid		(666,293)	(512,588)
Other operating expense paid		(69,941)	(17,689)
Staff costs paid		(1,854,313)	(1,562,491)
Administrative and other operating expense paid		(1,063,477)	(987,664)
Income tax paid		(455,354)	(210,095)
Cash flows from operating activities before changes in operating assets and liabilities		2,809,251	3,096,888
Changes in operating assets and liabilities			
Net increase in mandatory reserves		(165,998)	(233,809)
Net decrease in due from other financial institutions		1,611,026	1,909,046
Net decrease/(increase) in loans and advances to customers		3,789,953	(3,728,543)
Net increase in securities at fair value through profit or loss		(75,187)	-
Net decrease/(increase) in other assets		410,051	(266,714)
Net decrease in due to other financial institutions		-	(60,000)
Net increase in customer accounts		7,101,089	5,029,333
Net (decrease)/increase in other liabilities		(396,459)	62,810
Net cash flows from operating activities		15,083,726	5,809,011
Cash flows from investing activities			
Purchase of securities		(288,990,099)	(203,302,508)
Proceeds from repayment of securities		281,040,000	201,013,515
Acquisition of premises, equipment and intangible assets, and leasehold improvements		(532,373)	(634,078)
Proceeds from sale of premises and equipment		38,199	38,222
Dividends received		-	30,165
Proceeds from disposal of assets held for sale		213,516	-
Net cash used in investing activities		(8,230,757)	(2,854,684)
Cash flows from financing activities			
Other borrowed funds repaid		(1,946)	(1,094)
Subordinated debt repaid		(2,427,552)	-
Dividends paid	17	(2,526,864)	(1,200,000)
Net cash used in financing activities		(4,956,362)	(1,201,094)
Effect of the NBU's official exchange rate changes on cash and cash equivalents		(1,006,356)	(332,900)
Net increase in cash and cash equivalents		890,251	1,420,333
Cash and cash equivalents at the beginning of the reporting period	7	8,147,691	6,727,358
Cash and cash equivalents at the end of the reporting period	7	9,037,942	8,147,691

Authorized for issue and signed by:


A. B. Kashperuk,
Acting Chairman of the Management Board of
JSC "UKRSIBBANK"


H. P. Opachanska,
Chief Accountant –
Head of Financial and Tax Accounting Department at
Finance Division of JSC "UKRSIBBANK"

26 March 2020

JOINT STOCK COMPANY "UKRSIBBANK" (Code 09807750)

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 *In Ukrainian Hryvnias and in thousands*

1. Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2019 for JOINT STOCK COMPANY "UKRSIBBANK" (hereinafter, "UKRSIBBANK" or the "Bank") and its subsidiaries (hereinafter, the "Group").

UKRSIBBANK has been incorporated and is domiciled in Ukraine. UKRSIBBANK has been established as a joint stock company limited by shares in accordance with the Ukrainian legislation.

The procedure of increase in UKRSIBBANK's capital announced by BNP Paribas SA (France) in the autumn 2015 was completed on 3 February 2016. As a result, the international group of BNP Paribas SA (France) and the European Bank for Reconstruction and Development (the "EBRD") increased the share capital of UKRSIBBANK by UAH 3,294,929 thousand. Besides, the EBRD's shareholding increased from 15% to 40%. As at 31 December 2019, the international group of BNP Paribas SA (France) owned 60% shares in UKRSIBBANK (as at 31 December 2018: 60%).

As at 31 December 2019 and 2018, the Group's parent was BNP Paribas SA (France) acting as a controlling party of the Bank, Code 662042449 RCS PARIS.

Primary activities. UKRSIBBANK operates on the basis of licenses (permissions) issued by the National Bank of Ukraine (hereinafter, the "NBU"), the National Commission for Securities and Stock Market of Ukraine, and the Ministry of Finance of Ukraine. The Bank is a participant of the Individual Deposit Guarantee Fund (Registration Certificate # 086), which operates under the Law of Ukraine "On Individual Deposit Guarantee System" # 4452-VI dated 23 February 2012 (as subsequently amended). The Individual Deposit Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual in case the NBU takes a decision to include a bank into the insolvent category and the commencement of a procedure on withdrawing a bank from the market. Primary activities of UKRSIBBANK relate to rendering banking services to legal entities and individuals in the territory of Ukraine.

Information about branches, representative offices, and other separate units. As at 31 December 2019, the Bank had 283 non-accounting outlets (as at 31 December 2018: 300 non-accounting outlets). The Bank has no representative offices and other separate units.

Registered address and place of business. UKRSIBBANK's registered address and principal place of business is at: 2/12 Andriivska Str., Kyiv, Ukraine.

Phones: in Kyiv, +38 (044) 537-49-23 and in Kharkiv, +38 (057) 738-80-01, website: my.ukrsibbank.com.

Presentation currency and measuring unit. These consolidated financial statements have been presented in Ukrainian Hryvnias ("UAH") and in thousands, unless otherwise indicated. This currency is the Group's functional currency.

2. Operating Environment of the Group

Since 2016, the Ukrainian economy has demonstrated signs of stabilization after years of political and economic tension. In 2019, the Ukrainian economy continued its recovery and achieved real GDP growth of around 3.6% (2018: 3.3%), modest annual inflation of 4.1% (2018: 9.8%), and stabilization of the national currency (appreciation of the national currency by around 5% to USD and 11% to EUR comparing to previous year averages).

JOINT STOCK COMPANY "UKRSIBBANK" (Code 09807750)

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

2. Operating Environment of the Group (Continued)

Ukraine continues to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and an armed conflict with separatists continued in certain parts of Luhanska and Donetska regions. As a result of this, the Ukrainian economy is refocusing on the European Union (hereinafter, the "EU") market by realizing potentials of established Deep and Comprehensive Free Trade Area with the EU.

To further facilitate business activities in Ukraine, the NBU starting from 20 June 2019 has lifted the surrender requirement for foreign currency proceeds, cancelled all limits on repatriation of dividends since July 2019 and gradually decreased its discount rate for the first time during the recent two years, from 18.0% in April 2019 to 11.0% in January 2020.

The degree of macroeconomic uncertainty in Ukraine in 2019 still remains high due to a significant amount of public debt scheduled for repayment in 2019–2020, which requires mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. At the same time, Ukraine has passed through the period of presidential and parliamentary elections. All newly elected authorities have demonstrated their commitment to introduce reforms in order to boost economic growth, while maintaining macro-fiscal stability and liberalizing economic environment. These changes have resulted in, inter alia, improved Fitch's rating of Ukraine's Long-Term Foreign- and Local-Currency Issuer Default Ratings from "B-" to "B", with a positive outlook.

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned structural reforms and effective cooperation with the International Monetary Fund (the "IMF").

In addition to that, starting from early 2020 a new coronavirus disease ("COVID-19") has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Ukrainian economy.

3. Basis of Presentation and Significant Accounting Policies

Basis of presentation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" (the "Law on Accounting and Financial Reporting") under the historical cost convention (assets and liabilities are recorded and accounted for by priority at the price of their purchase or origination – at cost or fair value).

These consolidated financial statements have been prepared by the Group's management on a going concern basis.

These financial statements represent the Group's consolidated financial statements.

JOINT STOCK COMPANY "UKRSIBBANK" (Code 09807750)

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

3. Basis of Presentation and Significant Accounting Policies (Continued)

The Bank is the Parent of the Group comprising the following entities:

Name	Country	Ownership interest (%)	
		31 December 2019	31 December 2018
JSC "Ukrsibbank"	Ukraine	Parent	
LLC "Ukrsib-Finance"	Ukraine	100%	100%
PJSC "Asset Management Company – Pension Fund Administrator "Ukrsib Asset Management"	Ukraine	99.94%	99.94%
PJSC "Closed Non-diversified Corporate Investment Fund "Bond Strategies"	Ukraine	54.46%	54.46%
PJSC "Insurance Company "AXA Insurance"	Ukraine	-	49%
LLC "Ukrainian Leasing Company"	Ukraine	-	100%

On 25 April 2019 PJSC "Closed Non-diversified Corporate Investment Fund "Ukrsib Real Estate Fund" has changed its name to PJSC "Closed Non-diversified Corporate Investment Fund "Bond Strategies". In September 2019 LLC "Ukrainian Leasing Company" was liquidated.

Basis of consolidation. The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved when the Bank:

- Has the power over the investee;
- Is exposed, or has rights, to variable return from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit or loss account from the date the Bank gains control until the date when the Bank ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests ("NCI"). Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and to the NCI even if this results in the NCI having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

JOINT STOCK COMPANY "UKRSIBBANK" (Code 09807750)

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

3. Basis of Presentation and Significant Accounting Policies (Continued)

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation, with the exception of foreign currency gains and losses on intragroup monetary items denominated in a foreign currency of at least one of the parties.

NCI in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the NCI's proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other NCI are initially measured at fair value. Subsequent to acquisition, the carrying amount of NCI is the amount of those interests at initial recognition plus the NCI's share of subsequent changes in equity.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the NCI are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Bank.

When the Group loses control of a subsidiary, the gain/loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any NCI. All amounts previously recognised in other comprehensive income ("OCI") in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investments in associates. An associate is an entity over which the Group has significant influence and that is not a subsidiary. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

JOINT STOCK COMPANY "UKRSIBBANK" (Code 09807750)

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

3. Basis of Presentation and Significant Accounting Policies (Continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate is disposed of.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Provided below are significant accounting policies used in preparing these consolidated financial statements.

Financial assets

Initial recognition. At initial recognition, recognized financial assets are measured at fair value, plus (when investments are not classified as financial assets designated at fair value through profit or loss) direct transaction related costs.

If, at the initial recognition, the fair value of a financial asset differs from a contract price (less transaction costs), the Group reflects such a difference as follows: (i) for transactions with shareholders: in equity; (ii) for other operations: in profit or loss.

Date of recognition. All regular way purchases and sales of financial assets are recognized using settlement date accounting, i.e. the dates when the Group commits to purchase the asset.

Financial assets – classification. All financial assets, depending on a business model determined by the Group and contractual cash flow characteristics, are classified to the following categories:

- Financial assets at amortized cost (AC);
- Financial assets at fair value through other comprehensive income (FVTOCI);
- Financial assets at fair value through profit or loss (FVTPL).

The Group measures a financial asset at amortized cost (AC) when both conditions are met: (1) the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; (2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

3. Basis of Presentation and Significant Accounting Policies (Continued)

The Group measures a financial asset at fair value through other comprehensive income (FVTOCI) when both conditions are met: (1) the financial asset is held within a business model the objective of which is achieved by both collecting contractual cash flows and selling the financial assets; (2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Group measures a debt financial asset at fair value through profit or loss (FVTPL) if: (1) the financial asset is held to obtain maximum cash flows from its sale; (2) the contractual terms of the financial asset do not meet the criterion of receiving solely payments of principal and interest (SPPI) on the principal amount outstanding.

Business model assessment. The Group determines its business model not on an instrument-by-instrument basis, but at a higher level of aggregated portfolios of financial assets that are managed together to achieve its specific business objective. In determining the appropriate business model, the Group takes into account the following judgments:

- How the performance of the business model (and the financial assets held within that business model) are evaluated and reported to the Group'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;
- 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;
- Frequency, value, and timing of sales during prior periods, reasons for such sales and expectations regarding any sales in the future;
- Whether the activities to sell or collect contractual cash flows for a business model represent its integral component or are only an exception.

The financial assets held for trading and those managed and assessed on the basis of fair value are measured at fair value through profit or loss.

Analysis of contractual cash flow characteristics. To determine whether financial assets may be classified as financial assets measured at amortized cost or financial assets designated at fair value through other comprehensive income, it is required to assess their ability to pass SPPI test. To pass the SPPI test, the following conditions should be met: the contractual terms stipulate for generating contractual cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. For the purpose of SPPI test, the principal amount outstanding is understood to be the fair value of a financial asset at initial recognition that changes over the life of the financial asset in the event repayments are made on the principal amount outstanding, and interest on the principal amount outstanding 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. When financial assets have a dependence of the contractual cash flows on the risks or conditions not related to basic lending terms and the contractual terms stipulate for prepayments, an extension of a contract, leverage options, or comprise derivatives, they do not pass a SPPI test and should be measured at FVTPL. The SPPI test is made on the date of initial recognition of the financial instrument.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

3. Basis of Presentation and Significant Accounting Policies (Continued)

Reclassifications. If the business model under which the Group 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 Group's financial assets. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

Financial liabilities

Initial recognition. At initial recognition, recognized financial liabilities are measured at fair value, less (when liabilities are not classified as financial liabilities designated at fair value through profit or loss) direct transaction related costs.

If, at the initial recognition, the fair value of a financial liability differs from a contract price (less transaction costs), the Group reflects such a difference as follows: (i) for transactions with shareholders: in equity; (ii) for other operations: in profit or loss.

Date of recognition. The Group recognizes financial liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument.

Financial liabilities – classification. Upon initial recognition, the Group measures and carries in accounting all financial liabilities at amortized cost, except for: 1) financial liabilities designated at fair value through profit or loss (FVTPL); 2) financial liabilities arising when the transfer of a financial asset fails to meet derecognition terms or a principle of continued involvement is applied; 3) financial guarantee contracts, avals, sureties; 4) loan commitments at a lower than market rate; 5) contingent consideration recognized by an acquirer in a business combination to which IFRS 3 "Business Combinations" applies. Such a contingent consideration is subsequently measured at FVTPL.

Interest expense on the financial liabilities classified to the category of those measured at amortized cost is recognized using the effective interest rate in income or expense.

Financial liabilities may be measured at FVTPL in the following cases: (a) under derivative financial instruments; (b) when they are purchased or originated with the purpose of further sale or repurchase.

On initial recognition, the Group, at its sole discretion, classifies a financial liability as an item that may not be reclassified subsequently and designates it as at FVTPL if: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from the use of different frameworks for measuring assets or liabilities or recognition of profits or losses related to them; (ii) a contract contains one or more embedded derivatives, at the same time, the host contract is not a financial asset (other than the cases when an embedded derivative is insignificant or its separation from the host contract would not be prohibited).

The Group recognizes a change in the fair value of a financial liability that is designated, at the Group's sole discretion, as at FVTPL which is caused by changes in its own credit risk in other comprehensive income. The Group recognizes in profit or loss other changes in the fair value of the financial liability.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

3. Basis of Presentation and Significant Accounting Policies (Continued)

Impairment. IFRS 9 "Financial Instruments" requires that the Group recognizes an allowance for expected credit losses ("ECL") on its all debt financial assets measured at amortized cost or fair value through other comprehensive income, as well as commitments of granting loans and financial guarantee contracts. The allowance is calculated on the basis of expected credit losses related to probability of default during the next 12 months, unless there is a significant increase in credit risk from initial recognition of the financial instrument; otherwise, the allowance is calculated based on the expected credit losses for the whole life of an asset. If a financial asset meets the definition of a purchased or originated credit-impaired (POCI) financial asset, the allowance is calculated on the basis of changes in expected credit losses for the whole life of the asset.

At least on a monthly basis, all lending operations and credit exposures from the Group's customers are subject to reviews with regards to:

- Available indication of a significant increase in credit risk (Stage 2);
- Available default indicators (Stage 3);
- Criteria fulfilled as to ceased indication of a significant increase in credit risk (for loans and credit exposures earlier referred to Stage 2);
- Absence of default indicators (for loans and credit exposures earlier referred to Stage 3).

Principal criteria of a significant increase in credit risk for the Group includes delinquency in payment obligations for more than 30 days, expected or performed restructuring (deteriorated lender's positions relate to delayed repayment of interest or principal, but do not result in direct financial losses), deteriorated financial position of a customer (decreased rating of a corporate customer by more than 3 points in comparison with the rating at initial recognition of the loan or decreased rating to the level of 10+ or lower), including a customer to a list of customers requiring special attention, etc.

Principal criteria of impairment indicators for the Group includes delinquency in payment obligations for more than 90 days, the restructuring performed that leads to deteriorated lender's positions and results in direct financial losses, initiated bankruptcy or liquidation of a customer, etc. For more details on the Group's policies regarding impairment indicators, refer to Note 23.

Presentation of allowance for ECL in the consolidated statement of financial position. Loss allowances for ECL are presented in the consolidated 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 consolidated 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 instruments – measurement. Financial instruments are measured at fair value or amortized cost, depending on their classification. Valuation techniques are described below.

Fair value measurement. Financial assets and financial liabilities designated to the category as at FVTPL and FVTOCI are measured and recorded at fair value on initial recognition and as at subsequent dates.

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

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

3. Basis of Presentation and Significant Accounting Policies (Continued)

The Group determines the fair value of financial instruments either by using prices obtained directly from external data or by using valuation techniques. These valuation techniques are primarily market and income approaches encompassing generally accepted models (e.g., discounted cash flows, Black-Scholes model, and interpolation techniques). They maximize the use of observable inputs and minimize the use of unobservable inputs. They are calibrated to reflect current market conditions, and valuation adjustments are applied as appropriate, when some factors such as model, liquidity, and credit risks are not captured by the models or their underlying inputs but are nevertheless considered by market participants when setting the exit price.

The measuring unit is generally the individual financial asset or financial liability but a portfolio-based measurement can be elected subject to certain conditions. Accordingly, the Group retains this portfolio based measurement exception to determine the fair value when some group of financial assets and financial liabilities with substantially similar and offsetting market risks or credit risks are managed on the basis of a net exposure, in accordance with the documented risk management strategy.

Assets and liabilities measured or disclosed at fair value are categorized into the three following levels of the fair value hierarchy:

- Level 1: Fair values are determined using directly quoted prices in active markets for identical assets and liabilities. Characteristics of an active market include the existence of a sufficient frequency and volume of activity and of readily available prices.
- Level 2: Fair values are determined based on valuation techniques for which significant inputs are observable market data, either directly or indirectly. These techniques are regularly calibrated and the inputs are corroborated with information from active markets.
- Level 3: Fair values are determined using valuation techniques for which significant inputs are unobservable or cannot be corroborated by market-based observations, due, for instance, to illiquidity of the instrument and significant model risk. An unobservable input is a parameter for which there are no market data available and that is, therefore, derived from proprietary assumptions about what other market participants would consider when assessing fair value. The assessment of whether a product is illiquid or subject to significant model risks is a matter of judgment.

The level in the fair value hierarchy within which the asset or liability is categorized in its entirety is based upon the lowest level input that is significant to the entire fair value.

On initial recognition, the difference may arise between the arrangement price and fair value of the financial instruments included in Level 3 of the fair value hierarchy. This "first day" result is immediately recognized in accounting as a loss (by the amount of difference between the fair value of a financial asset and the contractual nominal value) in correspondence with discount/premium accounts and amortized using the effective interest rate method against interest income/expense during the period in which estimated parameters are expected to be supported by market observations.

Measurement at amortized cost. The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction (directly or against allowance account) for impairment or inability to repay.

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

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

3. Basis of Presentation and Significant Accounting Policies (Continued)

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortized cost of the financial liability.

On initial recognition, the financial instruments designated as measured at amortized cost are recognized at fair value, which is the amount actually paid or received, plus or minus the transaction costs directly attributable to purchasing or issuing the financial instrument.

As at subsequent reporting dates, the financial instruments designated as measured at amortized cost are recognized using the effective interest rate method.

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.

When a financial asset is modified, the Group assesses whether this modification results in derecognition. In accordance with the Group's policy, a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms, the Group considers quantitative and qualitative factors.

In the case where the financial asset is derecognized, the loss allowance for expected credit losses (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 an 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 Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as whether 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 Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime probability of default (PD) estimated based on the data at initial recognition and the original contractual terms; and
- The remaining lifetime PD at the reporting date based on the modified terms.

Write-off. Loans and debt securities are written off when the Group 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 Group 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 Group may apply enforcement activities to financial assets written off. The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is UAH 1,021,114 thousand at 31 December 2019. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

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.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

3. Basis of Presentation and Significant Accounting Policies (Continued)

Financial guarantee contracts issued by the Group 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 allowance for expected credit losses determined in accordance with IFRS 9; and
- The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with the Group's revenue recognition policies.

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

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

Derecognition of financial assets and financial liabilities. The Group derecognizes a financial asset or a group of similar financial assets when the contractual rights to the cash flows from the asset expire, or when the title of ownership to contractual cash flows from financial assets expires or the Group has entered into a "pass-through" arrangement, and:

- (i) The Group has also transferred substantially all the risks and rewards of ownership of the asset; or
- (ii) The Group has neither transferred nor retained substantially all the risks and rewards from the asset, but has transferred control over the asset, the control is deemed to be retained when a counterparty has no practical ability to sell the asset to an unrelated party without imposing additional restrictions on resale or it has been written off against the allowance.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled, or they expire. 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, with the difference in the carrying amount recognized in the consolidated statement of profit or loss and other comprehensive income.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All cash placements in the interbank market are included in "Due from other financial institutions at amortized cost". Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents. The Group does not include the NBU's deposit certificates in cash and cash equivalents and recognizes them as investment policy instruments. Cash and cash equivalents are carried at amortized cost.

Mandatory reserves. Mandatory reserves held with the National Bank of Ukraine are carried at amortized cost and represent mandatory reserve assets, which are not available to finance the Group's day-to-day operations and, hence, are not considered as a part of cash and cash equivalents.

Due from other financial institutions at amortized cost. Due from other financial institutions consists of due from banks and is recorded when the Group grants cash to counterpart banks that is subject to repayment at a certain established or specified date. Due from banks is carried at amortized cost.

Loans and advances to customers at amortized cost. Loans and advances to customers are initially measured at fair value or the equivalent amount, which is usually the net cash granted, including directly attributable costs and certain fees and commissions on loan origination (fees on arrangement, commissions on loan origination, and service charges) that are treated as adjustment of the effective interest rate under the loan.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

3. Basis of Presentation and Significant Accounting Policies (Continued)

Loans and advances to customers are subsequently measured at amortized cost. Loan revenue which represents interest, plus transaction costs and fees and commissions included in the initial loan cost, is calculated by using the effective interest rate method and is included in profit or loss over the life of the loan.

Fees and commissions earned on contractual funding commitments before the loan was granted are deferred and included in the loan cost when the loan is granted.

Fees and commissions earned on contractual funding commitments, in the event the loan use is remote or uncertainty exists regarding timeframes and amount of the loan, are allocated on a straight line basis over the period of the commitment.

Securities and investments. This item includes investment securities that are classified by the Group based on the business model and contractual cash flow characteristics. As at the end of the reporting period, the Group included in the above item debt securities issued by international financial organizations, debt securities issued by foreign government authorities, government debt securities of Ukraine, deposit certificates of the National Bank of Ukraine carried at amortized cost; government debt securities of Ukraine and corporate shares not quoted in the market accounted at fair value through profit or loss.

Assets held for sale. The assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving the disposal of an investment in an associate, the investment that will be disposed of is classified as assets held for sale when the criteria described above are met, and the Group discontinues using the cost method in relation to the portion that is classified as held for sale.

Assets classified as held for sale are measured at the lower of their previous carrying amount and fair value, less costs to sell.

Due to other financial institutions at amortized cost includes financial liabilities that represent contractual commitments on granting cash or other financial assets to financial institutions or exchanging financial assets or financial liabilities with other financial institutions on the terms that are potentially unfavorable for those financial institutions, other than the subordinated debt.

Customer accounts include the financial liabilities as determined above to economic entities, other than credit organizations, less debt securities and subordinated debt, and are carried at amortized cost.

Subordinated debt represents the funds received as a result of the issue of debt securities for subordinated debt and subordinated loans that have fixed or indefinite maturities. Subordinated debt is carried at amortized cost.

Share capital. Ordinary and preferred shares that are not redeemable and grant to their holders rights to discretionary dividends are reported in equity. Expenditures directly attributable to the issue of new shares are recorded in equity as a reduction in proceeds, less taxes. The excess of fair value amounts included in equity over the nominal value of the shares issued is carried in equity as share premium.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

3. Basis of Presentation and Significant Accounting Policies (Continued)

Offsetting financial assets and financial liabilities. Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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. Agreements on sale and subsequent repurchase and derivative financial instruments that form a subject matter of trading agreements with settlement centers and which meet the two criteria determined in accounting standards, are subject to offsetting in the consolidated statement of financial position.

Derivative financial instruments (derivatives). A derivative financial instrument is a financial instrument comprising all three of the following characteristics:

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

The derivative financial instrument that is not designated as a hedging instrument is classified to the category of at fair value with changes in fair value recognized in profit or loss – held for trading'. It is initially recognized in the consolidated statement of financial position at fair value and, upon initial recognition, changes in fair value are recognized in profit or loss. The Group does not use hedge accounting.

An embedded derivative is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract. Some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

An embedded derivative is separated from the host contract and accounted for as a separate derivative financial instrument if the hybrid financial instrument is not recorded as a financial asset or financial liability at fair value with changes in fair value recognized in profit or loss, and if economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Interest income and expense. Interest income and expense for all financial instruments, except for those classified as designated as at fair value through profit or loss (FVTPL), are recognized in the consolidated statement of profit or loss and other comprehensive income using the effective interest rate method.

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

The calculation of the EIR includes all fees and 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.

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3. Basis of Presentation and Significant Accounting Policies (Continued)

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 and expense. The method used by the Group to recognize its fee and commission income and expense related to rendering and receiving services depends on the character of services. Fees and commissions that are treated as an additional component of interest are included in the effective interest rate and recognized in profit or loss in the item of "Interest income" or "Interest expense". Fees and commissions payable or receivable upon a significant transaction are recognized in profit or loss in full at the moment of a relevant transaction in the item of "Fee and commission income" or "Fee and commission expense". Fees and commissions payable or receivable for recurring services are recognized over the period rendering the services also in the item of "Fee and commission income and expense".

Fees and commissions received under the contractual commitment to grant a financial guarantee are treated as the fair value of that contractual commitment. The relevant commitment is subsequently amortized over the period of the contractual commitment in the item of "Fee and commission expense" in revenue.

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

Property and equipment and intangible assets. Property and equipment and intangible assets include assets used in the process of conducting principal activities. Assets used in the process of conducting principal activities are the assets used to render services or for administrative purposes and include the assets that are not property items and that the Group rents out under lease agreements as a lessor.

Property and equipment and intangible assets are initially recognized at the purchase price, plus transaction costs directly attributable to relevant operations and borrowing costs if, in order to put the assets into operation, a substantial long-term construction or processing is required.

Software developed internally by the Group's specialists that meets capitalization criteria is capitalized in the amount of direct development costs that include external expenditures and payroll costs to employees directly involved in the project.

Upon initial recognition, property and equipment and intangible assets are measured at cost, less accumulated depreciation and amortization and losses on impairment.

Property and equipment and intangible assets are depreciated and amortized after deducting residual value of the assets. Property and equipment and intangible assets are depreciated and amortized using a straight-line method over useful lives of specific assets. Depreciation and amortization charges are recognized in profit or loss in the item of "Depreciation and amortization of premises, leasehold improvements, equipment, and intangible assets".

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3. Basis of Presentation and Significant Accounting Policies (Continued)

In the event the assets comprise several components requiring recurring replacements, have different designations or different use characteristics, or bring different economic benefits, each component is recognized separately and depreciated or amortized using the most appropriate method. Periods of depreciation and amortization charges for office facilities are as follows:

- Building frames – 80–60 years (first-class and other property items, respectively);
- Facades – 30 years;
- General and technical structures – 20 years;
- Improvements – 10 years.

Software is amortized depending on its type over 8 years if it is developed to support computer infrastructure and 3–5 years if the software has been developed predominantly to render services to customers.

Software service costs are expensed in the period in which they are incurred. In addition, expenses that result in improvement of software or extension of its useful life are included in initial cost of purchase or development.

Property and equipment subject to depreciation and intangible assets are tested for impairment when there are indicators of their potential impairment at the reporting date. Assets that are not subject to depreciation or amortization are tested for impairment at least on an annual basis.

In the event impairment indicators are identified, a new recoverable amount of the asset is compared against its carrying amount. If the asset turns out to be impaired, the impairment loss is recognized in profit or loss. This loss is reversed when the estimated recoverable amount changes or impairment indicators disappear. Losses for impairment are included in profit or loss to the item of "Depreciation and amortization of premises, leasehold improvements, equipment, and intangible assets".

Gains or losses on disposal of the property and equipment and intangible assets used in primary activities are recognized in profit or loss in the item of "Net income on non-current assets".

Investment property includes the property items held by the Group in order to obtain rental income or capital appreciation. Investment property items are recognized as assets when it is probable that the Group will receive economic benefits from the investment property and their value can be measured reliably. Investment property on initial recognition is measured at cost. This initial cost amount also includes transaction costs and borrowing costs incurred during the period of construction and preparation of property items.

Subsequent expenses related to already recognized investment property items are added to their carrying amounts if it is probable that they will bring future economic benefits to the Group (e.g., improvement or increase in owned property). All other subsequent expenses (e.g., repairs and maintenance) are expensed in the year when incurred. Subsequent assessment of investment property is performed at cost, less any accumulated depreciation and accumulated impairment losses, if any.

The investment property is derecognized on disposal or consistent withdrawal from operation if no future economic benefits are expected from its disposal. Gains or losses on disposal of investment property are recognized in profit or loss in the item of "Net loss on other activities".

Employee benefits. Employee benefits refer to one of the four categories: current benefits, such as payroll, annual vacations, incentive rewards, participation in profits, and fringe benefits; non-current benefits, including paid long-term vacations, long service bonuses, and other types of deferred cash compensations; termination benefits; and pension benefits.

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3. Basis of Presentation and Significant Accounting Policies (Continued)

Payroll, unified social contributions, paid annual vacations and sick leaves, bonuses, as well as non-cash benefits are accrued in the year in which relevant services have been rendered by the Group's employees. The Group has no legal or constructive obligation under pension or other similar benefits, other than a defined contribution pension plan in accordance with the legislation.

Provisions for commitments. Provisions included in commitment (other than those related to financial instruments, employee benefits, and insurance contracts) are mainly attributable to restructuring, claims and legal proceedings, penalties and fines, and tax risks.

A provision is recognized when, to settle an obligation as a result of a past event, it is probable that an outflow of economic benefits will be required, and the amount of such an obligation can be measured reliably. To determine the amount of provisions, the liabilities are discounted in the event the effect of discounting is material.

Current and deferred taxes. Current income tax expense is determined on the basis of the tax legislation and effective tax rates used in the period in which profits are earned.

Deferred taxes are recognized on temporary differences between carrying amounts of the asset or liability on the balance sheet and its tax base.

Deferred tax liabilities are recognized for all temporary differences that increase the taxable base, other than the temporary differences on initial recognition of goodwill and, subsequently, for the goodwill that is not deductible for taxation purposes.

Deferred tax assets are recognized for all temporary differences that reduce the taxable base and unused tax losses carried forward and are recorded to the extent it is probable that taxable profits will be received against which it will be possible to utilize temporary differences or use the tax losses carried forward.

Deferred tax assets and liabilities are measured under balance sheet obligation method using income tax rates that are expected to be applied in the period when the asset is realized or the liability is settled based on the tax rates and the tax legislation enacted as at the reporting date. Deferred tax assets and liabilities are not discounted.

Foreign currency transactions. Methods of accounting for assets and liabilities related to the Group's foreign currency transactions and estimates regarding the currency risk arising from those transactions depend on whether a relevant asset or liability is monetary or non-monetary.

Foreign currency denominated monetary assets and liabilities. Foreign currency denominated monetary assets and liabilities are translated to the Group's functional currency at the exchange rates prevailing at the end of the period. Translation differences are recognized in profit or loss.

Foreign currency denominated non-monetary assets and liabilities. Foreign currency denominated non-monetary assets and liabilities are translated at the exchange rates at the transaction dates when they are measured at cost and at the exchange rates at the end of the period when they are measured at fair value.

Major exchange rates used for translating foreign currency denominated amounts were as follows:

	31 December 2019, UAH	31 December 2018, UAH
USD 1	23.686200	27.688264
EUR 1	26.422000	31.714138

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognized in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are consistently evaluated and are based on management's experience and other factors, including expectations regarding future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that may cause a significant adjustment to the carrying amounts of assets and liabilities within the next financial year include the following:

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model tests. The Group determines a business model at the level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgments reflecting all relevant evidences, including how the performance of assets is evaluated and their performance measured, the risks that affect the performance of assets and how those are managed and how managers of the assets are compensated. The Group 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 Group'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 the business model and, correspondingly, a prospective change to the classification of those assets.

Significant increase in 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 is transferred 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 Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Please refer to Note 23 for more details.

Establishing groups of assets with similar credit risk characteristics. When ECLs are measured on a collective basis, the financial assets are grouped on the basis of shared risk characteristics. Please refer to Note 23 for details on the characteristics considered in this judgment. The Group 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 an appropriate way for re-segmentation of 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 and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within the portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECLs changes because the credit risk of the portfolios differs.

As at 31 December 2019 the Group grouped majority of its loans and advances to customers in portfolios with similar risk characteristics and measured expected credit losses on a collective basis.

Models and assumptions used. The Group 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 those models, including the assumptions that relate to key drivers of credit risk. See Note 23 for more details on ECLs and Note 27 for more details on fair value measurement.

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4. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Probability of default ("PD"). PD constitutes a key input in measuring ECLs. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions, and expectations of future conditions. See Note 23 for more details.

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

Fair value measurement and valuation process. In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent they are available. Where such Level 1 inputs are not available, the Group uses valuation models to determine the fair value of its financial instruments. Please refer to Note 27 for more details on fair value measurement.

Use of forward-looking information for measuring expected credit losses. When measuring ECLs, the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how those drivers are going to affect each other. Please refer to Note 23 for more details.

Useful lives of property and equipment. The Group reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

Determination of lease term and application of recognition exemption for lease contracts under IFRS 16 "Leases". While assessing the lease term for each lease contract the Group determines the non-cancellable period of a lease, taking into account periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the Group considers all relevant facts and circumstances that create an economic incentive for the Group to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

While applying IFRS 16 "Leases" the Group used recognition exemption from IFRS 16 "Leases" and did not recognize right-of-use asset and lease liability for short-term leases and for leases, for which the underlying asset is of low value.

5. Adoption of New or Revised Standards and Interpretations

New and amended IFRS Standards that are effective for the current year

Impact of initial application of IFRS 16 "Leases". In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the consolidated financial statements of the Group is described below.

The date of initial application of IFRS 16 for the Group is 1 January 2019. The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

5. Adoption of New or Revised Standards and Interpretations (Continued)

Impact of the new definition of a lease. The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on "risks and rewards" in IAS 17 and IFRIC 4. The Group applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project.

Impact on Lessee Accounting. Operating leases: IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group should:

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

Lease incentives (e.g. rent-free period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortized as a reduction of rental expenses generally on a straight-line basis. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within "Administrative and other operating expenses" in consolidated statement of profit or loss and other comprehensive income.

Impact on Lessor Accounting. IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Financial impact of the initial application of IFRS 16. The Group used the exemptions provided in the IFRS 16 in respect of short-term leases and leases of low-value assets (the value of which does not exceed the amount equivalent to EUR 5 thousand at the recognition date) and recognized the lease payments related to such leases as expenses on a straight-line basis over the lease term. As result, IFRS 16 has no significant impact on the Group's consolidated financial statements.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

5. Adoption of New or Revised Standards and Interpretations (Continued)

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019:

- Amendments to IFRS 9 "Prepayment Features with Negative Compensation";
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures";
- Amendments to IAS 19 "Employee Benefits" – Plan amendment, curtailment, or settlement;
- Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "Borrowing Costs";
- Interpretation of IFRS IC 23 "Uncertainty Over Income Tax Treatments".

Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

6. Standards and Interpretations in Issue but not Yet Effective

At the date of authorization of these consolidated financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

Standards/Interpretations	Effective for annual accounting periods beginning on or after:
IFRS 17 "Insurance Contracts" – The Standard sets principles for recognizing, measuring, presenting, and disclosing insurance contracts and replaces IFRS 4 "Insurance Contracts"	1 January 2023
Amendments to IFRS 3 "Business Combinations"	1 January 2020
Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Interest Rate Benchmark Reform	1 January 2020
Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or contribution of assets between an investor and its associate or joint venture	Effective date to be determined
Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates, and Errors" – The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Annual Improvements to IFRSs (2010–2012 Cycle), Amendments to IAS 1 Classification of Liabilities as Current and Non-current	1 January 2022

The management does not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods.

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7. Cash and Cash Equivalents and Mandatory Reserves

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

	31 December 2019	31 December 2018
Cash on hand	2,190,833	2,332,174
Balances with the National Bank of Ukraine and mandatory reserves	3,135,959	2,458,291
Correspondent accounts and overnight deposits with other banks (Note 8)	6,335,439	5,815,517
Less: Mandatory reserves	(2,624,289)	(2,458,291)
Total cash and cash equivalents	9,037,942	8,147,691

Mandatory reserves in the amount of UAH 2,624,289 thousand as at 31 December 2019 (as at 31 December 2018: UAH 2,458,291 thousand) represented mandatory reserve deposits that the Group could not use to finance its day-to-day activities.

Cash and cash equivalents and mandatory reserves by geography, currencies, and interest rates are disclosed in Note 23. Related party balances are disclosed in Note 28.

8. Due from Other Financial Institutions at Amortized Cost

	31 December 2019	31 December 2018
Correspondent accounts and overnight deposits with other banks	6,335,439	5,815,517
Term loans to other banks	3,816,198	6,505,080
Less: Allowance for credit losses	(111)	(146)
Total due from other financial institutions at amortized cost	10,151,526	12,320,451

Total amount due from five counterparties with the largest outstanding amounts as at 31 December 2019 amounted to UAH 8,125,374 thousand, or 80% of total due from other financial institutions (as at 31 December 2018: UAH 8,720,038 thousand, or 71% of total due from other financial institutions).

As at 31 December 2019 and 2018, credit risk exposure, without taking into account the effects of any collateral and other credit enhancement, amounted to UAH 10,151,637 thousand and UAH 12,320,597 thousand, respectively.

Movements in gross value and expected credit losses on balances of due from other financial institutions, geography, currencies, maturities, and interest rates are disclosed in Note 23. Related party balances are disclosed in Note 28.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

9. Loans and Advances to Customers at Amortized Cost

	31 December 2019	31 December 2018
Loans and advances to legal entities	16,819,253	22,986,471
Loans and advances to individuals, individual entrepreneurs	6,527,169	6,721,635
Total loans and advances at amortized cost before allowance for expected credit losses	23,346,422	29,708,106
Less: Allowance for expected credit losses	(1,975,254)	(3,570,144)
Total loans and advances to customers at amortized cost, less allowance for expected credit losses	21,371,168	26,137,962

As at 31 December 2019, credit risk exposure, without taking into account the effects of any collateral and other credit enhancement, amounted to UAH 23,346,422 thousand (as at 31 December 2018: UAH 29,708,106 thousand).

Concentration of loans and advances to customers at amortized cost by industry was as follows:

	31 December 2019		31 December 2018	
	Amount	%	Amount	%
Commerce and trade	9,984,702	42	12,676,333	43
Individuals	6,527,169	28	6,721,635	22
Manufacturing	3,106,336	13	5,029,856	17
Telecommunication	1,994,957	9	2,376,336	8
Agriculture and food processing	1,018,117	4	1,527,935	4
Transport and communication	332,863	1	105,608	1
Financial services	294,647	1	1,216,840	3
Culture and education service	65,887	1	35,565	1
Other	21,744	1	17,998	1
Total loans and advances to customers, before allowance for expected credit losses	23,346,422	100	29,708,106	100

As at 31 December 2019, total loans and advances to customers at amortized cost granted to 10 largest borrowers of the Group amounted to UAH 9,706,229 thousand (as at 31 December 2018: UAH 10,764,757 thousand), or 42% of total loan portfolio (as at 31 December 2018: 36%).

As at 31 December 2019, loans and advances to customers at amortized cost with the carrying value of UAH 3,415 thousand (as at 31 December 2018: UAH 5,021 thousand) were used as a collateral on balances of due to other financial institutions at amortized cost in the amount of UAH 3,979 thousand (as at 31 December 2018: UAH 5,927 thousand).

As at 31 December 2019, total amounts due under loans to five borrowers each individually exceeded 10% of the Group's net assets. Total carrying value of those loans amounted to UAH 7,506,247 thousand (as at 31 December 2018: six borrowers with the total loan amount of UAH 8,429,990 thousand).

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9. Loans and Advances to Customers at Amortized Cost (Continued)

The table below discloses loans and advances to customers at amortized cost by prevailing types of collateral as at 31 December 2019 and 2018:

	31 December 2019	31 December 2018
	Carrying value of assets	Carrying value of assets
Loans secured by guarantees and deposits	15,644,925	19,608,667
Loans secured by consumer goods	3,489,185	2,665,861
Loans secured by real estate	1,939,480	3,551,153
Unsecured overdrafts	297,578	312,281
Total	21,371,168	26,137,962

Amounts and types of collateral required by the Group depend on estimated credit risk of a counterparty. The Group has guidelines in place as to acceptability of certain types of collateral and parameters of their valuation.

Main types of collateral are described as follows:

- On mortgage loans and car loans – rights to movable and immovable properties, rights of claim under deposits;
- On other term loans and overdrafts – real estate items, inventories, and accounts receivable under primary activities, rights of claim under deposits.

The Group also obtains from parent companies of its borrowers guarantees on the loans issued to their subsidiaries domiciled in Ukraine.

The Group's management monitors the market value of collateral, demands additional collateral under loan agreements, and analyzes the market value of the collateral obtained when analyzing the sufficiency of allowance for expected credit losses.

As at 31 December 2019, carrying amount of loans and advances to customers at amortized cost secured by deposits of the Group's customers amounted to UAH 429,746 thousand (as at 31 December 2018: UAH 519,899 thousand). See Note 14.

Movements of gross value and allowance for expected credit losses of loans and advances to customers during 2019 and 2018, geography, currencies, maturities, and interest rates are disclosed in Note 23. Related party balances are disclosed in Note 28.

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10. Securities and Investments

	31 December 2019	31 December 2018
Securities and investments at amortized cost:		
Deposit certificates of the NBU	8,715,088	4,210,125
Government debt securities of Ukraine	2,258,959	936,004
Debt securities issued by international financial organizations	1,782,095	414,062
Debt securities issued by foreign government authorities	632,635	-
Less: Allowance for expected credit losses	(123,944)	(98,138)
Total securities and investments at amortized cost	13,264,833	5,462,053
Securities and investments at fair value through profit or loss:		
Government debt securities of Ukraine	75,233	-
Corporate shares not quoted in the market	1,260	1,260
Total securities and investments at fair value through profit or loss	76,493	1,260
Total securities and investments	13,341,326	5,463,313

As at 31 December 2019, credit risk exposure, without taking into account the effects of any collateral and other credit enhancement, amounted to UAH 13,388,777 thousand (as at 31 December 2018: UAH 5,560,191 thousand).

Securities and investments by movements in gross value and expected credit losses during 2019 and 2018, geography, currencies, maturities, and interest rates are disclosed in Note 23.

The table below discloses movements in carrying amounts of the Group's investments in associates:

	2019	2018
Carrying amount as at 1 January	-	178,513
Gains on investments in associates during the period (Note 12)	-	42,333
Transfer of investments in associates to another category (Note 12)	-	(212,880)
Impairment of investments in associates (Note 12)	-	(7,966)
Carrying amount as at 31 December	-	-

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11. Property and Equipment and Intangible Assets

	Premises	Leasehold improve- ments	Office and computer equipment	Vehicles	Construc- tion in progress	Total tangible assets	Intangible assets	Total
Historical amount as at 31 December 2017	959,578	192,372	1,008,809	32,204	54,734	2,247,697	684,078	2,931,775
Depreciation and amortization as at 31 December 2017	(340,466)	(142,622)	(657,604)	(18,360)	-	(1,159,052)	(426,931)	(1,585,983)
Net book value as at 31 December 2017	619,112	49,750	351,205	13,844	54,734	1,088,645	257,147	1,345,792
Additions	26,817	38,018	263,597	6,416	24,776	359,624	274,452	634,076
Transfers to another category:	121	(155)	29	5	-	-	-	-
Transfers to another category, cost	350	(22,603)	21,020	1,233	-	-	-	-
Transfers to another category, depreciation and amortization	(229)	22,448	(20,991)	(1,228)	-	-	-	-
Reclassification from investment property	16,165	-	-	-	-	16,165	-	16,165
Disposals:	(36,005)	(428)	(1,559)	(179)	(65)	(38,236)	(94)	(38,330)
Disposals, cost	(36,807)	(11,760)	(72,334)	(8,499)	(65)	(129,465)	(22,506)	(151,971)
Disposals, depreciation and amortization	802	11,332	70,775	8,320	-	91,229	22,412	113,641
Depreciation and amortization charges	(46,212)	(22,920)	(152,648)	(4,734)	-	(226,514)	(56,340)	(282,854)
Net book value as at 31 December 2018	579,998	64,265	460,624	15,352	79,445	1,199,684	475,165	1,674,849
Historical amount as at 31 December 2018	966,103	196,027	1,221,092	31,354	79,445	2,494,021	936,024	3,430,045
Depreciation and amortization as at 31 December 2018	(386,105)	(131,762)	(760,468)	(16,002)	-	(1,294,337)	(460,859)	(1,755,196)
Net book value as at 31 December 2018	579,998	64,265	460,624	15,352	79,445	1,199,684	475,165	1,674,849

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11. Property and Equipment and Intangible Assets (Continued)

	Premises	Leasehold improve- ments	Office and computer equipment	Vehicles	Construc- tion in progress	Total tangible assets	Intangible assets	Total
Additions	42,263	33,610	188,894	3,820	51,716	320,303	149,699	470,002
Transfers to another category:	-	2	(2)	-	-	-	-	-
Transfers to another category, cost	-	78	(78)	-	-	-	-	-
Transfers to another category, depreciation and amortization	-	(76)	76	-	-	-	-	-
Reclassification from investment property	165	-	-	-	-	165	-	165
Disposals:	(38,048)	(330)	(351)	(1)	(15)	(38,745)	(6)	(38,751)
Disposals, cost	(46,213)	(7,606)	(24,999)	(2,141)	(15)	(80,974)	(19,838)	(100,812)
Disposals, depreciation and amortization	8,165	7,276	24,648	2,140	-	42,229	19,832	62,061
Depreciation and amortization charges	(27,677)	(28,806)	(188,449)	(5,580)	-	(250,512)	(103,170)	(353,682)
Net book value as at 31 December 2019	556,701	68,741	460,716	13,591	131,146	1,230,895	521,688	1,752,583
Historical amount as at 31 December 2019	962,318	222,109	1,384,909	33,033	131,146	2,733,515	1,065,885	3,799,400
Depreciation and amortization as at 31 December 2019	(405,617)	(153,368)	(924,193)	(19,442)	-	(1,502,620)	(544,197)	(2,046,817)
Net book value as at 31 December 2019	556,701	68,741	460,716	13,591	131,146	1,230,895	521,688	1,752,583

Construction in progress mainly includes construction and capital repairs of premises and investments in information systems.

As at 31 December 2019 and 2018 included in property and equipment were fully depreciated assets in total amount of UAH 557,029 thousand and UAH 485,703 thousand, respectively.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

12. Assets Held for Sale

In late 2018, the Group signed an agreement on the sale of its ownership interest in Private Joint Stock Company "Insurance Company "AXA Insurance" and, as a result, the investments were transferred to the category of "Assets held for sale" from the category of "Securities and investments" in the amount of UAH 212,880 thousand. During 2018, gain on revaluation of the investment amounted to UAH 42,333 thousand and, at reclassification, the investments were impaired by UAH 7,966 thousand (refer to Note 10). Also, in 2018 the Group received dividends in the amount of UAH 29,393 thousand accounted for in Net losses on other activities.

The table below discloses information about the Group's interest in the associate and its summarized financial information:

Reporting period	Entity's name	Country	Total net assets	% of the Group's share	The Group's share in net assets	Revaluation increase
2018	PrJSC "IC "AXA Insurance"	Ukraine	443,297	49.819%	220,846	42,333

In February 2019, the Group has completed sale transaction and sold its investment share in the company for UAH 213,516 thousand.

13. Other Assets

	31 December 2019	31 December 2018
Other financial assets		
Settlement accounts	391,308	834,457
Accrued income receivable	55,953	50,715
Less: Allowance for expected credit losses	(124,706)	(118,183)
Total other financial assets	322,555	766,989
Other non-financial assets		
Prepayments for buildings and equipment	163,958	99,384
Prepaid expenses	137,227	116,830
Inventories	14,421	22,317
Accounts receivable on taxes, other than income tax	2,365	2,354
Other prepayments and accruals	5,720	6,403
Less: Allowance for impairment	(23,344)	(29,179)
Total other non-financial assets	300,347	218,109
Total other assets	622,902	985,098

As at 31 December 2019 and 2018, credit risk exposure on other financial assets, without taking into account the effects of any collateral and other credit enhancement, amounted to UAH 447,261 thousand and UAH 885,172 thousand, respectively.

Other financial assets by geography, currencies, and maturities are disclosed in Note 23. Related party balances are disclosed in Note 28.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

14. Customer Accounts

	31 December 2019	31 December 2018
Current/demand accounts		
- Legal entities	22,649,584	22,273,274
- Individuals and individual entrepreneurs	16,867,950	13,354,103
Total current/demand accounts	39,517,534	35,627,377
Term deposits		
- Legal entities	4,441,670	4,033,261
- Individuals and individual entrepreneurs	1,380,869	1,438,353
Total term deposits	5,822,539	5,471,614
Total customer accounts	45,340,073	41,098,991

Distribution of customer accounts by industry is presented below:

	31 December 2019		31 December 2018	
	Amount	%	Amount	%
Commerce and trade	14,725,495	33	13,646,589	33
Individuals	13,739,827	30	11,861,500	29
Manufacturing	8,781,729	19	8,115,857	20
Culture and education services	1,456,686	3	1,463,812	4
Financial services	1,304,487	3	1,532,064	4
Transport	1,043,142	2	802,090	2
Agriculture	750,790	2	627,307	1
Telecommunication services	434,953	1	631,760	1
Other	3,102,964	7	2,418,012	6
Total customer accounts	45,340,073	100	41,098,991	100

Outstanding balance of 10 largest customers of the Group as at 31 December 2019 amounted to UAH 3,323,616 thousand (as at 31 December 2018: UAH 4,516,060 thousand), or 7% (as at 31 December 2018: 11%) of total customer accounts.

As at 31 December 2019, included in customer accounts were balances totaling to UAH 454,692 thousand (as at 31 December 2018: UAH 758,450 thousand) placed by customers as a collateral for loans and advances to customers at amortized cost with the carrying amount of UAH 429,746 thousand (as at 31 December 2018: UAH 519,899 thousand). See Note 9.

Customer accounts by geography, currencies, maturities, and interest rates are disclosed in Note 23. Related party balances are disclosed in Note 28.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

15. Other Liabilities

	31 December 2019	31 December 2018
Provision for amounts due to employees	396,320	286,362
Settlement accounts	89,551	489,818
Accrued expense on professional and cash settlement services	68,701	157,260
Accounts payable on operations with other financial instruments	3,357	13,532
Total other financial liabilities	557,929	946,972
Deferred income	82,210	80,142
Charges payable to Individual Deposit Guarantee Fund	38,146	28,403
Provision for litigation costs	21,561	16,851
Taxes payable, other than income tax	19,785	7,194
Provision for contingent liabilities and credit commitments	11,569	9,497
Other	9,142	4,984
Total other non-financial liabilities	182,413	147,071
Total other liabilities	740,342	1,094,043

Other financial liabilities by geography, currencies, and maturities are disclosed in Note 23.

16. Subordinated Debt

Summarized below is information about the subordinated debt structure as at 31 December 2019 and 2018:

Entity's name	Currency	Year of origination	Year of maturity	Interest rate, %	31 December 2019	31 December 2018
EBRD	USD	2010	2020	1.5	249,348	291,467
EBRD	USD	2009	2019	1.5	-	1,389,420
EBRD	USD	2009	2019	1.5	-	1,386,006
Total subordinated debt					249,348	3,066,893

The Group is obliged to comply with the covenants attached to the subordinated debt. As at 31 December 2019 and 2018, the Group was in compliance with the covenants.

Subordinated debt by geography, currencies, maturities, and interest rates is disclosed in Note 23. Related party balances are disclosed in Note 28.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

16. Subordinated Debt (Continued)

The table below details main changes in the Group's liabilities arising from financing activities, including cash and non-cash changes. Liabilities arising from financing activities are obligations in respect of which cash flows were or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities for the year ended 31 December 2019:

	Balance as at the beginning of the period	Proceeds/ (repayments) from cash flows	Non-cash changes		Balance as at the end of the period
			Foreign exchange differences	Other changes	
Subordinated debt	3,066,893	(2,427,552)	(383,396)	(6,597)	249,348
Due to other financial institutions at amortized cost	5,927	(1,946)	-	(2)	3,979
Total reconciliation of liabilities arising from financing activities	3,072,820	(2,429,498)	(383,396)	(6,599)	253,327

Movements in the Group's liabilities arising from financial activities, including cash and non-cash changes, for the year ended 31 December 2018 were as follows:

	Balance as at the beginning of the period	Proceeds/ (repayments) from cash flows	Non-cash changes		Balance as at the end of the period
			Foreign exchange differences	Other changes	
Subordinated debt	3,108,868	-	(41,885)	(90)	3,066,893
Due to other financial institutions at amortized cost	7,019	(1,094)	-	2	5,927
Total reconciliation of liabilities arising from financing activities	3,115,887	(1,094)	(41,885)	(88)	3,072,820

17. Share Capital

	Number of ordinary shares, in thousand units	Number of preferred shares, in thousand units	Ordinary shares	Preferred shares	Total
Shares issued and fully paid as at 31 December 2018	491,902,835	15,023,330	4,919,029	150,233	5,069,262
Shares issued and fully paid as at 31 December 2019	491,902,835	15,023,330	4,919,029	150,233	5,069,262

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

17. Share Capital (Continued)

As at 31 December 2019, BNP Paribas SA (France) owned 60% shares in the Group (as at 31 December 2018: 60%), and the EBRD owned 40% shares in the Group (as at 31 December 2018: 40%).

Share premium as at 31 December 2019 and 2018 amounted to UAH 811,229 thousand. Share premium represents an excess of contributions received over the nominal value of shares issued.

All ordinary share as at the reporting date had the par value of UAH 0.01 per share (as at 31 December 2018: UAH 0.01 per share). All preferred shares had the par value of UAH 0.01 per share (as at 31 December 2018: UAH 0.01 per share).

The preferred shares are not subject to repurchase and provide their holders with a priority right compared to ordinary shares in the event the Group is liquidated. The preferred shares entitle their holders to participate in general shareholders' meetings without a voting right, except for voting on the matters of the Group's reorganization and liquidation and introduced amendments and complements to the Group's Charter which restrict rights of the preferential shareholders. Dividends under the preferred shares are set at the level of 48% of the total amount of declared dividends and are payable before the dividends are paid under ordinary shares. In the cases envisaged by the legislation of Ukraine, holders of preferred shares have equal voting rights with holders of ordinary shares.

In 2019 and 2018, dividends were paid to the Group's shareholders in accordance with the effective legislation of Ukraine and the Agreement on Servicing the Issues between JSC "UKRSIBBANK" and the National Depository of Ukraine (the "NDU") # OB-755 dated 23 October 2013 in the amount of UAH 2,526,864 thousand and UAH 1,200,000 thousand, respectively.

18. Earnings per Share

	31 December 2019	31 December 2018
Net profit for the year	2,615,044	2,788,850
Shares issued and fully paid (thousand units)	506,926,165	506,926,165
Including:		
Ordinary shares issued and fully paid (thousand units)	491,902,835	491,902,835
Net earnings per ordinary share (UAH per share)	2.76	2.95
Preferred shares issued and fully paid (thousand units)	15,023,330	15,023,330
Net earnings per preferred share (UAH per share)	83.55	89.10

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

19. Interest Income and Expense

	For 12 months of 2019	For 12 months of 2018
Interest income on financial assets at amortized cost:		
<i>Loans and advances to customers at amortized cost</i>		
Loans to legal entities	2,629,855	2,545,651
Loans to individuals	1,519,841	1,271,321
Total interest income on loans and advances to customers at amortized cost	4,149,696	3,816,972
<i>Due from other financial institutions at amortized cost</i>		
Term loans	208,569	211,666
Current and overnight accounts	11,481	25,154
Total interest income on due from other financial institutions at amortized cost	220,050	236,820
<i>Securities and investments at amortized cost</i>		
Deposit certificates of the NBU	582,230	442,697
Government debt securities of Ukraine	252,141	88,644
Debt securities issued by international financial organizations and foreign government authorities	32,193	570
Total interest income on securities and investments at amortized cost	866,564	531,911
Total interest income on financial assets at amortized cost	5,236,310	4,585,703
Interest expense on financial liabilities at amortized cost:		
<i>Customer accounts</i>		
Current accounts	(502,819)	(372,657)
Term deposits	(488,231)	(285,268)
Total interest expense on customer accounts	(991,050)	(657,925)
Subordinated debt	(37,014)	(45,270)
Due to other financial institutions at amortized cost	(2,074)	(2,277)
Total interest expense on financial liabilities at amortized cost	(1,030,138)	(705,472)
Net interest income	4,206,172	3,880,231

Interest income and expense on related party transactions are disclosed in Note 28.

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20. Fee and Commission Income and Expense

	For 12 months of 2019	For 12 months of 2018
Fee and commission income		
Fee and commissions on cash settlement operations	1,955,851	1,803,663
Fee and commissions on currency operations	236,087	245,470
Fee and commissions on guarantee obligations	25,781	22,231
Fee and commissions on agent services	24,985	24,854
Fee and commissions on operations with securities	9,750	10,437
Other income on payments and fees and commissions	51,686	41,343
Total fee and commission income	2,304,140	2,147,998
Fee and commission expense		
Fee and commissions on cash settlement services	(491,799)	(445,510)
Plastic cards and treasury operations	(68,312)	(71,825)
Fee and commission expense on loan servicing and guarantees	(7,453)	(6,527)
Total fee and commission expense	(567,564)	(523,862)
Net fee and commission income	1,736,576	1,624,136

Fee and commission income and expense on related party transactions are disclosed in Note 28.

21. Administrative and Other Operating Expense

	For 12 months of 2019	For 12 months of 2018
Maintenance of premises and equipment	(311,617)	(276,665)
Leases	(208,850)	(180,165)
Mail and telecommunication costs	(105,040)	(111,621)
Professional services	(91,531)	(131,748)
Advertising and marketing services	(80,004)	(59,943)
Production of plastic cards	(37,390)	(17,556)
Business trips	(34,297)	(30,966)
Cash collection expenses	(32,986)	(26,688)
Security	(29,424)	(27,698)
Taxes, other than income tax	(23,124)	(22,775)
Litigation costs	(18,962)	(16,386)
Royalty	(16,485)	(23,497)
Labor protection, recruitment, trainings	(9,914)	(5,423)
Charity	(4,550)	(4,364)
Other	(85,335)	(57,670)
Total administrative and other operating expense	(1,089,509)	(993,165)

Administrative and other operating expenses on related party transactions are disclosed in Note 28.

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22. Income Tax Expense

Components of income tax expense include the following:

	31 December 2019	31 December 2018
Current income tax	148,403	2,378
Deferred income tax	146,612	507,946
Income tax expense	295,015	510,324

Income tax rate applied to the Group's profit was 18% in 2019 (2018: 18%).

Reconciliation of estimated and actual tax expense was as follows:

	31 December 2019	31 December 2018
Profit before income tax	2,910,059	3,299,174
Theoretical tax expense at the statutory tax rate (18%)	523,811	593,851
Tax effect of non-deductible items for tax purposes or items not included in taxable amount:		
- Tax effect of other permanent differences	(968)	(70,378)
- Expense not included in tax expenditures	2,660	(13,149)
- Change in deferred tax asset not recognized	(220,307)	-
- Other	(10,181)	-
Income tax expense for the year	295,015	510,324

As at 31 December 2019 and 2018, according to its accounting policies, the Group calculated deferred tax assets or liabilities on the basis of assets and liabilities.

Summarized below is the calculation of deferred tax assets as at 31 December 2019 and 2018:

31 December 2019	Financial accounting base	Tax accounting base	Difference	Deferred tax assets
Provision for financial guarantees issued	5,113	-	5,113	920
Provision for commitments	6,456	-	6,456	1,162
Provision for other non-financial liabilities*	298,720	-	298,720	53,770
Property and equipment, intangible assets, and other non-current assets	(1,575,782)	(1,724,467)	148,685	26,763
Total deferred tax assets	(1,265,493)	(1,724,467)	458,974	82,615

* Provision for other non-financial liabilities as at 31 December 2019 included provision for staff costs in the amount of UAH 272,986 thousand, provision for litigation costs in the amount of UAH 21,561 thousand, and other provision in the amount of UAH 4,173 thousand.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

22. Income Tax Expense (Continued)

31 December 2018	Financial accounting base	Tax accounting base	Difference	Deferred tax assets
Provision for financial guarantees issued	6,996	-	6,996	1,259
Provision for commitments	2,501	-	2,501	450
Provision for other non-financial liabilities*	194,664	-	194,664	35,040
Property and equipment, intangible assets, and other non-current assets	(1,334,913)	(1,463,619)	128,706	23,167
Tax losses carried forward	-	(940,616)	940,616	169,311
Total deferred tax assets	(1,130,752)	(2,404,235)	1,273,483	229,227

* Provision for other non-financial liabilities as at 31 December 2018 included provision for staff costs in the amount of UAH 176,233 thousand, provision for litigation costs in the amount of UAH 16,851 thousand, and other provision in the amount of UAH 1,580 thousand.

The amount of unrecognized tax asset arising from tax losses as at 31 December 2018 was equal to UAH 220,307 thousand, which corresponded to UAH 1,223,925 thousand of tax losses. During 2019 the Group recognized tax asset from mentioned tax losses and utilized it in full amount. As at 31 December 2019 the Group has no unrecognized tax asset. As at 31 December 2019 and 2018 tax losses carried forward were subject of litigation process with tax authorities (Note 25).

Components of deferred tax assets, current income taxes prepaid and current income tax liabilities were as follows:

	31 December 2019	31 December 2018
Deferred tax assets	82,615	229,227
Income taxes prepaid	527,214	216,242
Total deferred income tax assets and current income taxes prepaid	609,829	445,469
Current income tax liabilities	(4,263)	-
Total current income tax liabilities	(4,263)	-

In 2019 the Bank was subject to full-scope tax inspection by State Tax Authority. The Group did not recognize additional tax liabilities in the consolidated financial statements as at 31 December 2019 as result of the tax inspection (Note 25).

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23. Financial Risk Management

Risk management system. Successful operations of the Group are, largely, dependent on the risk management concept elected. A primary goal in risk management of the Group refers to promoting the Group's strategy and mission via creating a reliable, safe, and vigilant risk system that is operated in a long-term perspective on the basis of appropriate implementation of longstanding practices of BNP Paribas SA (France) in the area of risk management, full compliance with ever-changing requirements of the local regulator and BNP Paribas SA (France), and ensuring the adequate and actual risk appetite with a proper balance between growing business needs and risk prudence.

The main objective of the Group's risk management process is to avoid and mitigate risks in accordance with the accepted risk appetite and business model of the Group. For this reason, the following risk management functions are approved:

- Take decisions in an objective and unbiased manner acting as a "second pair of eyes", with deep understanding of accepted risks and long-term consequences of the decisions made, and the highest compliance standards and codes of conduct;
- Report and make the Group's management aware of inherent and potential external and internal risks to which the Group is exposed;
- Perspective view on the risk evolution and its effect on the Group's operations and solvency;
- Advise the Management Board, business, and other support functions on determination of a respective risk appetite, potential deficiencies in risk management system at any level of the organization, and required actions to be undertaken in order to strengthen the system;
- Enable the promotion and development of risk culture at all levels of the organization;
- Tailor the risk management system to the structure of internal (business) and external (regulatory) requirements.

For these purposes, risk management processes should be both prudent, reliable, simple, effective and adaptive to developments in regulatory, macroeconomic, and competitive environment and business specifics.

Significant types of risk include:

- Credit risk;
- Market risk;
- Interest rate risk;
- Liquidity risk;
- Operating risk (including legal, information, and business continuity risks);
- Compliance risk;
- Reputational risk;
- Model risk.

Risk management functions within the Group include directly Control Compliance Department (regarding compliance risk and reputational risk) and Risk Management Department (regarding other significant risks mentioned above) of the Bank that operate at the level of the second line of defense.

The Group arranges for a risk management system that is based on distribution of responsibilities among the Group's units by using the model of three lines of defense:

- 1) The first line – at the level of the Group's business units and support units. These units accept risks and are responsible for them and report about the current risk management.
- 2) The second line – at the level of Risk Management Department and Control Compliance Department.

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23. Financial Risk Management (Continued)

- 3) The third line – at the level of Internal Audit Department designed to review and assess the efficiency of risk management system functioning.

To improve the efficiency of risk management, the Group has established Risk Committee and Compliance Committee within the Supervisory Board that form a component of the risk management organization structure. Heads of risk management functions (Chief Risk Officer and Chief Compliance Officer) are authorized to veto decisions of the Group's Management Board and any of its committees to ensure the compliance of the Group within the set risk appetite, risk policies, and their competences.

In addition to the Supervisory Board's committees, a key player in the Group's risk management is a system of collegiate committees (i.e. the Management Board, Credit Committees, Asset and Liability Management Committee ("ALMC"), Internal Control Committee, Financial Monitoring Committee, etc.) that are regulated by separate provisions of the Group in accordance with the accepted system on managing each risk exposure.

In order to analyze, control, and manage effectively risks, the Group has developed and implemented a system of management reporting that contains accurate, complete, timely, and robust information about significant risk types. A major task of management reporting in respect of risks is to highlight and focus attention of end users to key and relevant risk indicators that have changed significantly during the reporting period and/or may lead to the increased risk to the Group.

Credit risk management

1. General framework of credit risk management

Credit risk refers to a probability to incur losses or additional expenses or shortfalls in receiving planned income as a result of failure by a borrower/counterparty to meet its contractual obligations. Credit risk includes country risk and counterparty risk.

Credit risk management represents a range of measures on ensuring timely and adequate identifying, measuring, monitoring, reporting, and controlling credit risk in order to mitigate its effect on financial performance of the Group.

Objective of credit risk management is to maximize profits while meeting the acceptable risk level and its parameters as determined in accordance with the declaration on risk appetite and credit policies of the Group.

Credit risk management is performed on both individual and collective basis.

Credit risk management is performed through a range of measures related to:

- Implementation of risk management culture;
- Organization of a reliable credit process;
- Support to credit administration that is sufficient for timely and complete monitoring and measuring of credit risk;
- Reporting system;
- Maintenance of required control over credit risk.

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23. Financial Risk Management (Continued)

Measures on credit risk management are included in:

- Declaration on risk appetite

Risk appetite to credit risk in BNP Paribas SA (France) is determined with the help of quantitative indicators in the form of general limits to volume of lending operations ("Envelope" limits). The process of determining limits and their approval is performed on an annual basis in accordance with the BNP Paribas's SA (France) procedures and approved at the level of the BNP Paribas SA (France) and the Supervisory Board.

"Envelope" document is a key document determining the Group's development strategy in the area of lending activities based on the proposed business expectations of the Group, with reference to country risk, assessment of external and internal factors, and expected changes.

In addition to the main risk-appetite, for certain lending products specific limits and early warning indicators are determined.

- System of credit decision making

Key elements of the system of credit decision making include:

- Limits on credit risks described in letters regarding credit authorities of business functions and letters regarding authorities of risk function; and
- Credit committees of different levels by market segments, types of borrowers, loan products.

The basis of the said system is to make credit decisions only upon a mandatory bilateral agreement by authorized representatives of business functions and Risk Management Department and a possible potential escalation by a business function of a loan application to a committee of the next level in the event there is a disagreement with Risk Management Department's decision.

- System of approving and reviewing loan products

The Group has established a separate process for approving and reviewing loan products in order to identify risks and manage them.

- Credit policies
- Operating procedures

The Group's operating procedures determine approaches to loan administering and monitoring and are aimed at implementing credit policies.

Lending procedures cover all stages of lending, from establishing a contract with a customer, determining and approving a credit risk, preparing and signing credit documents, monitoring processes of granting loan products to repayment the loan, including through realized rights to collateral.

- System of credit risk monitoring

It considers regular reporting regarding credit risk evolution and compliance with risk limits, early warning signals (both automatic and individual), regular reviews of customers on an individual basis, and integration with customer monitoring tools at the level of BNP Paribas SA (France).

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23. Financial Risk Management (Continued)

The Group has created and ensured operation of the system of internal assessment of credit risk.

Internal assessment of credit risk is made on the basis of segmentation, in particular, by:

- Corporate business;
- Medium and small business;
- Consumer lending.

Credit risk management is performed by all units participating in the lending process. An ultimate body that accepts credit risk is Credit Committee.

To ensure effective risk management, the Group sets limits by individual risk types within the accepted risk appetite and regularly monitors the compliance of current activities with approved limits.

The Group sets limits on credit risk concentration (maximum exposure), with reference to the requirements of the Ukrainian legislation, general framework of BNP Paribas SA (France), and relevant requirements of the NBU in respect of (at least):

- One borrower/counterparty or a group of related counterparties;
- Business lines and products;
- Types of economic activities (industry concentration) and geographical regions;
- Borrower/counterparty classes determined under the requirements of Resolution #351;
- Types of collateral provided by borrowers and counterparties against their obligations;
- Currency types;
- Remaining maturity.

For the purposes of appropriate credit risk management, the Group has developed a policy on write-offs that regulates general principles and requirements to timely write-off of loans required to ensure a high quality of the Group's loan portfolio and focus attention on the primary business. The policy stipulates for three types of loans write-off and respective write-off criteria:

- Forgive (cancel) a debt;
- Partially write-off (forgive) a debt;
- Write off a debt.

The Group considers interrelationships that exist between credit risk and other types of risk.

2. Approach to determining default and risk assessment under IFRS 9

Significant increase in credit risk. As explained in Note 4, the Group monitors all financial assets that are subject to 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 Group will measure the loss allowance based on lifetime rather than 12-month ECLs.

Internal credit risk ratings. In order to minimize credit risk, the Group has developed the credit risk grading to categorize exposures according to their degree of risk of default. The Group's credit risk grading framework comprises twelve rating categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgment. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

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23. Financial Risk Management (Continued)

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The Group uses the rating of the counterparty assigned by international rating agencies (i.e. Fitch, Moodys, S&P), among which the lowest one is accepted for the interbank disclosure purposes. In case if a contracting bank is in the state ownership, the international rating is adjusted to the rating of the country of bank's registration assigned by the international rating agency. In the absence of an international rating, for interbank clients, as well as for state governing authorities, the rating of the country of registration assigned by the international rating agency is taken into account. For other customers, the BNP Paribas client rating is used without any adjustment to the country rating.

For the purpose of determining expected credit losses of financial assets that are within the scope of IFRS 9 impairment requirements, the Group allocates financial assets to five risk levels depending on the quality and default characteristics of a customer, in particular:

Due from banks/investments/loans to customers				
Ratings assigned by international rating agencies			Customer's ratings under BNP Paribas's scale	Risk levels
Moody's	S&P	Fitch IBCA		
Aaa	AAA	AAA	1+	High quality
Aa1	AA+	AA+	1	
Aa2	AA	AA	1-	
Aa3	AA-	AA-	2+	High quality
A1/A2	A+/A-	A+/A-	2	
A3	A-	A-	2-	
Baa1	BBB+	BBB+	3+	Medium quality
			3	
			3-	
Baa2	BBB	BBB	4+	Medium quality
			4	
			4-	
Baa3	BBB-	BBB-	5+	Medium quality
			5	
			5-	
Ba1	BB+	BB+	6+	Medium quality
Ba2	BB	BB	6	
			6-	
Ba3	BB-	BB-	7+	Lower than medium quality
B1	B+	B+	7	
			7-	
B2	B	B	8+	Lower than medium quality
			8	
			8-	
B3	B-	B-	9+	Lower than medium quality
			9	
			9-	
Caa1/Caa2/Caa3	CCC+/CCC/CCC-	CCC+/CCC/CCC-	10+	Low quality
Ca	CC	CC	10	
C	C	C	10-	
D	SD/D	DDD/DD/D	11	Default quality
			12	

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23. Financial Risk Management (Continued)

For the purposes of assessing expected credit losses for loans and advances to customers which are non-rated (small and medium entities, individual entrepreneurs and individuals) under BNP Paribas's scale and that are subject to impairment requirements under IFRS 9, the Group allocates those financial assets into quality risk levels, depending on the days past due ("DPD") and default indicators.

The Group determines whether a financial asset is a credit-impaired financial asset using default definition. Stage 3 is always applied to clients which are in default (non-performing) status.

Default definition and default identification process depends on the counterparty type:

- For rated clients ratings 11 and 12 are considered as default;
- For customers without any rating assigned (individuals and small and medium entities), a key criterion for default recognition is:
 - when a debt is overdue for more than 90 days, i.e. the default status is assigned effective from day 91 of the debt delay, inclusive;
 - an available procedure of restructuring or a forbearance event.

IFRS 9 introduced a new concept of "impairment stage" (hereinafter, "Stage"), which allows estimating losses over lifetime of the asset. Based on the changes in the asset quality from the date of initial recognition on the balance sheet, criteria for deterioration of the asset quality are basic elements for determining the impairment stage for each asset and, as a result, electing method for calculating an allowance for expected credit losses.

Significant increase in credit risk include the following risk indicators and deterioration criteria:

- At each reporting date, a test is performed to assess the increase in credit risk by comparing risk indicators at the reporting date with similar indicators at the date of initial recognition of the asset on the Group's balance sheet. In the event the credit risk changes due to changes in risk indicators, other than default indicators, the asset is transferred from Stage 1 to Stage 2. Calibrating of risk indicator values and their impact on the asset's assessment depend on the portfolio assessed and customer quality;
- Backstop indicators are implemented by the Group to ensure a possibility of transferring the assets at Stage 1 in respect of which a significant increase in credit risk has been identified to Stage 2. These indicators are defined in absolute terms and used as an utmost instance when risk indicators do not identify any potential possibilities for changes in credit risk, irrespective of reasons.

The Group uses the following risk indicators and back stop criteria for identification of significant increase in credit risk for financial assets at amortized cost:

- Applied for rated clients (corporate, large SME and banks):
 - Relative criteria:
 - corporate loans and banks exposure with rating 5+ and worse, if rating decreased by 3 notches comparing to a rating at origination;
 - SME loans with rating 5+ and worse, if rating decreased by 6 notches comparing to a rating at origination.
 - Back stop criteria:
 - loans with DPD > 30;
 - all facilities rated 10+ and worse, when current rating is lower than the rating at origination;
 - all watch list ("WL") counterparties;
 - loans with active forborne ("FBE") status.

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23. Financial Risk Management (Continued)

- Applied to all non-rated clients (individuals including Personal Finance and small SME):
Back stop criteria:
 - loans with DPD > 30;
 - loans with active forborne status.

Customer's rating is the most fundamental indicator used to assess the impairment of assets and allowances for expected credit losses under IFRS 9.

Measurement of expected credit losses (ECLs). The key inputs used for measuring ECLs are:

- EAD (Exposure at Default);
- PD (Probability of Default);
- LGD (Loss Given Default);
- D – discount factor, which is EIR.

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 Group'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 amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

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, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on 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. LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

A formula and parameter values depend on the Stage to which the asset belongs (Stages 1, 2, 3), time horizon, and type of the asset. Thus, the expected credit losses for the same agreement will differ depending on a point of time when the calculation is made:

- For agreements belonging to Stage 1, 12-month ECLs are calculated based on PD for 12 months;
- For agreements belonging to Stage 2, lifetime ECLs are calculated;
- For agreements belonging to Stage 3, ECLs are calculated depending on LGD parameter.

As IFRS 9 requires projecting PD for future periods of time depending on forward looking macroeconomic aspects, the calculation of PD takes into account current and future situation in the economic cycle over the whole life of the loan. This means that a maturity is the parameter that influences the values of all parameters in the formula for calculating ECLs.

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23. Financial Risk Management (Continued)

The Group applies forward looking approach in the following way:

- For loans under individual approach (i.e. rated clients): internal rating is determined, reviewed and validated on an individual basis during credit committees. This process requires a full and comprehensive client's risk profile analysis based on past events and considering future potential changes.
- For loans under simplified approach (i.e. non-rated clients): forward looking aspect is taken within PD and LGD annual review, where risk assesses potential changes materiality in observed risk parameters based on available information.

Key risk parameters and expected credit losses (ECLs) are calculated as follows:

- For loans calculated on an individual basis (for customers with ratings assigned): internal rating of the customer and LGD are determined, revised, and reviewed on an individual basis by Credit Committees. This process requires that complete and comprehensive analysis be performed with regards to customer risk based on past events and existing data about possible future changes.
- For loans calculated using a simplified approach on a portfolio basis (for customers without ratings assigned): calculation of losses with reference to expectations presupposes annual reviews of key risk parameters of PD and LGD on the basis of available statistical information in the Group and other available information about potential changes in the future (macroeconomic situation, political situation, etc.).

Basic provisions for applying a simplified approach (a portfolio assessment of ECLs):

- This approach is applied to legal entity customers that have not been assigned a credit rating and individuals.
- The Group uses PD for Year One calculated on the basis of statistical examination of own historical experience for at least three recent years. When unforeseen situations arise that may potentially lead to a significant impact on PD in the future, compared to the values calculated on the basis of statistical data, this potential impact should be taken into account and properly documented.

To calculate PD, a loan portfolio is divided into groups depending on:

- Product type (such as mortgages, overdrafts, consumer loans, trade funding, loans collateralized by deposits);
- Currency (UAH or foreign currency);
- Days past due: ([0], [1; 29], [30; 59], [60; 89], [over 90]).

The Group reviews the value of PD at least on an annual basis or when needed (in the event significant potential changes in statistics, changes may be made more frequently).

The Group does not develop separate models to assess ECLs for purchased or originated credit-impaired (POCI) assets due to absence of such activities and relevant assets.

The following table summarizes gross carrying value of financial instruments that are subject to impairment requirements under IFRS 9 by the levels of credit risks and by Stages as at 31 December 2019 and 2018.

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23. Financial Risk Management (Continued)

Due from other financial institutions carried at amortized cost:

	31 December 2019		
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Total
High quality category	7,797,315	-	7,797,315
Medium quality category	2,266,911	-	2,266,911
Lower than medium quality category	-	77,134	77,134
Low quality category	-	10,277	10,277
Total due from financial institutions at amortized cost	10,064,226	87,411	10,151,637

	31 December 2018		
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Total
High quality category	9,954,265	-	9,954,265
Medium quality category	2,359,258	-	2,359,258
Low quality category	-	7,074	7,074
Total due from financial institutions at amortized cost	12,313,523	7,074	12,320,597

Loans and advances to customers at amortized cost:

	31 December 2019			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Medium quality category	4,541,122	-	-	4,541,122
Lower than medium quality category	8,006,206	2,053,658	-	10,059,864
Low quality category	556,213	685,967	-	1,242,180
Default quality category	-	-	41,335	41,335
Uncategorized	4,544,982	1,278,158	1,638,781	7,461,921
Total loans and advances to customers at amortized cost	17,648,523	4,017,783	1,680,116	23,346,422

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23. Financial Risk Management (Continued)

As at 31 December 2019 the uncategorized loans and advances to customers consist of small and medium entities, individual entrepreneurs and individuals. The Group assesses quality of those financial assets depending on the days past due and default indicators:

	31 December 2019			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Not past due	4,427,344	1,157,660	31,947	5,616,951
1-30 days past due	117,638	49,804	7,339	174,781
31-60 days past due	-	43,830	3,414	47,244
61-90 days past due	-	26,864	6,225	33,089
Default status	-	-	1,589,856	1,589,856
Total uncategorized loans and advances to customers at amortized cost	4,544,982	1,278,158	1,638,781	7,461,921

	31 December 2018			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Medium quality category	4,990,191	-	-	4,990,191
Lower than medium quality category	12,716,632	2,758,579	-	15,475,211
Low quality category	304,461	-	-	304,461
Default quality category	-	-	1,370,071	1,370,071
Uncategorized	3,654,276	1,656,276	2,257,620	7,568,172
Total loans and advances to customers at amortized cost	21,665,560	4,414,855	3,627,691	29,708,106

As at 31 December 2018 the uncategorized loans and advances to customers comprise from small and medium entities, individual entrepreneurs and individuals. The Group assesses quality of those financial assets depending on the days past due and default indicators:

	31 December 2018			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Not past due	3,556,269	1,515,876	35,348	5,107,493
1-30 days past due	98,007	76,582	2,675	177,264
31-60 days past due	-	41,742	5,292	47,034
61-90 days past due	-	22,076	7,527	29,603
Default status	-	-	2,206,778	2,206,778
Total uncategorized loans and advances to customers at amortized cost	3,654,276	1,656,276	2,257,620	7,568,172

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23. Financial Risk Management (Continued)

Securities and investments at amortized cost:

	31 December 2019	
	Stage 1 12-month ECLs	Total
High quality category	2,414,730	2,414,730
Low quality category	10,974,047	10,974,047
Total securities and investments at amortized cost	13,388,777	13,388,777

	31 December 2018	
	Stage 1 12-month ECLs	Total
High quality category	414,062	414,062
Low quality category	5,146,129	5,146,129
Total securities and investments at amortized cost	5,560,191	5,560,191

Contingent liabilities and credit commitments:

	31 December 2019			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
High quality category	9,051	62,847	-	71,898
Medium quality category	291,404	10,000	-	301,404
Lower than medium quality category	570,492	123,961	-	694,453
Uncategorized	38,584	1,222	-	39,806
Total contingent liabilities and credit commitments	909,531	198,030	-	1,107,561

	31 December 2018			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
High quality category	6,692	-	1,911	8,603
Medium quality category	182,650	-	-	182,650
Lower than medium quality category	876,711	-	-	876,711
Uncategorized	57,516	7,568	-	65,084
Total contingent liabilities and credit commitments	1,123,569	7,568	1,911	1,133,048

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23. Financial Risk Management (Continued)

The following table summarizes movements in gross carrying value by Stages of due from other financial institutions at amortized cost:

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Total
1 January 2019	12,313,523	7,074	12,320,597
New loans to financial institutions	3,816,198	-	3,816,198
Transfer to Stage 2 (Lifetime ECLs)	(87,209)	87,209	-
Funds derecognized during the reporting period	(6,096,478)	-	(6,096,478)
Effect of other changes (including partial repayments and effect of foreign exchange fluctuations)	118,192	(6,872)	111,320
31 December 2019	10,064,226	87,411	10,151,637

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Total
1 January 2018	13,238,141	-	13,238,141
New loans to financial institutions	1,184,529	-	1,184,529
Transfer to Stage 2 (Lifetime ECLs)	(7,074)	7,074	-
Funds derecognized during the reporting period	(2,922,492)	-	(2,922,492)
Effect of other changes (including partial repayments and effect of foreign exchange fluctuations)	820,419	-	820,419
31 December 2018	12,313,523	7,074	12,320,597

The following table summarizes movements in expected credit losses by Stages on due from other financial institutions at amortized cost:

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Total
1 January 2019	143	3	146
New loans to financial institutions	111	-	111
Transfer to Stage 2 (Lifetime ECLs)	(93)	93	-
Funds derecognized during the reporting period	(134)	-	(134)
Effect of other changes (including partial repayments, changes in risk parameters and effect of foreign exchange fluctuations)	(9)	(3)	(12)
31 December 2019	18	93	111

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23. Financial Risk Management (Continued)

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Total
1 January 2018	167	-	167
New loans to financial institutions	2,211	-	2,211
Transfer to Stage 2 (Lifetime ECLs)	(3)	3	-
Funds derecognized during the reporting period	(2,069)	-	(2,069)
Effect of other changes (including partial repayments, changes in risk parameters and effect of foreign exchange fluctuations)	(163)	-	(163)
31 December 2018	143	3	146

The following table summarizes movements in gross carrying value by Stages of loans and advances to customers at amortized cost:

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
1 January 2019	21,665,560	4,414,855	3,627,691	29,708,106
New loans and advances to customers	15,436,814	-	-	15,436,814
Transfer to Stage 1 (12-month ECLs)	4,275	(4,275)	-	-
Transfer to Stage 2 (Lifetime ECLs)	(1,690,794)	1,725,937	(35,143)	-
Transfer to Stage 3 (Lifetime ECLs)	-	(296,835)	296,835	-
Fully repaid loans and advances to customers	(16,340,264)	(720,102)	(25,075)	(17,085,441)
Irrecoverable amounts written off against the allowance	-	-	(1,113,129)	(1,113,129)
Loan portfolio sold	-	-	(473,493)	(473,493)
Effect of other changes (including partial repayments and effect of foreign exchange fluctuations)	(1,427,068)	(1,101,797)	(597,570)	(3,126,435)
31 December 2019	17,648,523	4,017,783	1,680,116	23,346,422

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23. Financial Risk Management (Continued)

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
January 2018	19,615,857	1,869,606	10,184,043	31,669,506
New loans and advances to customers	19,271,736	-	-	19,271,736
Transfer to Stage 1 (12-month ECLs)	422	(375)	(47)	-
Transfer to Stage 2 (Lifetime ECLs)	(1,299,233)	1,317,945	(18,712)	-
Transfer to Stage 3 (Lifetime ECLs)	(108,792)	(38,054)	146,846	-
Fully repaid loans and advances to customers	(11,268,874)	(158,814)	-	(11,427,688)
Irrecoverable amounts written off against the allowance	-	-	(2,604,193)	(2,604,193)
Loan portfolio sold	-	-	(1,238,584)	(1,238,584)
Effect of other changes (including partial repayments and effect of foreign exchange fluctuations)	(4,545,556)	1,424,547	(2,841,662)	(5,962,671)
31 December 2018	21,665,560	4,414,855	3,627,691	29,708,106

The following table summarizes movements in expected credit losses by Stages on loans and advances to customers at amortized cost:

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
1 January 2019	289,199	319,673	2,961,272	3,570,144
New loans and advances to customers	355,950	-	-	355,950
Transfer to Stage 1 (12-month ECLs)	3,171	(3,171)	-	-
Transfer to Stage 2 (Lifetime ECLs)	(129,481)	155,394	(25,913)	-
Transfer to Stage 3 (Lifetime ECLs)	-	(127,192)	127,192	-
Fully repaid loans and advances to customers	(123,908)	(26,601)	(14,509)	(165,018)
Irrecoverable amounts written off against the allowance	-	-	(1,113,129)	(1,113,129)
Loan portfolio sold	-	-	(422,462)	(422,462)
Effect of other changes (including partial repayments, changes in risk parameters and effect of foreign exchange fluctuations)	(36,587)	(67,730)	(145,914)	(250,231)
31 December 2019	358,344	250,373	1,366,537	1,975,254

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23. Financial Risk Management (Continued)

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
1 January 2018	228,759	360,225	9,179,914	9,768,898
New loans and advances to customers	298,193	-	-	298,193
Transfer to Stage 1 (12-month ECLs)	422	(375)	(47)	-
Transfer to Stage 2 (Lifetime ECLs)	(33,796)	52,508	(18,712)	-
Transfer to Stage 3 (Lifetime ECLs)	(33,620)	(38,054)	71,674	-
Fully repaid loans and advances to customers	(61,766)	(25,802)	-	(87,568)
Irrecoverable amounts written off against the allowance	-	-	(2,554,146)	(2,554,146)
Loan portfolio sold	-	-	(1,073,370)	(1,073,370)
Adjustment of impaired loans' carrying value	-	-	(1,941,592)	(1,941,592)
Effect of other changes (including partial repayments, changes in risk parameters and effect of foreign exchange fluctuations)	(108,993)	(28,829)	(702,449)	(840,271)
31 December 2018	289,199	319,673	2,961,272	3,570,144

As at 31 December 2019, allowance for expected credit losses on the loans assessed on an individual basis amounted to UAH 18,109 thousand, on a collective basis – UAH 1,957,145 thousand (as at 1 January 2019: on an individual basis – 1,213,958 thousand, on a collective basis – UAH 2,356,186 thousand).

In 2019, the Group sold a part of its loan portfolio which, before allowance, amounted to UAH 473,493 thousand for UAH 51,031 thousand (in 2018: UAH 1,238,584 thousand for UAH 373,608 thousand).

The following table summarizes movements in gross carrying value by Stages of securities and investments at amortized cost:

	Stage 1 12-month ECLs	Total
1 January 2019	5,560,191	5,560,191
New securities purchased	13,065,875	13,065,875
Repaid securities	(5,004,141)	(5,004,141)
Effect of other changes (including partial repayments and effect of foreign exchange fluctuations)	(233,148)	(233,148)
31 December 2019	13,388,777	13,388,777

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23. Financial Risk Management (Continued)

	Stage 1 12-month ECLs	Total
1 January 2018	3,297,271	3,297,271
New securities purchased	5,551,503	5,551,503
Repaid securities	(3,290,254)	(3,290,254)
Effect of other changes (including partial repayments and effect of foreign exchange fluctuations)	1,671	1,671
31 December 2018	5,560,191	5,560,191

The following table summarizes movements in expected credit losses by Stages on securities and investments at amortized cost:

	Stage 1 12-month ECLs	Total
1 January 2019	98,138	98,138
Additions of debt securities during the reporting period	107,117	107,117
Repayment of debt securities during the reporting period	(39,075)	(39,075)
Effect of other changes (including partial repayments, changes in risk parameters and effect of foreign exchange fluctuations)	(42,236)	(42,236)
31 December 2019	123,944	123,944

	Stage 1 12-month ECLs	Total
1 January 2018	-	-
Additions of debt securities during the reporting period	98,138	98,138
31 December 2018	98,138	98,138

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

23. Financial Risk Management (Continued)

The following table summarizes movements in gross carrying value by Stages of contingent liabilities and credit commitments:

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
1 January 2019	1,123,569	7,568	1,911	1,133,048
New guarantees and loan commitments issued	814,783	-	-	814,783
Transfer to Stage 2 (Lifetime ECLs)	(197,282)	197,282	-	-
Guarantees and loan commitments derecognized during the reporting period	(783,121)	(6,179)	(1,773)	(791,073)
Effect of other changes (including partial repayments and effect of foreign exchange fluctuations)	(48,418)	(641)	(138)	(49,197)
31 December 2019	909,531	198,030	-	1,107,561
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
1 January 2018	645,143	9,544	-	654,687
New guarantees and loan commitments issued	991,526	-	-	991,526
Transfer to Stage 2 (Lifetime ECLs)	(7,473)	7,473	-	-
Transfer to Stage 3 (Lifetime ECLs)	-	(1,911)	1,911	-
Guarantees and loan commitments derecognized during the reporting period	(504,456)	(7,507)	-	(511,963)
Effect of other changes (including partial repayments and effect of foreign exchange fluctuations)	(1,171)	(31)	-	(1,202)
31 December 2018	1,123,569	7,568	1,911	1,133,048

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

23. Financial Risk Management (Continued)

The following table summarizes movements in expected credit losses by Stages on contingent liabilities and credit commitments:

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Total
1 January 2019	9,450	47	9,497
New guarantees issued	8,105	-	8,105
Transfer to Stage 2 (Lifetime ECLs)	(1,007)	1,007	-
Funds derecognized during the reporting period	(3,026)	(32)	(3,058)
Effect of other changes (including partial repayments, changes in risk parameters and effect of foreign exchange fluctuations)	(2,966)	(9)	(2,975)
31 December 2019	10,556	1,013	11,569

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Total
1 January 2018	3,968	347	4,315
New guarantees issued	36,448	45	36,493
Funds derecognized during the reporting period	(30,924)	(345)	(31,269)
Effect of other changes (including partial repayments, changes in risk parameters and effect of foreign exchange fluctuations)	(42)	-	(42)
31 December 2018	9,450	47	9,497

The allowance for expected credit losses recorded in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2019 and 2018, comprised the following:

	For 12 months of 2019	For 12 months of 2018
(Charge)/release of allowance for expected credit losses on loans and advances to customers at amortized cost	(272,053)	127,635
Gain on derecognition of loans and advances to customers at amortized cost	79,832	95,517
Gain on repayments from previously written off non-performing loans and advances to customers	96,110	59,747
Charge of allowance for expected credit losses on securities and investments measured at amortized cost	(25,803)	(98,138)
Charge of allowance for expected credit losses on other financial assets	(36,136)	(55,163)
Release/(charge) of allowance for expected credit losses on loans to other financial institutions	114	(3,218)
Release/(charge) of other provision	4,650	(5,098)
(Impairment losses)/recovery of allowance	(153,286)	121,282

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

23. Financial Risk Management (Continued)

During the year no significant changes occurred in the procedure and methodology of calculating ECLs and assessing risk parameters under IFRS 9.

Management of other significant risks. Market risk refers to a probability to incur losses or additional expenses or shortfalls in receiving planned income as a result of unfavorable fluctuations in foreign exchange rates, interest rates, and value of financial instruments.

Market risks are related to movements in the time value of money and capital market instruments, in particular, fluctuations in foreign exchange rates, interest rates, prices for bonds and shares, etc., and the fact that portfolios are sensible to such fluctuations. The Group measures the effect from price fluctuations on its profitability and strives to keep its market risk at the level that corresponds to the business model oriented at a customers and constrain the level of maximum potential losses in the market that would arise under an unfavorable scenario.

Interest rate risk refers to probability to incur losses or additional expenses or shortfalls in receiving planned income as a result of the effect of unfavorable changes in interest rates.

The Group manages its interest rate risk to ensure that the results are kept at a stable level with the flow of time and the interest rate risk is within the acceptable frames.

The Group develops and periodically reviews the process of managing its interest rate risk in order to ensure that it complies with the level of risk appetite for this risk.

Liquidity risk refers to probability to incur losses or additional expenses or shortfalls in receiving planned income as a result of the Group's inability to ensure funding for growth of its assets and/or fulfill its obligations when they are due.

The Group's objective is to manage its liquidity risk in the manner that would allow recording its amount actually and correctly, as well as limiting the effect of other risks on economic value of capital, profitability of operations, and implementing strategic goals of the Group.

The Group manages its liquidity in order to maintain a strong position in structural liquidity that is stable against stress conditions and control its dependence on financial markets and ensure the compliance with regulatory requirements.

Operating risk refers to a probability to incur losses or additional expenses or shortfalls in receiving planned income as a result of deficiencies or errors in the organization of internal processes, intentional or unintended actions of the Group's employees, failures in operation of the Group's operating systems or due to the impact of external factors.

Operating risk management is a component of the Group's internal controls represented by three lines of defense.

Operating risk management system is agreed with the general system of consistent control that stipulates for continuous implementation of the risk management system at the first and second lines of defense. The whole system operates in compliance with the standards, methodologies, and rules determined by BNP Paribas SA (France).

All employees participate in operating risk management as this type of risk has a great number of displays and occurs in numerous situations. Besides, the involvement of employees does not take away the responsibility from each individual employee of a respective level for undertaking relevant measures on identification, measurement, control, and management of operating risk.

Operating risk includes information risk, business continuity risk, and legal risk.

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23. Financial Risk Management (Continued)

Information risk refers to a probability to incur losses or additional expenses or shortfalls in receiving planned income as a result of internal and external events regarding the Group's information systems and other information resources that are used to achieve the Group's objectives, insufficient internal controls or inadequate or erroneous internal processes within the Group in the area of information and communication technologies.

Information risk also presupposes a probability to incur losses as a result of possible violation of confidentiality, integrity, accessibility, and observability of information systems or information resources of the Group, as well as possible modification, discredit, unauthorized access, use, or disclosure of confidential information.

Business continuity risk is managed in accordance with the management system that is based on both the requirements of the NBU and the BNP Paribas's SA (France) standards and comprises identification, analysis, measurement, risk acceptance, and control in order to implement corrective measures and/or ensure the process of planning business continuity.

Legal risk refers to a probability to incur losses or additional expenses or shortfalls in receiving planned income as a result of failure to fulfill by parties to a contract its terms and conditions due to their non-compliance with the legislation requirements, as well as due to their ambiguous interpretation. The Group is exposed to the legal risk due to the fact that it has relationships with a great number of stakeholders (customers, counterparties, intermediaries, etc., supervisory, tax, and other authorized agencies).

Compliance risk refers to a probability to incur losses/sanctions or additional expenses or shortfalls in receiving planned income or reputational losses as a result of failure of the Group to meet the requirements of the legislation, regulations, market standards, rules of fair competition, corporate ethics, conflicts of interest, and internal banking documents of the Group.

Compliance risk management is a component of the Group's internal control system that consists of regular and periodical controls that complement each other, but are separate and independent.

Reputational risk refers to a probability to incur losses or additional expenses or shortfalls in receiving planned income as a result of distributing negative information, including through media and social networks and, as a result, unfavorable perception of the Group's and the BNP Paribas's SA (France) image by the public, customers, counterparties, shareholders, supervisory or controlling bodies.

Model risk: UKRSIBBANK creates and performs the annual process of Model Risk Inventory Attestation which is determined and maintained in accordance with the BNP Paribas's SA (France) methodology and practice and under its supervision. Scope of risk model attestation covers credit risk models used for the purposes of Basel (regulatory requirements to capital), Internal Capital Adequacy Assessment Process (ICAAP), and IFRS 9/Impairment, in particular models of PD, LGD, EAD, simplified model of IFRS 9, and other models that are considered to be material in view of their influence. This process:

- Assures Chief Risk Officer that the identified models with a significant financial impact and underlying risks are managed and their inherent risks are assessed;
- Helps mitigate the related risks through identifying control over models and agreeing model characteristics;
- Demonstrates to the regulator a reliable model of risk management system, ensures consistent reporting provided to the regulator, internal and external auditor, if needed;
- Has a unified general system of checklists to identify models at the level of BNP Paribas's SA (France).

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

23. Financial Risk Management (Continued)

Foreign currency risk. The Group is exposed to risk due to the effect of foreign currency rate fluctuations on its financial position and cash flows. Asset and Liability Management Committee determines risk limits by currencies and general acceptable risk level by open currency positions. Limits of open currency position are set at the level stipulated by the NBU's requirements that is calculated as an interest ratio of open currency position to regulatory capital of the Group. Compliance with those limits is monitored on a daily basis.

As at 31 December 2019, the Group had the following currency positions:

	UAH	USD	EUR	Other currencies	Total
Assets					
Cash on hand	1,422,494	459,216	293,736	15,387	2,190,833
Balances with the National Bank of Ukraine and mandatory reserves	3,135,959	-	-	-	3,135,959
Due from other financial institutions at amortized cost	87,318	5,285,079	4,535,226	243,903	10,151,526
Loans and advances to customers at amortized cost	16,179,682	4,065,901	1,084,844	40,741	21,371,168
Securities and investments	10,926,600	2,414,726	-	-	13,341,326
Other financial assets	293,360	6,548	22,647	-	322,555
Total financial assets	32,045,413	12,231,470	5,936,453	300,031	50,513,367
Liabilities					
Due to other financial institutions at amortized cost	3,979	-	-	-	3,979
Customer accounts	27,564,215	11,949,075	5,653,853	172,930	45,340,073
Subordinated debt	-	249,348	-	-	249,348
Other financial liabilities	499,428	31,802	20,876	5,823	557,929
Total financial liabilities	28,067,622	12,230,225	5,674,729	178,753	46,151,329
Net position, less currency derivative instruments	3,977,791	1,245	261,724	121,278	4,362,038
Derivatives (Note 26)	228,861	(2,369)	(97,761)	(108,856)	19,875
Net position	4,206,652	(1,124)	163,963	12,422	4,381,913
Contingent liabilities and credit commitments	489,944	314,718	302,899	-	1,107,561

Other currencies include predominantly RUB, CHF and JPY.

The Group's position on derivative financial instruments included in each column reflects the fair value, at the end of the reporting period, of the relevant currency the Group has agreed to purchase (positive amount) or sell (negative amount) before offsetting positions and settling with a counterparty. The amounts by currency are shown gross, as indicated in Note 26. Net total amount represents the fair value of currency derivative financial instruments.

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23. Financial Risk Management (Continued)

As at 31 December 2018, the Group had the following currency positions:

	UAH	USD	EUR	Other currencies	Total
Assets					
Cash on hand	1,641,965	389,788	288,573	11,848	2,332,174
Balances with the National Bank of Ukraine and mandatory reserves	2,458,291	-	-	-	2,458,291
Due from other financial institutions at amortized cost	83,218	7,910,459	4,168,105	158,669	12,320,451
Loans and advances to customers at amortized cost	19,984,143	5,142,567	947,025	64,227	26,137,962
Securities and investments	5,049,251	414,062	-	-	5,463,313
Other financial assets	542,662	30,899	193,428	-	766,989
Total financial assets	29,759,530	13,887,775	5,597,131	234,744	49,479,180
Liabilities					
Due to other financial institutions at amortized cost	5,927	-	-	-	5,927
Customer accounts	25,500,504	10,947,173	4,490,081	161,233	41,098,991
Subordinated debt	-	3,066,893	-	-	3,066,893
Other financial liabilities	855,191	61,659	29,642	480	946,972
Total financial liabilities	26,361,622	14,075,725	4,519,723	161,713	45,118,783
Net position, less currency derivative instruments	3,397,908	(187,950)	1,077,408	73,031	4,360,397
Derivatives (Note 26)	817,448	13,592	(808,710)	(16,576)	5,754
Net position	4,215,356	(174,358)	268,698	56,455	4,366,151
Contingent liabilities and credit commitments	586,612	117,417	405,983	23,036	1,133,048

Other currencies include predominantly RUB and CHF.

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23. Financial Risk Management (Continued)

The following table presents movements in profit before tax and equity due to potential fluctuations in exchange rates used at the reporting date, with other variables left unchanged:

	31 December 2019		31 December 2018	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
Strengthening of USD by 5.5%	68	56	-	-
Weakening of USD by 5.5%	(68)	(56)	-	-
Strengthening of USD by 9.3%	-	-	(17,479)	(14,333)
Weakening of USD by 9.3%	-	-	17,479	14,333
Strengthening EUR by 6.0%	15,703	12,877	-	-
Weakening of EUR by 6.0%	(15,703)	(12,877)	-	-
Strengthening of EUR by 13.8%	-	-	148,682	121,919
Weakening of EUR by 13.8%	-	-	(148,682)	(121,919)
Strengthening of other currencies by 6.2%	7,519	6,166	-	-
Weakening of other currencies by 6.2%	(7,519)	(6,166)	-	-
Strengthening of other currencies by 8.3%	-	-	6,062	4,970
Weakening of other currencies by 8.3%	-	-	(6,062)	(4,970)

Interest rate risk. Interest rate risk is typical for transactions with instruments that are sensible to changes in interest rates – those are assets and liabilities (both on-balance and off-balance) under which the Group earns interest income or incurs interest expense, or the fair value of which depends on the level of interest rates. The Group is exposed to interest rate risk mainly due to arising mismatch in timing of its interest rate assets and liabilities. The Group may incur losses as a result of unfavorable changes in interest rates.

Interest rate risk of the Group in respect of each transaction arising at the level of a business unit is transferred to the Asset and Liability Management Group (the "ALMG") via the system of transfer pricing with the purpose of effective management of this risk. Besides, the transfer rate of the agreement is its hedging price in the financial market. The ALMG purchases and sells at the transfer rate all assets and liabilities of business units.

ALMC sets limits to the degrees of gaps in time for revisions of interest rates that are monitored on a monthly basis by the Group of Market Risks and Liquidity Risks. In absence of any available hedging instruments, the Group usually strives to achieve the correspondence of its interest rate positions. Interest rate risk is assessed and analyzed as at the first day of each month and, when needed, reviewed with reference to movements in market conditions, e.g., changes in basic interest rates, volatility of markets, and similar events. Valuation and analysis results are discussed at ALMC meetings. In addition to standard calculations, the Group, on a quarterly basis, performs stress-testing of interest rate risk for short-term and long-term scenarios that may be realized in respect of both the Group and the market taken as a whole. The result of interest rate risk stress-testing is the amount of maximum decrease in the Group's net interest income in the event stress scenarios are realized. Standard stress testing of interest rate risk presupposes a change in interest rates by 200 basis points for each currency.

The Group assesses the level of interest rate risk based on the gap analysis, i.e. the analysis of mismatch in the amounts of financial assets and liabilities that have maturities and interest rate reviews during one period. Limits are set at the level of decrease in net interest income that is believed by management to be acceptable in the event of adverse fluctuations in interest rates, with reference to possible changes in interest rates by main types of interest-bearing assets and liabilities, such as loans to corporate customers and individuals, interbank loans, securities, and deposits attracted from corporate customers and individuals. Limits are reviewed depending on the volatility of market interest rates. The ALMG and the Group of Market Risks and Liquidity Risks prepare guidelines on the review of limits. Those guidelines are approved by ALMC.

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23. Financial Risk Management (Continued)

The Group regularly monitors interest rate spread and net interest income and submits reports to the Group's management on those matters. The Group sets interest rates for major categories of assets and liabilities by maturities and currencies.

The Group monitors interest rates on its financial instruments. The following table summarizes weighted average nominal interest rates:

% p.a.	2019				2018			
	UAH	USD	EUR	Other currencies	UAH	USD	EUR	Other currencies
Assets								
Due from other financial institutions at amortized cost	12.72	1.57	0.01	0.95	17.17	2.41	-	1.81
Loans and advances to legal entities	13.38	3.71	3.16	10.35	20.60	5.01	3.72	8.75
Loans and advances to individuals	23.68	11.94	11.35	8.46	17.55	11.95	16.23	8.57
Securities	13.73	2.59	-	-	15.64	1.38	-	-
Liabilities								
Due to other financial institutions at amortized cost	12.47	-	-	-	13.58	-	-	-
Current accounts of individuals	3.77	0.03	0.01	0.01	3.35	-	-	-
Current accounts of legal entities	1.43	0.02	0.01	-	1.48	0.03	0.02	-
Term deposits of legal entities	10.59	0.81	0.05	-	15.19	0.53	0.01	-
Term deposits of individuals	8.48	0.06	0.01	-	7.44	0.03	0.01	-
Subordinated debt	-	1.50	-	-	-	1.50	-	-

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

23. Financial Risk Management (Continued)

Geographical risk. Geographical analysis of the Group's assets and liabilities as at 31 December 2019 was as follows:

	Ukraine	OECD countries	Other countries	Total
Assets				
Cash on hand	2,190,833	-	-	2,190,833
Balances with the National Bank of Ukraine and mandatory reserves	3,135,959	-	-	3,135,959
Due from other financial institutions at amortized cost	87,318	9,988,786	75,422	10,151,526
Derivatives	20,547	30	-	20,577
Loans and advances to customers at amortized cost	21,371,168	-	-	21,371,168
Securities and investments	10,926,599	2,061,225	353,502	13,341,326
Other financial assets	322,246	170	139	322,555
Total financial assets	38,054,670	12,050,211	429,063	50,533,944
Liabilities				
Due to other financial institutions at amortized cost	3,979	-	-	3,979
Derivatives	700	2	-	702
Customer accounts	44,788,662	370,893	180,518	45,340,073
Subordinated debt	-	249,348	-	249,348
Other financial liabilities	554,998	2,863	68	557,929
Total financial liabilities	45,348,339	623,106	180,586	46,152,031
Net position	(7,293,669)	11,427,105	248,477	4,381,913
Contingent liabilities and credit commitments	1,016,710	28,004	62,847	1,107,561

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

23. Financial Risk Management (Continued)

Geographical analysis of the Group's assets and liabilities as at 31 December 2018 was as follows:

	Ukraine	OECD countries	Other countries	Total
Assets				
Cash on hand	2,332,174	-	-	2,332,174
Balances with the National Bank of Ukraine and mandatory reserves	2,458,291	-	-	2,458,291
Due from other financial institutions at amortized cost	15,398	12,239,747	65,306	12,320,451
Derivatives	12,402	-	-	12,402
Loans and advances to customers at amortized cost	26,137,962	-	-	26,137,962
Securities and investments	5,049,251	414,062	-	5,463,313
Other financial assets	591,720	175,246	23	766,989
Total financial assets	36,597,198	12,829,055	65,329	49,491,582
Liabilities				
Due to other financial institutions at amortized cost	5,927	-	-	5,927
Derivatives	7,387	-	-	7,387
Customer accounts	39,979,119	1,004,315	115,557	41,098,991
Subordinated debt	-	3,066,893	-	3,066,893
Other financial liabilities	933,812	12,964	196	946,972
Total financial liabilities	40,926,245	4,084,172	115,753	45,126,170
Net position	(4,329,047)	8,744,883	(50,424)	4,365,412
Contingent liabilities and credit commitments	1,124,445	8,603	-	1,133,048

Liquidity risk. Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting its financial liabilities. The Group is exposed to this risk daily due to calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, and guarantees and from interest margin and other calls on derivative instruments settled by cash. The Group maintains a certain liquidity buffer, i.e. cash resources required to meet all these needs. Besides, liquidity stress-test is calculated on a monthly basis which assesses cash flows in exceptional crisis scenarios in order to reveal any insufficiency in liquid funds because of which the Group will not be able to fulfill its payment obligations in full. The ratio of the liquidity buffer to net cash outflows should not be less than 100%. The liquidity risk of the Group is managed by Asset and Liability Committee of the Bank.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits, and debt securities, as well as invests funds in diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

23. Financial Risk Management (Continued)

The Group calculates liquidity ratios in accordance with the requirements of the National Bank of Ukraine. The ratio includes short-term liquidity ratio (H6), which is calculated as the ratio of liquid assets to liabilities with the remaining maturity within one year and established by the NBU at the level of at least 60%. As at 31 December 2019, the Group complied with the statutory requirement set by the NBU.

Information on liquidity position of financial assets and liabilities is received by the Treasury Transaction Center. Treasury Transaction Center ensures that there is a sufficient portfolio of short-term liquid assets consisting mainly of bank deposits and other interbank instruments to maintain the adequate level of liquidity in the Group taken as a whole. The Asset and Liability Management Group monitors the liquidity position and performs, on a regular basis, stress testing of liquidity using the various scenarios covering standard and more adverse market conditions.

The following analysis as at 31 December 2019 and 2018 is based on undiscounted cash flows of financial liabilities.

As at 31 December 2019:

	On demand and within 1 month	1-3 months	3-12 months	Over 12 months	Total
Liabilities					
Due to other financial institutions at amortized cost	-	-	-	10,269	10,269
Derivatives	441	91	170	-	702
Customer accounts	43,913,556	825,477	733,718	87,218	45,559,969
Subordinated debt	-	-	253,119	-	253,119
Other financial liabilities	557,929	-	-	-	557,929
Contingent liabilities and credit commitments	1,107,561	-	-	-	1,107,561
Total potential future payments on financial liabilities	45,579,487	825,568	987,007	97,487	47,489,549

As at 31 December 2018:

	On demand and within 1 month	1-3 months	3-12 months	Over 12 months	Total
Liabilities					
Due to other financial institutions at amortized cost	345	-	22	5,905	6,272
Derivatives	6,841	104	442	-	7,387
Customer accounts	38,748,909	901,507	1,352,915	157,301	41,160,632
Subordinated debt	-	-	2,815,470	295,912	3,111,382
Other financial liabilities	946,972	-	-	-	946,972
Contingent liabilities and credit commitments	1,133,048	-	-	-	1,133,048
Total potential future payments on financial liabilities	40,836,115	901,611	4,168,849	459,118	46,365,693

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

23. Financial Risk Management (Continued)

The Group does not use the above aging analysis without considering discounting to manage liquidity. Instead, the Group monitors contractual maturities presented in the following table as at 31 December 2019:

	On demand and within 1 month	1-3 months	3-12 months	Over 12 months	Maturity undefined	Total
Assets						
Cash on hand	2,190,833	-	-	-	-	2,190,833
Balances with the National Bank of Ukraine and mandatory reserves	3,135,959	-	-	-	-	3,135,959
Due from other financial institutions at amortized cost	8,835,539	828,531	487,456	-	-	10,151,526
Derivatives	2,513	5,327	12,737	-	-	20,577
Loans and advances to customers at amortized cost	13,421,954	3,018,935	2,629,680	2,300,599	-	21,371,168
Securities and investments	8,774,952	-	284,789	4,280,325	1,260	13,341,326
Other financial assets	322,555	-	-	-	-	322,555
Total financial assets	36,684,305	3,852,793	3,414,662	6,580,924	1,260	50,533,944
Liabilities						
Due to other financial institutions at amortized cost	1	-	-	3,978	-	3,979
Derivatives	441	91	170	-	-	702
Customer accounts	43,735,825	811,346	708,831	84,071	-	45,340,073
Subordinated debt	-	-	249,348	-	-	249,348
Other financial liabilities	557,929	-	-	-	-	557,929
Total financial liabilities	44,294,196	811,437	958,349	88,049	-	46,152,031
Net liquidity gap	(7,609,891)	3,041,356	2,456,313	6,492,875	1,260	4,381,913
Cumulative liquidity gap as at 31 December 2019	(7,609,891)	(4,568,535)	(2,212,222)	4,380,653	4,381,913	
Contingent liabilities and credit commitments	1,107,561	-	-	-	-	1,107,561

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

23. Financial Risk Management (Continued)

In managing liquidity risk, the Group assesses major current accounts, i.e. a stable balance of customer accounts determined with the help of statistical methods for analyzing historical information about fluctuations in balances on current customer accounts. As at 31 December 2019 and 2018, minimum balances of current accounts were estimated in the amount not less than UAH 31,778,121 thousand and UAH 27,962,097 thousand, respectively. Based on a going concern basis, the actual maturity of minimum balance is considered to be indefinite.

In addition, as at 31 December 2019 in securities and investments included debt securities issued by international financial organizations and foreign government authorities with gross amount UAH 2,414,727 which are quoted on international markets and could be sold by the Group before maturity (though the intention now is to hold till maturity) in extreme cases driven by the market participants to cover liquidity shortage.

The Group's liquidity position as at 31 December 2018 was as follows:

	On demand and within 1 month	1-3 months	3-12 months	Over 12 months	Maturity undefined	Total
Assets						
Cash on hand	2,332,174	-	-	-	-	2,332,174
Balances with the National Bank of Ukraine and mandatory reserves	2,458,291	-	-	-	-	2,458,291
Due from other financial institutions at amortized cost	6,804,131	2,769,360	2,746,960	-	-	12,320,451
Derivatives	1,675	7,055	3,672	-	-	12,402
Loans and advances to customers at amortized cost	13,442,111	6,080,740	2,427,281	4,187,830	-	26,137,962
Securities and investments	4,193,190	104,725	452,878	711,260	1,260	5,463,313
Other financial assets	766,989	-	-	-	-	766,989
Total financial assets	29,998,561	8,961,880	5,630,791	4,899,090	1,260	49,491,582
Liabilities						
Due to other financial institutions at amortized cost	3	-	22	5,902	-	5,927
Derivatives	6,841	104	442	-	-	7,387
Customer accounts	38,735,779	884,790	1,324,470	153,952	-	41,098,991
Subordinated debt	-	-	2,775,426	291,467	-	3,066,893
Other financial liabilities	946,972	-	-	-	-	946,972
Total financial liabilities	39,689,595	884,894	4,100,360	451,321	-	45,126,170
Net liquidity gap	(9,691,034)	8,076,986	1,530,431	4,447,769	1,260	4,365,412
Cumulative liquidity gap as at 31 December 2018	(9,691,034)	(1,614,048)	(83,617)	4,364,152	4,365,412	
Contingent liabilities and credit commitments	1,133,048	-	-	-	-	1,133,048

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

23. Financial Risk Management (Continued)

Matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to management of the Group. It is unusual for banks ever to be completely matched since business transactions often have different types and undetermined terms. An unmatched position potentially enhances profitability, but can also increase a risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The maturity analysis does not reflect the historical stability of current liabilities included in the table above as amounts with the maturity date in the period up to one month. Their realization historically took place within a period exceeding that indicated in the table above. Management believes that in spite of a substantial portion of customer accounts on demand, diversification of those deposits by the number and type of depositors, and the past experience of the Group would indicate that those customer accounts provide a long-term and stable source of funding for the Group.

Included in customer accounts are term deposits of individuals. In accordance with the Ukrainian legislation, the Group is obliged to repay such deposits upon the depositor's demand. Thus, for liquidity analysis the Group classifies such deposits in "On demand and within 1 month" category.

24. Capital Management

The Group's objectives when managing capital are to comply with the capital requirements set by the National Bank of Ukraine, and to the Group's ability to continue as a going concern.

The Group's management believes that total capital managed by it is equal to regulatory capital of the Bank:

	31 December 2019	31 December 2018
Core capital	3,670,095	3,583,655
Additional capital	2,439,614	3,001,925
Deductions	(1,269)	(180,520)
Total regulatory capital	6,108,440	6,405,060

In accordance with the existing requirements to capital set by the National Bank of Ukraine, the Bank should maintain the minimum level of regulatory capital of UAH 200,000 thousand (ratio H1) and the ratio of regulatory capital to the risk weighted assets (capital adequacy ratio) at the level in excess of the obligatory minimum value of 10% (ratio H2). As at 31 December 2019 and 2018, the Bank complied with the statutory value requirements set by the NBU.

There were no changes in Group's objectives, policies and processes for management capital from previous year.

25. Contingencies and Other Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. Based on own estimates and internal and external consultations, the Group recognizes a respective provision for losses arising from legal proceedings (Note 15).

Tax legislation. Ukrainian tax legislation is subject to various interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by relevant regional and central authorities.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

25. Contingencies and Other Commitments (Continued)

Controlling bodies of Ukraine may take a more fiscal position in their interpretations of the tax legislation and tax calculations, therefore, it is possible that the undisputed earlier transactions and activities may be challenged.

The effective tax legislation of Ukraine requires that taxes should be based on the financial results (profit or loss before tax) on the basis of financial accounting data as adjusted subsequently to reflect a list of tax differences determined by the Tax Code.

As a result, additional taxes, fines, and/or penalties may be accrued if tax accounting principles applied by the Group to its transactions are challenged by controlling authorities. Controlling authorities may check the accuracy and completeness of determining financial results before tax under financial accounting data, examine source documents used in accounting, etc. Besides, the Group is obliged to ensure the storage of such documents for the period of at least 1,095 days, 2,555 days – for the documents and data on transfer pricing. Under certain circumstances, the inspection may refer to longer periods. Management believes that it has properly recorded its tax liabilities in the provisions created based on its own interpretation of the tax legislation of Ukraine, official statements, and court rulings. However, interpretations of relevant government authorities may be different and have a material effect on these consolidated financial statements in the event controlling bodies succeed in defending their position in those rules' interpretation.

Based on the results of the inspection held in May–July 2015, the tax authorities challenged the fact of recording in tax accounting for previous years of the negative result related to re-measurement of allowances for impairment of loans and other assets recorded in foreign currencies and translated to reflect each change in foreign currency exchange rates and identified understatement of income in the amount of the debt assigned under the claim assignment agreements on financial loans. Disagreeing with the position of tax authorities, the Group continues to contest it in courts (Note 22).

In 2019 the Bank was subject to full-scope tax inspection by the State Tax Authority covering the period from 1 July 2016 till 30 June 2019. As result of the inspection State Tax Authority claimed additional tax liabilities which the Group estimated in amount of UAH 460,699 thousand. The Group is in process of appeal the result of tax inspection in administrative and judicial procedure. The management of the Group believes that this issue would be resolved in a favor of the Group and, respectively, did not recognize any additional tax liability in the consolidated financial statements as at 31 December 2019 (Note 22).

Capital contractual commitments. As at 31 December 2019, the Group had capital contractual commitments to purchase premises and equipment for the total amount of UAH 35,968 thousand (as at 31 December 2018: UAH 15,142 thousand) and software in the amount of UAH 38,266 thousand (as at 31 December 2018: UAH 9,163 thousand).

Contingent liabilities and credit commitments. The main objective of these instruments is to ensure the availability of cash to satisfy financial needs of customers. Guarantees and stand-by letters of credit, which serve as irrevocable guarantees of the fact that the Group will make payments on behalf of third parties in the event its customers fail to fulfill their obligations, have the same credit risk as loans. Documentary and trading letters of credit, which are written obligations of the Group on behalf of its customers who authorize third parties to demand from the Group payments of specified amounts in particular conditions, are secured by underlying consignment of goods or cash deposits, thus, they have lower risk than loans.

Contingent liabilities and credit commitments represent unused amounts designated for lending in the form of loans, guarantees, and letters of credit. In respect of credit risk under loan commitments, the Group is exposed to potential losses in the total amount of unused commitments. However, a possible loss amount is lower than the total amount of unused commitments, as fulfillment of most loan commitments depends on compliance of customers with certain loan related standards.

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25. Contingencies and Other Commitments (Continued)

The Group tracks the maturities related to contingent liabilities and credit commitments, since commitments with longer terms are usually characterized by higher credit risk than those with short terms. Outstanding credit commitments and contingent liabilities were as follows:

	31 December 2019	31 December 2018
Irrevocable loan commitments	266,732	127,562
Import letters of credit (without cash coverage)	210,111	369,429
Guarantees issued (secured by cash coverage)	45,355	62,159
Guarantees issued (without cash coverage)	581,983	570,553
Avals issued (without cash coverage)	3,380	3,345
Total contingent liabilities and credit commitments	1,107,561	1,133,048
Less: Provision for contingent liabilities and credit commitments	(11,569)	(9,497)
Total contingent liabilities and credit commitments, less provision without taking into account cash coverage	1,095,992	1,123,551

As at 31 December 2019, credit risk exposure, without taking into account the effects of any collateral and other credit enhancement, amounted to UAH 1,107,561 thousand (as at 31 December 2018: UAH 1,133,048 thousand).

Total contractual amounts of outstanding irrevocable loan commitments, letters of credit, guarantees and avals issued do not necessarily represent future cash needs, since the period of such financial instruments may expire without funding.

26. Derivatives

In 2019, the Group reported net gain in the amount of UAH 323,870 thousand (2018: net gain in the amount of UAH 46,644 thousand) from transactions with foreign currency derivative contracts, which included in Net gain on revaluation of foreign currencies, trading operations with foreign currencies and derivatives in the consolidated statement of profit or loss and other comprehensive income.

In 2018, the fair value of foreign currency derivatives on spot terms was carried on the accounts included in the item "Other financial and non-financial assets" and amounted to UAH 739 thousand. As at 31 December 2019, there were no such contracts.

Derivative financial instruments (derivatives) on foreign currency contracts entered into by the Group were mainly used for trading in off-exchange market between professional market players based on standardized contracts. Derivative financial instruments have potentially favorable terms and conditions (and are assets) or potentially unfavorable terms and conditions (and are liabilities) due to fluctuations in interest rates in the market, foreign currency exchange rates, or other variables related to those instruments. Total fair value of derivative financial instruments may vary significantly from time to time.

The fair value of accounts receivable or payable on foreign currency derivatives entered into by the Group at the reporting date is presented in the table below. The table includes contracts with the settlement dates after the respective reporting date, the amounts on those contracts are recorded on gross basis – before offsetting positions (and payments) by each counterparty. Those contracts are short-term by their nature.

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26. Derivatives (Continued)

	2019		2018	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign currency swap contracts: notional amount at the reporting date				
- Accounts receivable in USD on settlement (+)	-	-	191,079	-
- Accounts payable in USD on settlement (-)	-	(2,369)	(177,487)	-
- Accounts receivable in EUR on settlement (+)	39,633	-	114,171	-
- Accounts payable in EUR on settlement (-)	(137,394)	-	(383,741)	(539,140)
- Accounts receivable in UAH on settlement (+)	202,973	25,888	285,695	531,753
- Accounts payable in UAH on settlement (-)	-	-	-	-
- Accounts receivable in RUB on settlement (+)	-	-	-	-
- Accounts payable in RUB on settlement (-)	-	-	(16,576)	-
- Accounts receivable in JPY on settlement (+)	-	-	-	-
- Accounts payable in JPY on settlement (-)	(45,027)	(24,221)	-	-
- Accounts receivable in CHF on settlement (+)	-	-	-	-
- Accounts payable in CHF on settlement (-)	(39,608)	-	-	-
Net fair value of foreign currency derivative contracts	20,577	(702)	13,141	(7,387)

27. Fair Value of Financial Instruments

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

Following financial assets and financial liabilities are measured at fair value at the end of each reporting period:

- Securities and investments at fair value through profit or loss: consists mainly from Government debt securities of Ukraine which are quoted on local market (Level 1).
- Derivatives: derivative financial assets and liabilities from foreign currency contracts entered into by the Group. Fair value of derivatives are measured using discounting cash flows based on forward and contract exchange rates (Level 3).

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

27. Fair Value of Financial Instruments (Continued)

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, the management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements do not differ significantly from their fair values.

	31 December 2019		31 December 2018	
	Carrying value	Fair value	Carrying value	Fair value
Loans and advances to customers at amortized cost	21,371,168	22,180,963	26,137,962	26,143,250
Securities and investments at amortized cost				
Deposit certificates of the NBU	8,715,088	8,715,088	4,210,125	4,210,125
Government debt securities of Ukraine	2,135,019	2,402,158	831,188	815,199
Debt securities issued by international financial organizations	1,782,093	1,780,853	414,062	402,600
Debt securities issued by foreign government authorities	632,633	628,469	-	-

Fair value is the price at which a financial instrument can be exchanged in an orderly transaction between knowledgeable, willing parties in an arm's length transaction, other than in a forced sale or liquidation. The best evidence of fair value is price of a financial instrument quoted in the market. Fair value of financial instruments that do not have market quotations has been determined using valuation techniques. Application of certain valuation techniques requires assumptions that are not supported by market data. The replacement of such an assumption by an alternative option would not result in any significant change in the amount of profits and total amount of assets or liabilities.

Levels of the fair value hierarchy under which the fair value of financial assets was classified:

	31 December 2019			31 December 2018		
	Quotations in an active market (Level 1)	Valuation techniques using observable data from open markets (Level 2)	Valuation techniques using unobservable data from open markets (Level 3)	Quotations in an active market (Level 1)	Valuation techniques using observable data from open markets (Level 2)	Valuation techniques using unobservable data from open markets (Level 3)
Loans and advances to customers at amortized cost	-	-	22,180,963	-	-	26,143,250
Securities and investments at amortized cost						
Deposit certificates of the NBU	-	8,715,088	-	-	4,210,125	-
Government debt securities of Ukraine	-	2,402,158	-	-	815,199	-
Debt securities issued by international financial organizations	1,780,853	-	-	402,600	-	-
Debt securities issued by foreign government authorities	628,469	-	-	-	-	-

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27. Fair Value of Financial Instruments (Continued)

The estimated fair value of instruments with variable interest rates that are not quoted in the market equals to their carrying amounts. The estimated fair value of instruments with fixed interest rates that are not quoted in the market is based on the estimated future expected cash flows discounted at current interest rates for the new instruments that have similar credit risk and remaining maturity, in particular:

- Loans and advances to customers discounted at current internal interest rates that the Group applies for loans with similar type, credit risk and remaining maturity;
- Deposit certificates of the NBU discounted at current interest rates that NBU proposes for deposit certificates with similar remaining maturity;
- Government debt securities of Ukraine discounted at current yield to maturity for Government debt securities of Ukraine with the same currency and remaining maturity.

28. Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related parties relationship, attention is directed to the substance of the relationship, not merely the legal form.

As at 31 December 2019, related party balances were as follows:

	BNP Paribas SA	Key manage- ment personnel	Entities under common control	Other related parties
Due from other financial institutions at amortized cost	4,274,941	-	1,715,330	-
Total loans and advances to customers at amortized cost in UAH (contractual interest rates: 11%–20%)	-	4,970	-	934
Allowance for expected credit losses	-	(1,733)	-	(95)
Other assets	36	16	307	2
Customer accounts				
Current accounts	-	32,939	9,578	5,042
Term accounts in UAH (contractual interest rates: 0.01%–14.5%)	-	12	39,126	147
Term accounts in USD (contractual interest rates: 0.01%)	-	441	-	-
Other liabilities	8,087	3	8,025	6

Other related parties were represented by family members of key management personnel and entities in which the Group's shareholders had significant voting rights.

As at 31 December 2019, outstanding amount under the subordinated debt to the EBRD, the shareholder, was UAH 249,348 thousand (as at 31 December 2018: UAH 3,066,893 thousand). Interest expense on the subordinated debt accrued for 12 months of 2019 amounted to UAH 37,014 thousand (for 12 months of 2018: UAH 45,270 thousand). There were no other funds placed with the EBRD as at 31 December 2019 (as at 31 December 2018: UAH 67,821 thousand).

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

28. Related Party Transactions (Continued)

The following table presents items of income and expense on related party transactions for the year ended 31 December 2019:

	BNP Paribas SA	Key manage- ment personnel	Entities under common control	Other related parties	Associates
Interest income on due from other financial institutions at amortized cost	17,426	-	35,129	-	-
Interest income on loans and advances to customers at amortized cost	-	514	-	141	-
Interest expense on customer accounts	-	-	(3,467)	(224)	(55)
Decrease/(increase) in allowance for expected credit losses	-	519	(326)	554	258
Net gain/(loss) on revaluation of foreign currencies, trading operations with foreign currencies and derivatives	1,059	113	21	24	(287)
Fee and commission income	1,551	94	-	32	526
Fee and commission expense	(15,422)	-	(18,459)	-	-
Other operating expense	-	-	-	-	(712)
Other operating income	-	20	12	23	-

As at 31 December 2019, other commitments and liabilities on related party transactions were as follows:

	BNP Paribas SA	Key manage- ment personnel	Entities under common control	Other related parties
Guarantees issued (without cash coverage)	2,821	-	88,030	-
Commitments made on transactions with currency derivatives	(39,608)	-	-	-
Commitments granted on transactions with currency derivatives	39,633	-	-	-
Guaranties and other commitments received	3,409,603	711	1,447,985	5,288

Total remuneration to management in 2019 amounted to UAH 92,634 thousand.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) In Ukrainian Hryvnias and in thousands

28. Related Party Transactions (Continued)

As at 31 December 2018, related party balances were as follows:

	BNP Paribas SA	Key manage- ment personnel	Entities under common control	Other related parties	Associates
Due from other financial institutions at amortized cost	4,324,190	-	1,762,059	-	-
Total loans and advances to customers at amortized cost in UAH (contractual interest rates: 11%-20%)	-	7,116	-	929	1,527
Allowance for expected credit losses	-	(2,251)	-	(650)	(258)
Assets held for sale	-	-	-	-	212,880
Other assets	175,167	3	340	6	200
Customer accounts					
Current accounts	-	19,620	15,104	23,642	4,244
Term accounts in UAH (contractual interest rates: 0.01%-16.75%)	-	2	25,798	362	2,178
Term accounts in USD (contractual interest rates: 0.01%)	-	688	-	-	-
Other liabilities	82,584	4	16,742	30	5

Other related parties were represented by family members of key management personnel and entities in which the Group's shareholders had significant voting rights.

The following table presents items of income and expense on related party transactions for the year ended 31 December 2018:

	BNP Paribas SA	Key manage- ment personnel	Entities under common control	Other related parties	Associates
Interest income on due from other financial institutions at amortized cost	22,525	-	24,231	-	-
Interest income on loans and advances to customers at amortized cost	-	579	-	170	252
Interest expense on customer accounts	-	(126)	(3,799)	(105)	(362)
Decrease/(increase) in allowance for expected credit losses	-	(1,429)	-	516	(258)
Net gain/(loss) on revaluation of foreign currencies, trading operations with foreign currencies and derivatives	77,780	202	35	(468)	107
Fee and commission income	725	83	182	106	17,657
Fee and commission expense	(15,422)	-	(14,517)	-	-
Other operating expense	-	-	-	-	(712)
Other operating income	-	13	-	21	30
Net gain on other activities	-	-	-	-	29,393

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2019 (Continued) *In Ukrainian Hryvnias and in thousands*

28. Related Party Transactions (Continued)

As at 31 December 2018, other commitments and liabilities on related party transactions were as follows:

	BNP Paribas SA	Key manage- ment personnel	Entities under common control	Other related parties
Guarantees issued (without cash coverage)	1,269	-	5,423	-
Commitments made on transactions with currency derivatives	(316,104)	-	-	-
Commitments granted on transactions with currency derivatives	316,844	-	-	-
Guaranties and other commitments received	2,031,303	831	3,220,408	10,867

Total remuneration to management in 2018 amounted to UAH 82,079 thousand.

29. Events after the Reporting Period

Subsequently to reporting date Ukrainian Hryvna, national currency of Ukraine, has devalued against major currencies. As of 26 March 2020 official exchange rate for USD and EUR was UAH 27.9552 and UAH 30.2671, respectively.