JSC «BANK CREDIT DNEPR»
Financial Statements

for the year ended 31 December 2019
with Independent Auditors' Report

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Translation from Ukrainian original

Statement of Responsibility of the Management for the Preparation and Approval of the Financial Statements for the Year Ended December 31, 2019

The statement below which is to be considered together with the description of the independent auditors' obligations set forth in the attached Independent Auditor's Report is made for the purpose of differentiation between the responsibility of the Management and that of the independent auditors in respect of the Financial Statements of Joint Stock Company "Bank Credit Dnepr" (hereinafter referred to as "the Bank").

The Management of the Bank shall bear responsibility for the preparation of the Financial Statements which represent the Bank's financial standing as of December 31, 2019, its performance, and the cash flow for the year ended December 31, 2019, in a fair manner in accordance with the International Financial Reporting Standards (hereinafter referred to as "the IFRS").

In the process of preparation of the Financial Statements, the Bank's Management bears responsibility for:

- selection of appropriate accounting principles and their consistent application;
- application of reasonable estimates and calculations;
- compliance with the requirements of the IFRS or disclosure and explanation of all significant deviations from the IFRS in the Financial Statements; and
- preparation of the Financial Statements on the basis of the supposition that the Bank shall keep operating as a going concern unless such a supposition is unjustified.

The Bank's Management shall be responsible for:

- development, implementation, and ensuring the functioning of an efficient and reliable internal control system of the Bank;
- maintenance of the relevant accounting records disclosing the information on the Bank's financial standing with a sufficient degree of accuracy and allowing to ensure the conformity of the Bank's Financial Statements with the requirements of the IFRS;
- ensuring the conformity of the accounting with the requirements of the legislation and the accounting standards adopted in Ukraine;
- taking measures reasonably accessible to them for ensuring the safety of the Bank's assets; and
- detection and prevention of fraud and other breaches.

The Financial Statements for the year ended on December 31, 2019, are signed on behalf of the Management Board by:

Chairman of the Management Board	Olena Malynska
Deputy Chairman of the Management Board	Sergiy Volkov
Chief accountant	Ruslan Chudakivskiy

June 30, 2020

INDEPENDENT AUDITOR'S REPORT

To the:

Shareholder and Supervisory Board of JOINT STOCK COMPANY "BANK CREDIT DNEPR"

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers	
The recognition and measurement of expected credit losses ('ECL') is complex and involves the use of significant judgment and estimation, including in the formulation and incorporation of multiple forward-looking economic conditions into the ECL estimates to meet the measurement objectives of IFRS 9. In determining ECL, management is required to exercise judgment in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The accuracy of the assumptions used in the models, including the macroeconomic scenarios, impacts the level of impairment provisions. Management exercises judgment in making estimations that require the use of assumptions which are highly subjective and sensitive to the risk factors, in particular to changes in economic and credit conditions. We identified the issue of impairment of loans and advances to customers as key audit matter due to the materiality of the loan balances, the complexity and subjective nature of the ECL calculation. We refer to the financial statements notes 4 and 6 for information on principal accounting policies, notes 8, 9 and 12 for disclosures and detailed information on the methods and models used and the level of the impairment allowances for loans and advances to customers.	The controls management established to support their ECL calculations were tested during our audit procedures. We also assessed whether the impairment methodology used by the Bank is in line with IFRS 9 requirements. Particularly we assessed the approach of the Bank regarding application of Significant increase in credit risk ('SICR') criteria, definition of default, The Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD') and incorporation of forward-looking information in the calculation of ECL. We have focused on assessing the Bank's assumptions and the expert adjustments applied in the model taking into account the empirical data and the existing credit and monitoring processes. For significant loans and advances assessed for impairment on an individual basis we applied our professional judgement for selection the sample taking into account different risk criteria: for selected loans and advances we checked the stage classification with assessing factors that affect the credit risk; for selected impaired loans and advances (Stage 3 and purchased or originated credit-impaired financial assets (POCI)) we tested the assumptions used in the ECL calculation, particularly expected scenarios and probabilities assigned to them and the timing and amount of expected cash flows, including cash flows from repayments and realisation of collaterals. For individually insignificant loans and advances which are assessed for impairment on a portfolio basis we performed such procedures as testing the reliability of key data inputs and related management controls, examination of key management's judgements and assumptions, including the macro-economic scenarios and the associated probability weights, analysing of impairment coverage of credit portfolio and its changes.
Fair value measurement of investment property and fixed assets (real property)	
The valuation of investment property and fixed assets is important for our audit, due to the materiality of such property and the subjective nature of the valuations.	We have performed procedures for assessing the risks of material misstatement in the Bank's accounting estimates based on our testing procedures. We determined that the fair value of relevant assets as at 31 December 2019 is

Key audit matter	How our audit addressed the key audit matter
In line with IAS 40, Bank values its investment property at fair value and in line with IAS 16 Bank values its fixed assets (real property) at fair value. The process of revaluation of the investment property and fixed assets is performed on a regular basis, in which each property is valued by an independent real estate valuation expert. At least annually the Bank performs an external evaluation of such assets. We refer to the financial statements notes 4 and 6 for information on principal accounting policies. The valuation of the investment property is disclosed in note 11 and fixed assets in note 13.	consistent with the valuation reports of independent appraisers. We have performed procedures to determine the quality and objectivity of independent real estate valuation experts, the appropriateness of the parameters used and the correct recording of the revaluation.
Valuation of deferred tax asset	
As at 31 December 2019 Bank has significant balances of recognised and unrecognised deferred tax assets. As disclosed in notes 4,6 and 14, the Bank has recognised deferred tax asset to the extent that it is probable that unused tax losses will be utilised. We have identified the recognition and measurement of deferred tax asset as one of the most significant matters, as the process of assessing the adequacy of planned profit to realize the recognized amount of deferred tax asset and the ability to plan taxes in line with eligible tax losses carryforward term, that is not limited by the current tax legislation. It depends on significant judgments about expectations of future events and is based on assumptions influenced by predictive estimates of future market or economic conditions.	We reviewed Management's estimates of how the temporary differences will be realized, including an analysis of the ability to recover deferred tax assets, comparing these estimates with other evidence we obtained during the audit of other areas, including cash flow forecasts, business plans, and minutes of the Bank's collegial bodies meetings and our knowledge of the business. We have reviewed the Bank's financial model used by Management in estimating future taxable income and the amount of deferred tax asset. We also assessed the adequacy of the Bank's disclosures about those assumptions that have the most significant impact on the recognition of deferred tax asset in respect of accumulated tax losses that are carried forward.

Emphasis of matter

We draw attention to Note 32 "Events after the Balance Sheet Date" to the Bank's financial statements, which describes the situation regarding future uncertainties related to the possible adverse effects of the COVID-19 coronavirus outbreak, both on the Bank and its counterparties and the Government of Ukraine's measures, that have been introduced and aimed at preventing its further emergence and spread.

Our opinion is not modified in respect of this matter.

Information that is not the financial statements and the Auditor's report on it

Management is responsible for the information other than financial statements and auditor's report thereon. The information other than financial statements and auditor's report thereon comprises the Bank's Issuer report that should be prepared according to the provisions on information disclosure by securities issuers (approved by the NSSMC from the 03.12.2013, no. 2826) and consists information other than the financial statements and our auditor's report thereon. It is expected, that Bank's Issuer report will be available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Bank's Issuer report, that should be prepared according to the provisions on information disclosure by securities issuers (approved by the NSSMC from the 03.12.2013, no. 2826), if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Supervisory Board.

Responsibilities of Management and the Supervisory Board for the Financial Statements

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

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

The Supervisory Board are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board 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 the Supervisory Board 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 the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGISLATION AND REGULATORY REQUIREMENTS

Report on Management report

We conducted examination of information in the Management report, prepared in accordance with requirements of p. 7 of art. 11 of Law of Ukraine *On Accounting and Financial Reporting in Ukraine* and *Rules of Preparation and Publishing of Financial Statements of Ukrainian Banks*, approved by Decree of National Bank of Ukraine № 373 of 24.10.2011.

Management Board of the Bank is responsible for the Management report and its preparation in accordance with requirements of p. 7 of art. 11 of Law of Ukraine *On Accounting and Financial Reporting in Ukraine* and *Rules of Preparation and Publishing of Financial Statements of Ukrainian Banks*, approved by Decree of National Bank of Ukraine № 373 of 24.10.2011.

Our examination of the Management report was based on the review whether the information in the report is consistent with the financial statements, whether the Management report has been prepared in accordance with the requirements of current legislation, and whether the Management report contains material misstatements and their nature, if any. Our examination of the Management report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing. We believe that the examination has provided us with sufficient basis for our opinion.

In accordance with requirements of section IV *Structure and Content of Management Report* of *Rules of Preparation and Publishing of Financial Statements of Ukrainian Banks* the additional information is presented:

The Management report has been prepared and presented management information is disclosed in accordance with requirements of section IV *Structure and Content of Management Report* of *Rules of Preparation and Publishing of Financial Statements of Ukrainian Banks*. Bank's information disclosed in Management report is consistent with the financial statements of the Bank and does not contain material misstatements.

Additional information in accordance with the Law of Ukraine On Audit of Financial Statements

We have been appointed for audit of the annual financial statements of the Bank for the financial year ended 31 December 2019 by resolution of the Supervisory Board dated 30 September 2019. The total duration of our audit engagements with the Bank is 2 years, including the reporting year.

During our audit of the financial statements, resulting in issuance of this Independent auditor's report, we performed audit procedures regarding assessment of risk of material misstatement of information in the financial statements, being audited, in particular, due to fraud.

Significant risks that required our attention but did not modify our opinion are disclosed in *Key Audit Matters* section of our report.

According to the results of our audit, all identified misstatements were discussed with the Bank's management, those of them that required corrections in the financial statements were corrected. The misstatements we found are not related to fraud risks.

Our report is agreed to additional report for Supervisory Board of the Bank.

We did not provide any services to the Bank, prohibited by the law.

PKF UKRAINE LLC audit firm and the engagement partner on the audit (key audit partner) of the financial statements of the Bank as at December 31, 2019, Sviatoslav Biloblovskiy are independent from the Bank.

We and other members of PKF International network, as well as other entities controlled by our firm, did not provide any other, then statutory audit, services, information on which is not disclosed in management report and/or financial statements.

Purpose of our audit is to increase degree of confidence of intended users to the financial statements of the Bank. It is achieved by expressing our opinion whether the financial statements are prepared in all material aspects in accordance with International Financial Reporting Standards (IFRSs). We conducted our audit in accordance with ISAs and respective ethic requirements; it gives us the possibility to formulate our opinion. Inherent limitations of an audit result in most audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive, so, audit is not an absolute guarantee that the financial statements are free of misstatements, and our audit does not guarantee future sustainability of the Bank, efficiency or effectiveness of Bank management.

The engagement partner on the audit (key audit partner) resulting in this independent auditor's report is Sviatoslav Biloblovskiy.

Engagement partner on the audit S.V. Biloblovskiy
(registration number in the register of auditors 100190)

On behalf of PKF UKRAINE LLC Director I.O. Kashtanova

Kyiv, Ukraine

30 June 2020

STATEMENT OF FINANCIAL POSITION

As at December 31, 2019

(in thousands of UAH)

	Note	2019	2018
Assets			
Cash and cash equivalents	7	1,124,122	1,515,074
Due from other banks	8	365,907	320,910
Loans and advances to customers	9	3,300,795	3,963,056
Investments in securities	10	330	408,182
Deposit certificates of National Bank of Ukraine		1,502,244	1,201,973
Investment property	11	1,497,696	1,518,665
Financial assets	12	16,435	52,647
Other assets	12	134,595	168,362
Property, equipment and intangible assets	13	261,944	287,211
Right-of-use assets	18	110,736	-
Deferred tax assets	14	263,099	263,099
Non-current assets held for sale	15	-	22,847
Total assets		**8,577,903**	**9,722,026**
Liabilities			
Due to other banks		39	45
Due to customers	16	7,161,453	8,875,107
Provisions for financial and non-financial liabilities	20	379	170
Lease liabilities	18	106,149	464
Other financial liabilities	17	90,596	79,787
Other liabilities	17	38,756	40,924
Total liabilities		**7,397,372**	**8,996,497**
Equity	19		
Share capital		2,720,000	2,720,000
Unregistered share capital		866,561	488,454
Share premium		17,469	17,577
Accumulated loss		(2,506,305)	(2,590,801)
Revaluation reserves		82,806	90,299
Total equity		**1,180,531**	**725,529**
Total liabilities and equity		**8,577,903**	**9,722,026**

Signed on behalf of the Management Board on June 30, 2020

Chairman of the Management Board Olena Malynska

Deputy Chairman of the Management Board Sergiy Volkov

Chief accountant Ruslan Chudakivskiy

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended December 31, 2019

(in thousands of UAH)

	Note	*2019*	*2018*
Interest income	21	**853,147**	**711,613**
Loans to customers		701,886	621,893
Securities		143,944	85,290
Due from other banks		7,317	4,430
Interest expense	21	**(631,527)**	**(514,771)**
Due to customers		(618,086)	(514,618)
Expenses on lease liabilities	18	(13,441)	(65)
Debt securities issued by the Bank		-	(88)
Net interest income		**221,620**	**196,842**
Commission income		464,277	253,129
Commission expense		(280,759)	(105,674)
Net commission income	22	**183,518**	**147,455**
Result of transactions with derivatives		1,087	(36,400)
Result of foreign currency transactions		82,466	93,262
Result of revaluation of foreign currency		(6,844)	(2,043)
Result of revaluation of investment property	11	(51,259)	142,747
Income /(loss) from recognition of financial instruments		(1,387)	-
Income /(loss) from derecognition of financial instruments		626,124	255,131
Other income	23	479,108	86,827
Administrative and other operating expenses	24	(600,598)	(594,175)
Operating income /(loss) before allowances for impairment		**933,835**	**289,646**
Allowance for impairment of loans and due from other banks	7, 8, 9	(836,151)	(814,413)
Allowance for impairment of other financial and other assets	12	(21,994)	(27,050)
Provision for financial and non-financial liabilities	20	(380)	527
Profit (Loss) before income tax		**75,310**	**(551,290)**
Income tax (expense)/benefit	14	(18)	(175)
Profit (Loss) for the year		**75,292**	**(551,465)**

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME (continued)

For the year ended December 31, 2019

(in thousands of UAH)

	Note	*2019*	*2018*
Other comprehensive income:			
Items not to be reclassified into profit or loss:			
Revaluation of fixed assets		480	(5,749)
Disposal of fixed assets		(9,204)	-
Revaluation of equity instruments		-	(56)
Other comprehensive income not to be reclassified into profit or loss after taxes		**(8,724)**	**(5,805)**
Items to be reclassified into profit or loss:			
Revaluation of debt financial instruments		1,231	(1,841)
Other comprehensive income to be reclassified into profit or loss after taxes		**1,231**	**(1,841)**
Total other comprehensive income		**(7,493)**	**(7,646)**
Total comprehensive income for the year		**67,799**	**(559,111)**
Net earnings (loss) per share:			
Net basic earnings / (loss) per share (measured in UAH per share)	25	0.03	(0.28)

Signed on behalf of the Management Board on June 30, 2020.

Chairman of the Management Board	Olena Malynska
Deputy Chairman of the Management Board	Sergiy Volkov
Chief accountant	Ruslan Chudakivskiy

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019
(in thousands of UAH)

	Share capital	*Unregistered share capital*	*Share premium*	*Revaluation reserves*	*Accumulated loss*	*Total equity*
January 1, 2018	**1,521,000**	**1,199,000**	**17,678**	**98,050**	**(2,017,447)**	**818,281**
Effect of adopting IFRS 9	-	-	-	(105)	(21,889)	**(21,994)**
Adjusted balance	**1,521,000**	**1,199,000**	**17,678**	**97,945**	**(2,039,336)**	**796,287**
Loss for the period	-	-	-	-	(551,465)	**(551,465)**
Other comprehensive income	-	-	-	(7,646)	-	**(7,646)**
Total comprehensive income for the period	**-**	**-**	**-**	**(7,646)**	**(551,465)**	**(559,111)**
Registered share capital	1,199,000	(1,199,000)	(101)	-	-	**(101)**
Contributions to share capital	-	488,454	-	-	-	**488,454**
December 31, 2018	**2,720,000**	**488,454**	**17,577**	**90,299**	**(2,590,801)**	**725,529**
Loss for the period	-	-	-	-	75,292	**75,292**
Other comprehensive income	-	-	-	(7,493)	-	**(7,493)**
Total comprehensive income for the period	**-**	**-**	-	**(7,493)**	**75,292**	**67,799**
Write-off of fixed assets	**-**	**-**	-	**-**	**9,204**	**9,204**
Contributions to share capital	-	378,107	(108)	-	-	**377,999**
December 31, 2019	**2,720,000**	**866,561**	**17,469**	**82,806**	**(2,506,305)**	**1,180,531**

Signed on behalf of the Management Board on June 30, 2020.

Chairman of the Management Board — Olena Malynska

Deputy Chairman of the Management Board — Sergiy Volkov

Chief accountant — Ruslan Chudakivskiy

STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

(in thousands of UAH)

	Note	*2019*	*2018*
Operating cash flows			
Interest income received		783,769	478,349
Interest expenses paid		(627,313)	(491,780)
Commission income received		464,674	252,432
Commission expenses paid		(280,731)	(105,758)
Transactions with derivatives		1,087	(36,400)
Transactions with foreign currency		82,466	93,262
Income/(loss) from derecognition of financial instruments		628,387	255,131
Other operating income		486,060	71,587
Provisions utilization		(359)	(631)
Administrative and other operating expenses		(546,629)	(538,667)
Cash flows from operating activities before changes in operating assets and liabilities		**991,411**	**(22,475)**
Changes in operating assets and liabilities			
Net (increase) / decrease of due from other banks		(93,430)	150,530
Net (increase) / decrease of loans and advances to customers		(385,482)	(715,237)
Net (increase) / decrease of other financial assets		25,072	(48,366)
Net (increase) / decrease of other assets		9,788	(2,108)
Net (increase) / decrease of non-current assets held for sale	15	13,462	56
Net increase / (decrease) of due to customers		(1,258,582)	599,916
Net increase / (decrease) of debt securities issued by the Bank		-	(9,545)
Net increase / (decrease) of other financial liabilities		27,173	791
Net increase / (decrease) of other liabilities		704	(609)
Net operating cash flows		**(669,884)**	**(47,047)**
Cash flows from investing activities			
Investments in securities		(526,156)	(260,316)
Proceeds from sale of investments in securities		876,915	127,407
Purchase of property and equipment		(5,633)	(20,988)
Proceeds from sale of property and equipment		4	-
Purchase of intangible assets		(1,639)	(3,555)
Purchase/reconstruction of investment property	11	(353)	(280)
Proceeds from sale of investment property	11	14,150	16,124
Dividends received		16	-
Net cash received from/(used in) investing activities		**357,304**	**(141,608)**
Cash flows from financing activities			
Contributions into share capital	19	378,107	488,454
Costs related to contributions into share capital	19	(108)	-
Net (decrease in) lease liabilities	18	(22,629)	(131)
Net cash received from/(used in) financing activities		**355,370**	**488,323**
Effect of official exchange rate of National Bank of Ukraine fluctuations on cash and equivalent		(133,739)	(18,556)
Net increase of cash and cash equivalents		**(90,949)**	**281,112**
Cash and cash equivalents – opening balance	7	**2,715,071**	**2,433,959**
Cash and cash equivalents – closing balance	7	**2,624,122**	**2,715,071**

Signed on behalf of the Management Board on June 30, 2020.

Chairman of the Management Board Olena Malynska

Deputy Chairman of the Management Board Sergiy Volkov

Chief accountant Ruslan Chudakivskiy

1. Information on the Bank

JOINT STOCK COMPANY «BANK CREDIT DNEPR» (hereinafter referred to as "the Bank") was founded on July 7, 1993, according to a resolution of the General Meeting of Shareholders of the Bank and in accordance with the Ukrainian legislation.

On July 16, 2009, the Bank changed its name and form of incorporation from a close joint stock company to a public joint stock company. In connection with a change of the Ukrainian legislation, Public Joint Stock Company «BANK CREDIT DNEPR» was transformed into Joint Stock Company «BANK CREDIT DNEPR» in April 2018.

On December 12, 2019, a new version of the Articles of Association was registered in connection with increase in the Bank's Share Capital up to UAH 3.58 billion. The Bank engages in its activities by virtue of General License No. 70, renewed by the National Bank of Ukraine (hereinafter referred to as "the NBU") on October 13, 2011, entitling it to perform bank transactions including foreign exchange transactions. In addition, the Bank has licenses entitling it to perform securities transactions and to engage in depositary activities, issued by the National Commission of Ukraine for Securities and Stock Market, which were extended from October 17, 2012, for an unlimited term.

The Bank receives deposits from individuals, extends loans and transfers cash in the territory of Ukraine and outside it, performs exchange transactions and provides other banking services for legal entities and individuals. It develops small and medium-sized business support programs, implements agrarian producers financing programs and extends the range of services for its business customers engaging in foreign economic activities.

Legal address and place of business of the Bank: 32 Zhylianska Street, Kyiv 01033, Ukraine. As of December 31, 2019, the Bank's structure included 36 divisions functioning throughout Ukraine (37 divisions as of December 31, 2018).

As of December 31, 2019 and December 31, 2018, 100% of the Bank's shares were held by Brancroft Enterprises Limited (hereinafter referred to as "the Shareholder") incorporated outside Economic Cooperation and Development Organization. As of December 31, 2019, Viktor Pinchuk is the holder of 100% of an indirect material interest in the Bank.

These Financial Statements were signed on behalf of the Management Board on June 30, 2020.

2. Operating Environment of the Bank

Notwithstanding the fact that the Ukrainian economy is considered to be a market one, it keeps showing certain peculiarities inherent in developing economies. In 2019, the Ukrainian Government continued to pursue structural reforms in the economy and to take measures aimed at positive changes in the financial and tax spheres.

In September 2019, the international rating agencies Fitch and Standard & Poor's raised a long-term sovereign loan rating of Ukraine up to the grade of B. The forecast is stable.

Since the beginning of 2019, the foreign reserves have increased by USD 4.5 billion (by 12.1%) up to USD 25.6 billion. In 2019, Ukraine used UAH 465 billion towards the discharge of liabilities under the national debt, of which UAH 120 billion were used towards the service of the debt and UAH 345 billion, towards the discharge of the principal amount. Ukraine's obligations to service the national debt in 2020 amount to UAH 438 billion.

The discount rate of the NBU has decreased gradually since the beginning of 2019 from 18% to 13.5% due to the reduction in the inflation risks. The National Bank has resumed mitigating the monetary policy against the background of stable inflation risks diminution and improvement of expectations. For instance, it cancelled the demand concerning the compulsory sale of 50% of profits from export.

In the reporting year, the UAH exchange rate has strengthened by 5.0%. This was mainly facilitated by attracting nonresidents to the local domestic national bonds (OVDP) market. In 2019, the nonresidents invested approximately USD 5 billion in the UAH-denominated OVDPs. In addition, in 2019, a positive dynamics of growth on international raw material markets was mainly observes, in particular, the growth of the prices for export agricultural, mining and metallurgical goods and increase in the domestic agricultural producers' physical export. However, Ukraine's economy keeps being dependent on the condition of the global economy which influences the demand on the part of the importers of Ukrainian products and the fluctuations of prices for the main export goods.

The economic growth rate slowed down in the 4th quarter of 2019 to 1.5% of the GDP from 4.1% in the 3rd quarter of 2019, due to negative tendencies in the global economy which were caused by trade conflicts between the biggest economies of the world. The conflict in the east of Ukraine which remains one of the key risks is accompanied with cessation of trade with the uncontrolled territories and the suspension of all goods flows which affects first of all energy and metallurgical enterprises in the form of reduction in the production and decrease in the export potential.

As of December 31, 2019, the Bank had loans and advances extended to customers connected with the territories of Donetsk and Luhansk regions as well as the Crimea which are not controlled by the Ukrainian Government, in the amount of UAH 877,510 thousand (2018: UAH 1,257,832 thousand). The amount of the reserve formed for the said category of loans amounted to UAH 788,295 thousand (2018: UAH 1,023,550 thousand). The Bank's Management has taken into account the risk factors known and estimated as of the date of approval of the Financial Statements when estimating the impairment of such loans.

In 2019, the sanctions of the Russian Federation relating to blocking (freezing) cashless funds, non-documentary securities, and property in the territory of Russia and the prohibition to remit funds (to pull capital) outside Russia which were imposed inter alia on the Bank, Viktor Pinchuk, and EastOne Group Ltd. Remained in force. The effect of the taken special economic measures on the Bank's financial standing is disclosed additionally in Note 8.

As of December 31, 2019, a certain portion of loans was extended by the Bank to borrowers being industrial companies whose products are exported inter alia to the Russian Federation. The Bank's Management has taken into account the risk factors known and estimated as of the date of drawing up the Financial Statements when estimating the impairment of such loans.

Any further worsening of the political and economic relationship of Ukraine with the Russian Federation and imposition of new restrictions on the capital flow and export of Ukrainian company's products to the Russian Federation may affect considerably the ability of the Bank's borrowers to service loans. At present, it is difficult to foresee the negative effect of such events on the Bank's financial standing and performance.

The stabilization of Ukraine's economy in the near future depends on the success of the Government's measures and the National Bank's efforts aimed at a further stabilizing the banking sector and ensuring a continuous financial support of Ukraine on the part of international donors and international financial institutions as well as the ability of the Ukrainian economy to respond in general in an adequate manner to the changes on the domestic and international markets.

The known and estimated effect of the aforesaid events on the Bank's financial standing and performance in the reporting period was taken into account in the course of drawing up these Financial Statements. The Management believes that they take appropriate measures to maintain the Bank's stable activities, which are necessary under the circumstances though further lack of stability in the political and economic sphere may cause a negative effect on the Bank's performance and financial condition, the nature and consequences of which cannot be currently defined. These Financial Statements represent the Management's current estimate of the effect of the conditions of activities in Ukraine on the Bank's operating activities and financial standing. Future conditions of activities may differ from the Management's estimates.

3. Basis of Financial Statements Presentation

Confirmation of Conformity

These Financial Statements are prepared in accordance with the International Financial Reporting Standards.

Basis of Preparation

The Financial Statements are prepared on the basis of the historical value principle except buildings (classified as fixed assets), investment property, investments in securities assessed at fair value as well as the assets held for sale which are represented at a lesser of the purchase value or the fair value less selling costs.

Going Concern

These Financial Statements are prepared on the basis of the supposition that the Bank is and shall remain a going concern in the foreseeable future. The main factors that were taken into account by the Management during the assessment of the Banks ability to operate as a going concern are disclosed in Note 6.

Functional Currency and Presentation Currency

Ukrainian hryvnias are the functional currency of these Statements; the Financial Statements are presented in thousands of Ukrainian hryvnias (hereinafter referred to as "UAH, thousand") unless specified otherwise.

Inflation Pressure Accounting

Ukraine was considered to be a hyperinflation economy till December 31, 2000. Accordingly, the Bank applied IAS 29 "Financial Reporting in Hyperinflation Economies." The effect of the application of IAS 29 consisted in the fact that the non-monetary items of Financial Statements were recalculated in the units of measurement that were valid as of December 31, 2000, by applying a consumer price index, while in the next periods, the accounting was based on the obtained recalculated value. The par value of the share capital was adjusted for the purpose of accounting the hyperinflation pressure on the capital contributions made before January 1, 2001.

Taking into account the insignificant pressure of hyperinflation on the share capital (the effect of the pressure is UAH 23,666 thousand), it was decided in 2019, to stop recognizing the effect of IAS 29 "Financial Reporting in Hyperinflation Economies" on the share capital by stopping representing the hyperinflation pressure, beginning with the earliest period represented in the Financial Statements drawn up by the Bank for the year ended December 31, 2019.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

	After hyperinflation pressure as of December 31, 2018	Hyperinflation pressure	Before hyperinflation pressure as of December 31, 2018
Items of the Statement of Financial Position:			
Share capital	2,743,666	(23,666)	2,720,000
Accumulated loss	(2,614,467)	23,666	(2,590,801)

Comparative Information

Comparative information for the preceding period is presented in the Bank's Financial Statements except the operations of the Bank as a lessee. The Bank has applied a modified retrospective approach and did not adjust the balances of the preceding years, related to the application of IFRS 16 "Lease."

For the presentation of the information related to the application of IFRS 16 "Lease," the Bank changed the presentation of the Financial Statements items as of December 31, 2018:

Liabilities	December 31, 2018	December 31, 2018
Lease liabilities	-	464
Other financial liabilities	80,251	79,787
Total	**80,251**	**80,251**

4. Main Provisions of the Accounting Policy

4.1. Amendments to Accounting Policy and Information Disclosure Principles

The following standards and interpretations set forth below became valid and binding on the Bank on or after January 1, 2019. The Bank did not apply ahead of time the standards, explanations or amendments which were issued but did not come into force.

The nature of the effect of such amendments is described below. Though some standards and amendments were applied in 2019 for the first time, they did not have any material effect on the Bank's annual Financial Statements. The nature and effect of each new standard and amendment are disclosed below:

Amendment to IFRS 9 "Prepayment Features with Negative Compensation." The Amendment allows business entities to assess certain prepaid financial assets with negative compensation at the depreciated value or fair value through other comprehensive income. The Amendment had no effect on the Bank's Financial Statements.

Amendments to IAS 19 "Employee Benefits" consider the accounting procedure in the cases when amendments to the scheme, decrease in the scheme, or discharge of a liability under the scheme takes place during the reporting period. The Amendment had no effect on the Bank's Financial Statements.

Amendments to IAS 28 "Investments in Associates and Joint Ventures" explain that business entities record long-term participating interests in an associate or a joint venture to which no equity method is applied, according to IFRS 9. The Amendment had no effect on the Bank's Financial Statements.

IFRIC 23 "Uncertainty regarding Income Tax Treatment" The manner in which a business entity has to represent the effect of the uncertainty regarding income tax treatment. This interpretation had no effect on the Bank's Financial Statements.

Annual Improvements of the IFRS of 2015 through 2017. These amendments include amendments to the following standards:

IFRS 3 "Business Combinations" It explains the situation when a business entity obtains control over a business being a joint transaction and needs to measure repeatedly a previously held interest in such a business.

IFRS 11 "Joint Activities" It explains the situation when a business entity obtains joint control over a business being a joint transaction and does not change the remeasurement of a previously held interest in such a business.

IAS 12 "Income Taxes" Explanations to the effect that all the tax effects of dividends have to be recognized in profits or losses irrespective of the way in which the tax arises.

IAS 23 "Borrowing Costs" It is explained in the amendments that if any determined loans remain outstanding after the relevant asset becomes ready for the authorized use or sale thereof, such borrowings become a part of the funds which the business entity receives in the usual manner when calculating the capitalization rate under general loans.

These improvements had no effect on the Bank's Financial Statements.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

IFRS 16 "Lease" (hereinafter referred to as "IFRS 16") which was issued in January 2016 and came into force on January 1, 2019, replaced IAS 17 "Lease", Explanations IFRIC 4 "Determining whether an Arrangement Contains a Lease," Explanations SIC 15 "Operating Leases – Incentives", and Explanations SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease." IFRS 16 establishes the principles of recognition, measurement, presentation, and disclosure of information on the lease and requires that lessees should record all lease agreements in the accounting by means of a single model of recording in the balance sheet which is similar to the accounting procedure provided for by IAS 17 for the financial lease. The Standard provides for two exemptions from the recognition for lessees, in respect of the lease of low-value assets and a short-term lease (the term of which does not exceed 12 months). At the beginning of the lease, the lessee determines liabilities in respect of rental fees (lease liabilities) and the asset providing for the right to use the basic asset for the term of the lease (right-of-use assets). Straight-line expenses relating to the operating lease are replaced with interest expenses under the liability and straight-line asset depreciation costs which will result in the presentation of higher costs at the beginning of the term of lease and lower costs at the end of the lease. Lessees also must remeasure the lease liabilities if a certain event occurs (e.g. a change of the term of lease, a change of future rental fees as a result of a change of the index or the rate used for determining such payments).

The Bank began to use IFRS 16 on January 16, 2016. The process of the Bank's implementation of the requirements of the Standard is presented as follows:

- repeated determination of whether an arrangement is a lease or whether it contains a lease;
- use of a modified retrospective approach without the comparative information recalculation;
- use of a simplification method in respect of a short-term lease (with a term of not more than 12 months) and a lease under which the basic asset has a low value (UAH 150 thousand);
- non-recognition of a right-of-use asset and a lease liability in respect of intangible assets lease agreements; and
- non-recognition of a right-of-use asset and a lease liability in respect of agreements of lease of state-owned and municipal plots of land.

As of the date of the first application of IFRS 16 (January 1, 2019), the Bank:

- measured the lease liabilities at the present value of the rental fees to be paid before the expiry of the expected term of lease, discounted at additional borrowing rates determined by the Bank as of the date of the first application;
- recognized the right-of-use assets in the amount of the lease liabilities, increased by the amount of paid rental fee advances and reduced by the amount of accrued expenses under payable rental fees which were represented in the Statement of Financial Position immediately before the date of the first application of the Standard under the relevant lease agreements.

As of the date of the first application of IFRS 16, the Bank had no lease agreements liable to the classification and further accounting pursuant to the requirements of IAS 40 "Investment property."

When determining the term of lease, the Bank took into consideration the terms of the lease agreements and the periods covered by the Bank's right to extend the lease, taking into account the Bank development strategy, the absence of any intention to close down its operating divisions, and the confidence that the lease agreements (the term of which is expiring) will be extended.

As of the date of the first application, the Bank recognized the following items in the Statement of Financial Position:

- right-of-use assets in the amount of UAH 125,903 thousand;
- lease liabilities in the amount of UAH 130,043 thousand, measured at the present value of unpaid rental fees discounted by means of the discount rate calculated at the level of an average yield rate of domestic national bonds for the relevant term and in the relevant currency plus a risk premium. As of January 1, 2019, the lease liabilities were discounted at the average weighted rate of 18.7% in Ukrainian hryvnias and 8.9% in US dollars.

Please find below harmonization of the lease liabilities as of January 1, 2019, and the contractual liabilities under the operating lease as of December 31, 2018:

	Lease Liabilities
Liabilities under operating lease agreements as of December 31, 2018:	**185,509**
Discounting effect as of January 1, 2019	(45,693)
Reduction in asset under previously recognized liabilities	(5,750)
Short-term lease contractual terms	(1,175)
Contractual terms as are not identified as lease as per IFRS 16	(2,848)
Contractual terms relating to lease previously classified as financial lease	464
Lease liabilities recognized as of January 1, 2019:	**130,507**

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

The Bank made the following changes in the presentation when applying IFRS 16:

- the line "Right-of-use Assets" and the line "Lease Liabilities" were added in the Statement of Financial Position; and
- a line concerning the payment of rental fees was added in the financial activities in the Statement of Cash Flows.

Effect of the first application of IFRS 16 "Lease" as of January 1, 2019:

Item of the Statement of Financial Position	*December 31, 2018*	*Change of assessments*	*December 31, 2019*
Assets			
Right-of-use assets	-	125,903	125,903
Other assets	168,362	(1,609)	166,753
Total	**168,362**	**124,294**	**292,656**
Liabilities			
Lease liabilities	464	130,043	130,507
Other financial liabilities	79,787	(5,749)	74,038
Total	**80,251**	**124,294**	**204,545**

The effect of the application of IFRS 16 on the Bank's economic ratios is insignificant.

4.2. Material Provisions of the Accounting Policy

Foreign Currency Conversion

Foreign currency transactions are converted into Ukrainian hryvnias at the official exchange rate fixed by the National Bank of Ukraine as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as of the reporting date are converted into Ukrainian hryvnias at the official exchange rate fixed by the National Bank of Ukraine as of this date. The exchange differences arising from the conversion shall be represented as profits and losses in the Item "Effect of Foreign Currency Conversion." Non-monetary assets and liabilities denominated in foreign currencies shall be converted into Ukrainian hryvnias at the official exchange rate fixed by the National Bank of Ukraine as of the date of the transaction.

Please find below the official exchange rates of Ukrainian hryvnias as of December 31, to the main currencies applied in the course of the preparation of the Financial Statements:

Currency	*2019*	*2018*
US dollar	23.6862	27.688264
EURO	26.4220	31.714138

4.2.1. Financial Instruments

Initial Recognition

The Bank carries out the initial recognition of financial assets and financial liabilities as of the date of a transaction (when obligations to purchase or sell an asset are assumed under a contract) or the date of the payment (when the asset is actually received or transferred). The selected method has been consistently applied by the Bank to all purchases and sales of financial assets belonging to the same category. Loans are recognized by the Bank when they are transferred to customers' accounts, and deposits and customers' funds are recognized when the funds are credited to the account of the Bank.

Financial Assets Classification

The Bank classifies financial assets as those to be measured later on:

- at amortised cost (AC);
- at fair value through other comprehensive income (FVOCI);
- at fair value through profit or loss (FVTPL).

A financial asset is classified for further measurement as that belonging to the category of instruments measured at the AC if both conditions are met: (a) it is held within a business model for the receipt of the cash flows provided for by an agreement; (b) the terms and conditions of the agreement stipulate (within the determined term) cash flows which are exclusively payments towards the discharge of the principal debt and the interest on the outstanding portion of the principal debt.

A financial asset is classified for further measurement as that belonging to the category of instruments measured at the FVOCI if both conditions are met: (a) it is held within a business model for the receipt of the cash flows provided for by an agreement and for sale; (b) the terms and conditions of the contract stipulate (within the determined term) cash flows which are exclusively payments towards the discharge of the principal debt and the interest on the outstanding portion of the principal debt.

A financial asset is classified for further measurement as that belonging to the category of instruments measured at the FVTPL if (a) it does not meet the criteria necessary for the classification at the AC or the FVOCI; (b) during the primary recognition (without the right of further repeated classification) if it eliminates or reduces considerably the inconsistency of approaches to the measurement or recognition ("accounting incomparability") which would arise as a result of the use of different assets and liabilities measurement bases or recognition of the profits and losses related thereto.

The classification is based on:
- the Bank's financial assets management business model;
- the contractual parameters of the cash flows from the financial asset.

Business models. The Bank applies the following business models for the management of the financial assets:

"*Holding of an asset for the receipt of contractual cash flows*"; it is intended for holding assets for the receipt of cash flows provided for by the terms and conditions of the relevant agreements; sale of assets as a result of impairment of the credit quality of the financial assets for minimizing losses from the expected cash flows; sale for the purpose of credit risk concentration management (such sales may not be frequent (even if the amount thereof is considerable) or their amount are insignificant (even if they are frequent)); sale of assets shortly before the maturity of the financial assets and the earnings from the sale are approximately equal to the payable cash flows. The financial assets are measured at the amortised cost within this business model.

"*Holding of an asset for the receipt of contractual cash flows or sale of an asset*"; it is intended for managing the Bank's liquidity, and assets within it are held for the receipt of cash flows provided for by the terms and conditions of the relevant agreements or for the sale thereof. The financial assets are measured at fair value through the other comprehensive income within this business model.

"*Management of assets held for trade*"; it is intended for holding assets for sale or reverse purchase in the near future; the assets management is based on the fair value. Within this business model, financial assets will be measured at fair value through profits or losses. Financial assets which do not meet the criteria of the classification at the amortised cost and the fair value through other comprehensive income are also classified within this business model.

SPPI test. Within the classification process, the Bank applies an SPPI test for analyzing the cash flows provided for by the agreement: whether these cash flows are exclusively flows towards the discharge of the principal debt only and the interest on the outstanding portion of the principal debt. The SPPI test provides for a thorough analysis of the terms and conditions of agreements; in particular, the following terms are liable to the analysis: (a) the time value of money; (b) the contractual terms which change the period or amount of the cash flows provided for by the agreement; (c) instruments connected with the agreement.

During the SPPI test, the Bank divides the financial assets into three portfolios:

- *Portfolio 1:* a group of assets for which the performance of the SPPI test is obvious due to the general; parameters of the agreement (the agreement contains the term concerning the discharge of the principal debt and the interest only; only standard charges for the creation of the asset are provided for; other payments under the agreement are punitive sanctions for the non-fulfillment/breach of the terms and conditions of the agreement);
- *Portfolio 2:* a subgroup of homogeneous assets to which a collective analysis may be applied (standardized bank products);
- *Portfolio 3:* assets which are analyzed on an individual basis.

All the financial assets which have been subjected to the SPPI test, are classified by the Bank in the accounting at the amortised cost and (subject to a separate decision) at fair value through other comprehensive income. The financial assets which have not been subjected to the SPPI test (or subject to a separate decision) are classified by the Bank at fair value through profits or losses.

During the primary recognition of individual investments in the capital instruments which would be measured at the FVTPL, the Bank may decide to recognize the subsequent change of the fair value of such investments in the other comprehensive income. Such investments are not subsequently reclassified.

Financial liabilities classification

All financial liabilities except crediting obligations and financial guarantees are measured at the amortised cost or at fair value through profits or losses if they are instruments held for sale or derivatives or are classified by a decision of the Bank as instruments measured at fair value through profit or loss.

Derivatives

A derivative is an instrument or an agreement having all the three features specified below at the same time: (1) its value changes as a result of a change of an exchange rate, index or rate, price of the goods, or another change; (2) no initial investments are required for the purchase thereof or an initial investment is inconsiderable; and (3) settlements under the instrument will be made in the future.

Instruments are recorded at fair value and presented in the accounting as an asset if their value is positive, and as a liability if their value is negative. A change of the fair value is represented in profits or losses.

Built-in derivative is a component of a hybrid (combined) agreement which also includes a non-derivative principal agreement, which results in a change of some cash flows from a combined instrument.

A derivative built in the principal agreement which is a financial asset is not recorded separately. Such a hybrid agreement is classified as a financial asset measured at fair value through profits or losses.

The derivatives built in financial liabilities and non-financial principal agreements are analyzed by the Bank for their separation and recording at fair value through profits or losses; in this case, the principal agreement shall be recorded in accordance with the requirements of the appropriate policies. The Bank may classify all the hybrid agreement at fair value with remeasurement through profits or losses except when (a) a built-in derivative does not change considerably the cash flows which would be binding under the agreement or (b) the separation of the built-in instrument is prohibited.

Reclassification

The Bank does not reclassify the financial assets after the primary recognition (except the cases of change of a business model) when a certain activity begins or terminates. The financial assets reclassification takes place on the first day of the year following the one in which the Bank changed the business model. Between the date of the resolution and the date of reclassification, the previously classified assets keep being recorded without regard to the changes of the business model however new assets are classified on the basis of the new business model. The financial assets are reclassified prospectively.

Financial assets are never reclassified.

Initial Measurement of Financial Assets and Financial Liabilities

Financial instruments are initially measured at fair value increased or reduced by the direct costs which are directly related to the purchase or issue of a financial asset or a financial liability except the financial instruments at fair value through profits or losses. If during the primary recognition, the fair value of a financial instrument is different from the contract price, the Bank recognizes the resulting first-day profits or losses.

The Bank recognizes the first-day profits or losses at once in the operating incomes or expenses if the fair value is based on the data observed on the market. When the fair value is determined on the basis of the model for which no comparative data are accessible, the first-day profits or losses are postponed for future periods and recognized in profits or losses by means of the straight-line method during the term of the financial instrument.

Further Measurement of Financial Assets

Financial Assets Measured at Fair Value through Profits and Losses

The Bank shall apply accounting at fair value through profits or losses to the instruments held for trade (receipt of profits in the short term) and the financial assets which do not meet the requirements of the classification in the accounting at the amortised cost or at fair value through other comprehensive income. The remeasurement of instruments according to the fair value is represented as net gain/loss from trade activities; the interest income and expenses are recognized separately and not within the fair value changes, and are recognized after the Bank has established the right to the receipt thereof. The Bank does not measure the financial assets impairment at fair value through profits or losses.

The Bank classifies debt securities, capital instruments, and exchange swaps within the said category.

Financial Assets at Fair Value through other Comprehensive Income

The Bank measures debt financial instruments at fair value through other comprehensive income provided they meet the purpose of the business model as to the receipt of funds under an agreement or from sale, and cash flows under an agreement are liable to the DPPI test. The Bank recognizes the interest income and the foreign currency remeasurement gain/loss in profits and losses, and the gain/loss from the remeasurement up to the fair value is recognized in the other comprehensive income reclassified as profit and losses when the financial asset is derecognized.

The debt securities which can be easily sold in case of need for liquidity are included by the Bank in such instruments.

The Bank has decided that capital instruments which are purchased for a purpose other than trade and include compulsory contributions to capitals of exchanges, clearing centers, etc. should also be classified at fair value through other comprehensive income. The above decision is not subject to reversal. In the course of derecognition of capital instruments, the remeasurement accrued in the other comprehensive income is never reclassified in profits and losses; it may only be reclassified between the capital items. Dividends are only recognized by the Bank in profits and losses when the right to receive them is established.

The Bank measures the expected credit risk in connection with the debt financial assets. Allowance formation costs are recognized in profits or losses; in this case, the allowance shall not reduce the book value of an asset but is recognized in the other comprehensive income.

Financial Assets Measured at Amortised Cost

The Bank applies the accounting at amortised cost to the instruments which have been subjected to the SPPI test and meet the business model of the receipt of cash flows under the principal debt and interest. The amortised cost is calculated taking into account the expenses and commission which are directly connected with the issue of the instrument and included in the calculation of the effective interest rate (EIR). The interest income is recognized by the Bank by means of the EIR in profits or losses. The Bank assesses the expected credit risk in connection with such assets. The allowance formation expenses are recognized in profits or losses, and the formed allowance reduces the book value of an asset.

The funds with other banks, loans extended to customers, and deposit certificates issued by the National Bank of Ukraine are included by the Bank in assets recoded at amortised cost.

Further Measurement of Financial Liabilities

After the primary recognition, all the financial liabilities are classified by the Bank as liabilities recorded at amortised cost except:

(a) financial liabilities held for trade and derivative financial liabilities which are measured at fair value through profit or loss;

(b) financial guarantee agreements and customers crediting obligations which are measured at the bigger of the following two amounts: (i) a measurement allowance amount, and (ii) a primarily recognized amount less (if reasonable) recognized cumulative amortisation.

In connection with the financial liabilities measured at amortised costs, the Bank recognizes interest expenses in profits or losses. The Bank includes funds deposited by other banks and customers on deposit accounts in the financial liabilities at amortised cost.

The remeasurement of financial liabilities up to the fair value is recognized in profits or losses.

In connection with the financial liabilities appointed by the Bank in the accounting at fair value through profits and losses, a change of the fair value caused by a change of the Bank's credit risk is represented in the other comprehensive income, and the rest, in profits and losses.

The Bank issues financial guarantees and assumes financing undertakings under uncovered letters of credit, credit lines, and guarantees of bills of exchange. They are initially measured by the Bank in the amount of the received consideration which is recognized in commission incomes on a straight-line basis during the term of a guarantee or an undertaking. The allowance formation costs are recognized in profits and losses, and the formed reserve is disclosed in the Statement of Financial Position in the Item "Allowance for Liabilities." The par value of financial guarantees and unused credit line undertakings is disclosed in the Notes.

Effective Interest Rate Method

The interest income/expenses under interest-bearing financial instruments is/are calculated by means of the effective interest rate method. The EIR is calculated taking into account the expenses incurred by the Bank during the performance of a transaction and the received commission fees for the issue of an instrument. The effective interest rate is the rate discounting precisely future cash flows during the expected term of a financial asset or a financial liability and ensuring a constant rate of return or costs.

In connection with floating-interest-rate financial assets and financial liabilities, the Bank revises cash flows, taking into account the market interest rates which results in a change of the EIR. A change of the interest rate connected with a change of the credit spread does not result in a change of the EIR.

The Bank does not calculate the EIR under the financial assets and liabilities under which it is impossible to determine the amount of cash flows and the period in which they appeared. Such financial instruments include loans and overnight deposits, on call deposits, overdraft loans, and revolving credit lines.

In connection with the financial assets which are impaired in terms of loans as of the date of the initial recognition, the Bank calculates the EIR adjusted for the credit risk (EIRpd). During the calculation of the EIRpd, the Bank includes the loan losses which are expected to be incurred during the entire term of an asset in the cash flows from the asset.

Revision of Contractual Cash Flows. Modification

The Bank revises the book value of a financial asset or liability as the expectations change in respect of the cash flows from an instrument or as a result of a modification of a contract agreed on with a customer.

In case of revision of the expected cash flows, the gross book value or amortised cost of a financial instrument is recalculated as a discounted value of future flows which are discounted at the initial EIR or EIRpd. The amount of the adjustment is recognized in the interest income or expenses.

In case of revision of cash flows in the event of modification of contractual terms and conditions agreed on with the customer, the gross book value or amortised cost of the financial instrument is recalculated as a discounted value of modified flows which are discounted at the initial EIR or EIRpd. The amount of the adjustment is recognized in the profit or loss from modification. When the modification of the terms and conditions of an agreement results in the difference of at least 10% between the discounted flows under the new terms and conditions and the flows remaining under the initial terms and conditions, or in case of change of the currency of the financial instrument, the Bank derecognizes the existing financial instrument and recognizes a new one.

Derecognition of Financial Assets and Financial Liabilities

Financial assets. The Bank derecognizes an asset (or a part thereof) when (1) the term of the rights to the cash flow expires or (2) the financial asset is transferred to the other party and the transfer meets the transferred asset derecognition requirements.

The transfer of a financial asset meets the derecognition requirements if (1) the Bank has transferred practically all risks and benefits connected with the asset or (2) the Bank has neither transferred nor retained all the risks and benefits connected with the asset but has transferred the control over the asset.

Financial liabilities. The Bank derecognizes a financial liability when it is discharged: (a) the Bank has paid the relevant amounts of the indebtedness to the creditor; (b) the Bank is legally exempted from the initial responsibility under the liabilities either as a result of a court decision or by a creditor; (c) one debt instrument is exchanged for another one the terms and conditions of which differ from those of the former at least by 10% of the discounted present value under the initial financial liability.

Financial Assets Impairment

Principles of Expected Loan Loss Measurement

The Bank calculates expected loan losses under financial assets and forms allowances for them, beginning from the date of the assets recognition in accounting to the date of derecognition thereof. The amount of the expected loan losses is recognized in the form of measurement allowance which depends on the extent of credit quality impairment after the initial recognition.

The Bank recognizes the allowance for the expected loan losses under the debt financial assets recorded at the amortised cost and under the debt financial assets recorded at the fair value and recognizes remeasurements in other comprehensive income.

The allowance for the expected loan losses under the relevant assets is calculated on the basis of the assessment of the debtor's financial standing and the debt service status, taking into account the type and the terms and conditions of the banking transaction. The allowance for expected loan losses is measured in the amount of the losses which are expected to arise during the term of the asset if the credit risk under such an asset has increased considerably after the moment of the initial recognition thereof. In other cases, the allowance for expected losses will be measured in an amount which is equal to 12-month expected losses.

The expected 12-month loan losses are a component of the expected losses for the entire term of the financial instrument and may appear within 12 months after the reporting date.

At the end of every reporting period, the Bank shall assess the availability of objective evidence of the impairment of a financial asset or a group of financial assets, taking into account the losses expected as a result of future events, weighted by the possibility thereof during the life cycle of the financial instrument, taking into account the dependence on the forecast dynamics of scenario macroeconomic indicators weighted by the probability thereof.

At the initial recognition of a loan and till the appearance of indications of an increased credit risk, the Bank shall recognize the reserve being equal to the expected losses in the 12-month period (the 1st stage of impairment).

Increased credit risk indications (the 2nd stage of impairment). Objective indications evidencing an increased level of the credit risk related to counterparties are the following, in particular: the delay in the payment of a debt under an asset ranges from 31 to 90 calendar days (for financial organizations: from 7 to 30 calendar days); the growth of the probability of default (PD) as compared with the date of the initial recognition thereof exceeds 20 percentage points and other (additional) factors which may evidence the increase in the credit risk within the monitoring of the financial strength of the Bank's debtors, approved by the Bank.

Indications of default (the 3rd stage of impairment). Since the notion of default is a key one for the application of forecast models and till the moment of disproof of the below suppositions by calibrating the Bank's statistical data (own experience), taking into account the historical confirmation or disproof of the below suppositions included in the judgment, and for the purpose of avoiding deviations from the Basel requirements within more complicated calculations of the regulatory capital, the Bank applies the following definitions of default: default occurs as the delay in the discharge of a financial asset (a payment or a part thereof) exceeds 90 days for individuals and legal entities, and 30 days for banks. This supposition may only be disproved in case of calculation-based confirmations of the necessity to apply another default criterion. In addition to the number of the days of the delay, the Bank also considers the indications which evidence a default under a financial instrument too, namely:

- a debtor has declared bankruptcy;
- a debtor is recognized as bankrupt;
- a debtor bank is classified as insolvable by a resolution of the National Bank of Ukraine;
- a liquidation (termination) procedure has been commenced in respect of a legal entity in accordance with a statutory procedure;
- the banking license is withdrawn;

- the Bank has instituted bankruptcy proceedings against a debtor in accordance with the procedure established by the Ukrainian legislation;
- amendments are made to the terms and conditions of an agreement, which are not connected with restructuring and concern increase in the term of use of the asset provided for the debtor who is unable to discharge the debt as of the date of assessment of the delay in the discharge of the debt, etc.

The aforesaid default indications evidence that the debtor/counterparty is unable to ensure a complete fulfillment of obligations to the Bank, its parent and subsidiary institutions within the term established by an agreement(s) without the Bank's taking recourse on the security (if any) unless available judgments prove to the contrary. The relevant judgments are fixed in an opinion on the possibility of a loan transaction in a loan request or in an opinion of a loan expert. The debt load of the counterparty and the prospects of the discharge/service of the debt in the future, taking into account the authorized use of the loan, are assessed when forming a judgment. If there are long-term objective prospects of settling the debt e.g. detection and crystallization of a base of stable suppliers and buyers, involvement of solvable sureties, etc., they may be given precedence over the current debt load indicators in the course of the analysis.

In connection with the 2nd and 3rd impairment stage assets, the Bank resumes recognizing the measurement allowance for the expected loan losses on the basis of the losses expected to be incurred during the next 12 months (stage 1) if in the next reporting periods, the credit quality of a financial asset improves to the extent that there is no considerable increase in the credit risk after the initial recognition, i.e. the financial asset does not meet the criteria of considerable increase in the credit risk.

Calculation of Expected Loan Losses

In the course of calculation of the expected loan losses and determination of the expected cash flows from an asset, the Bank takes into account all the contractual terms and conditions of a financial instrument (including prepayment options, discharge term extension, call options, and similar options) which are expected to exist during the term of the given financial instrument. If no reliable assessment of the expected term of the financial instrument is possible, the Bank uses all the term remaining under the agreement concerning the financial instrument. In addition, the Bank takes into account the cash flows from the sale of the pledged property or other mechanisms of increasing the credit quality which are an integral part of the contractual terms and conditions.

The Bank forms no reserves under:

- financial instruments recorded at fair value with the recognition of remeasurement through profits/losses;
- capital instruments;
- funds remitted to the National Bank of Ukraine;
- securities issued by central executive authorities and the national Bank of Ukraine; and
- revocable and non-risk-bearing loan undertakings and financial guarantees issued to customers and banks.

The Bank determines the expected loan losses as weighted average loan losses, taking into account the relevant risks of default as weighting coefficient and taking into account the approaches representing:

- an objective and probability weighted amount;
- assessment of the range of possible results;
- time value of money; and
- reasonable and acceptable information on past events, current conditions, and forecast future economic conditions, accessible without excessive expenses or efforts as of the reporting date.

The Bank recognizes expected loan losses during the term of a financial instrument as expected loan losses arising as a result of all possible events which may cause default, during the expected term of the financial instrument.

The Bank recognizes expected loan losses during the term of a financial instrument if it is expected to receive all contractual flows to be received by the Bank under an agreement, which however the Bank expects to receive at later dates than the dates provided for by the terms and conditions of the agreement. In this case, contractual cash flows being overdue as of the moment of the assessment, as compared with the requirements of the loan agreement, are recognized as flows to be received at the last date of the term of the agreement.

For the assets to be measured on an individual basis, the Bank shall use a binary customer behavior model which takes into account expectations as to proceeds from contractual cash flows and – in case of events evidencing reduction in the utility of a financial asset – the Bank's expectations as to the sale of the security within the relevant time and taking into account the liquidity ratio weighted by the probability of such a scenario due to the influence of the macroeconomic forecast.

In this case, the future planned cash flows are discounted for the entire term of the financial instrument, however for the loans:

- of the 1st stage of impairment, the expected credit risk (ECL) is discounted for 12 months or till the maturity date if the maturity date is earlier than the expiry of the 12-month period.
- of the the 2nd and 3rd stage of impairment, the expected credit risk (ECL) is discounted before the maturity date.

If the Bank cannot forecast the expected cash flow (revolving credit lines and overdrafts) or in case of measurement of an asset on a collective (group) basis, an approach is used which provides for weighing the exposition under risk for probability of default (PD) indicators and the level of losses in case of default.

Scenario analysis: when evaluating the expected loan losses, the Bank considers several scenarios of determining the probability of default according to forecast changes of macroeconomic ratios. The requirements of the Standard provide for the necessity of considering the scenarios of Ukraine's macroeconomic dynamics with the relevant probabilities of the occurrence thereof. The expected loan losses are calculated as a value weighted by such probabilities.

Security Measurement and repossessed Pledged Property

In accordance with the loan policy and taking into account the risk appetite, the Bank uses security under any assets whenever it is reasonable for reducing credit risks under financial assets. The security is used in various forms such as cash (deposits and coverage), movable and immovable property, property rights and guarantees, etc.

The fair value of the security is taken into account during the calculation of the expected loan losses and is determined in accordance with property remeasurements which are regularly conducted, in particular, immovable property, facilities in the form of integral property complexes, plots of land, vehicles and equipment – at least once every twelve months; goods in circulation and in process and biological assets – at least once a month; other property/property rights (except property rights to cash) – at least once every six months. The Bank uses the market (fair) value of the security determined by an evaluator or a responsible employee of the Bank who has an evaluator's qualification certificate or the value determined in a purchase and sale agreement, in case of purchase thereof three or less months before the date of the conclusion of the pledge agreement.

The pledged property may be used by the Bank as a tool for meeting claims under loan agreements by repossessing it. In this case, the assets which are considered to be useful for the Bank's activities shall be recorded on investment property or fixed assets accounts. Assets in respect of which it is decided that they will be subsequently sold, are classified as assets held for sale. Both above categories of assets are recorded at fair value.

Restructuring and Modification of Loans

Purchased or recognized loan-impaired assets are assets which were impaired as of the initial recognition. At the initial recognition, financial assets are recognized at fair value; as a result, the interest income from them is recognized on the basis of the EIR adjusted for the credit risk. An allowance for expected loan losses from such an asset is recognized or derecognized to the extent to which the amount of the expected loan losses has reduced.

For the purpose of calculation of the allowance, a purchased (created) impaired financial asset or pool of purchased assets is considered to be a single financial instrument – with formation of a model of expected cash flows and calculation of an initial effective interest rate adjusted for the loan risk – at the moment of the recognition thereof in the Bank's balance sheet. If after the initial recording of the instrument, a more than 10% increase or reduction in the collected cash is observed as compared with the cash planned in the model, the planned model flows have to be revised. The fulfillment of this condition is checked at the end of the reporting year if 12 months have passed since the time of formation of the current model because conclusions as to the deviation from the model can only be drawn on the basis of available sufficient history. After the formation of a new cash flows model, the present book value is calculated by means of the initial effective interest rate.

Write-off

An asset (or a part thereof) is only written off by the Bank when it does not expect any compensation for the value of such an asset any more either at the expense of cash proceeds from a borrower/financial surety or from the sale of the pledged property.

Write-off may result in derecognition of the asset as of the date of such write-off (in case of absence of reasonable prospects and expectations of any compensation for the value of the asset) or future derecognition (the Bank goes on enforcing the debt under written off assets).

If the amount of the asset exceeds the amount of the formed allowance, the Bank first carries out additional formation of the allowance which is subsequently applied to the gross book value of the asset. If the measures taken by the Bank for the enforcement of the written off debt result in the received discharge of cash flows, such amounts are disclosed as reduction in allowance formation costs.

4.2.2. Fair Value Measurement Principles

The fair value of financial instruments is determined on the basis of market quotations as of the reporting date without deducting transaction-related costs. If there are no market quotations as of the reporting date, the fair value of an instrument is measured by means of appropriate measurement methods. The measurement methods may include modeling on the basis of a net discounted value, comparison with similar instruments for which there are prices on the observable market, use of option measurement models, and other measurement models.

In case of use of the discounted cash flow methods, the expected future cash flows are based on the most precise estimates of the Management. In this case, the discount rate is used which is equal to the market rate applied as of the reporting date to instruments having similar terms and parameters. When using price-formation models, the data on a financial instrument, included in a model, are based on market valuation as of the reporting date.

In addition, when drawing up the Financial Statements, the valuation at fair value is classified by levels depending on the observed data and their significance for the valuation:

- level I input data: quotations (non-adjusted) of identical assets or liabilities on active markets;
- level II input data: data which can be observed on an asset or a liability directly or indirectly; and
- level III input data: input data on an asset or liability which are not publicly available.

4.2.3. Cash and Cash Equivalents

The cash and cash equivalents are the most liquid assets of the Bank which are characterized by an insignificant value change risk and consist of the Bank's cash in hand, cash on correspondent accounts with the National Bank of Ukraine and other banks as well as short-term loans and deposits which have the maturity of up to 3 months and are freely converted into cash.

The balance of cash on correspondent accounts and the loans and deposits placed with other banks and having the investment rating of at least A-, assigned by international rating agencies, at which the credit risk is assessed at the 1st stage, are included by the Bank in cash and cash equivalents.

Limited-use balance on correspondent accounts and guarantee deposits under payment and documentary transactions are classified within other items of the Statement of Financial Position.

4.2.4. Due from other Banks

The due from other banks are balance on correspondent accounts with other banks and loans and deposits as do not meet the criteria of classification as cash and cash equivalents. On-call cash, term deposits, and loans extended are included by the Bank in the said assets. The Bank classifies due from other banks within the relevant business models subject to passing the SPPI test.

On-call cash, overnight deposits and loans, and overdraft loans are referred by the Bank to Portfolio 1 assets under which the Bank does not conduct the SPPI test, and are classified within the business model styled "Holding of an asset for the receipt of contractual cash flows" with measurement at amortised cost. Based on the results of the SPPI test, other assets are referred by the Bank to Portfolio 3 assets and classified within the relevant business models by separate resolutions.

In connection with due from other banks in profits and losses, the Bank recognizes interest income in the amount of the changes in the assessment of the expected credit risk.

4.2.5. Loans and Advances to Customers

The loans and due from customers are recognized by the Bank as of the date of settlement, at fair value inclusive of the transaction costs. Further accounting of loans and due from customers is carried out by the Bank at the amortised or fair value depending on the business model within which the assets is classified based on the results of the SPPI test and the adoption of the relevant resolution.

As of each reporting date, the Bank measures the expected loan losses and forms allowance. Amounts of changes in the expected loan losses are recognized in profit or losses.

The interest income is recognized by the Bank in profits or losses by the EIR method within the gross book value of the assets which are measured at the 1st and 2nd measurement stage of the expected loan losses and within amortised cost of assets measured at the 3rd stage of the expected loan losses as well as by the POCI assets.

In connection with loans and due from customers, the Bank recognizes the amounts of the changes in the fair value in profits and losses from the assets recorded at the FVTPL and in the other comprehensive income from the assets recorded at the FVOCI.

For the purpose of credit risk concentration management and minimizing losses from the expected cash flows, the Bank sells loans and due from customers showing considerable credit quality impairment. The profit or loss from the sale of such assets is recognized by the Bank as profits or losses from derecognition of financial instruments.

4.2.6. Investments in Securities

Investments in securities are initially recognized by the Bank as of the date of the settlement and measured at fair value. Further measurement is based on the results of the SPPI test (for debt securities) and the classification within the relevant business model.

The debt securities which have been subjected to the SPPI test are classified by the Bank within the business model styled "*Holding of an asset for the receipt of contractual cash flows*" with accounting at amortised cost, and for the purpose of managing the Bank's liquidity, within the business model styled "*Holding of an asset for the receipt of contractual cash flows or sale of the asset*" with accounting at fair value through other comprehensive income.

The Bank recognizes the interest income by the EIR method in profits or losses. Amounts of changes in the fair value are recognized in profits or losses if the investments are calculated at the FVTPL or in the other comprehensive income if the investments are calculated at the FVOCI. In the process of derecognition, the remeasurement allowance accrued in the other comprehensive income is reclassified as profits and losses.

As of every reporting date, the Bank measures the expected credit risk under debt securities recorded at the AC or the FVOCI. Amounts of changes in the expected credit risk are recognized in profits or losses.

The capital instruments are classified by the Bank in the accounting at the FVTPL, and if the investments are not made in trade instruments, the Bank classifies them in the accounting at the FVOCI (such a decision shall not be liable to cancellation in the future). Dividends are recognized in profits or losses when the right thereto is established).

4.2.7. Derivative Financial Instruments

The Bank uses derivative financial instruments such as forwarding exchange contracts, exchange swaps for the management of the currency, interest and other risks. Such instruments are initially recognized at fair value as of the date of the transaction. Further measurement is also carried out at fair value and the results of the remeasurement are recognized in profits or losses. Derivative instruments are recorded as assets if their fair value is positive, and as financial liabilities, if their fair value is negative.

The Bank does not perform hedging transactions.

4.2.8. Investment property

During the initial recognition, the Bank measures the investment property at cost less transaction costs before the initial measurement. After the initial recognition, the investment property is measured at fair value reflecting the market conditions as of the date of the measurement. The fair value is determined mandatorily by independent evaluators accredited with the Bank, before the end of the reporting year and drawing up the annual Financial Statements. Investment property remeasurement gains or losses are recognized in profits or losses in the Item "Investment property Remeasurement Gain/Loss."

The Bank only carries out re-classification of an item in order to include/exclude it in/from investment property when changes take place in the nature of the use thereof.

The Bank derecognizes investment property at its retirement or when no receipt of economic benefits is expected. The date of retirement of the investment property is the date as of which the receiver thereof obtains the control over the facility in accordance with the requirements of IFRIS 15 as to the determination of the moment of fulfillment of an obligation before the fulfillment.

4.2.9. Fixed Assets and Intangible Assets

After the initial recognition at the actual value, buildings are recorded at their revalued cost which is the fair value thereof as of the date of the measurement less accrued subsequent wear and tear and accrued subsequent utility impairment losses (if any).

The Bank believes that the remeasurement model is more adequate for the representation of the value of buildings since the remeasured cost of the Bank's buildings represents their current value in a more accurate manner unlike the historical value.

For the determination of the fair value of the buildings, the Management involves independent evaluators having the relevant professional qualification. The buildings are measured regularly in order to avoid considerable differences between their book value and the remeasured cost which would be determined on the basis of the fair value as of the date of the measurement.

The depreciation and amortization accrued as of the date of the remeasurement is deducted from the full book value of the asset, and the obtained amount is adjusted on the basis of the results of the asset measurement. Increase in the value of a building resulting from the remeasurement is recognized in other comprehensive income except the cases when it reverses the preceding reduction in the value represented in profits and losses. Reduction in the value of the building resulting from the remeasurement is recognized in profits and losses except the cases when such a loss may be set off against the prior increase in the value of the same asset, represented in the building remeasurement allowance. In case of retirement of an asset, the relevant amount included in the building remeasurement allowance is transferred to the retained earnings.

The other fixed assets and intangible assets are represented at the purchase value less the accrued depreciation/amortisation and accrued utility impairment losses. The book value of the fixed assets and intangible assets is measured for utility impairment in case of events or changes in circumstances evidencing that the book value of the given asset will not be probably recovered. As of the end of each reporting period, the Bank assesses existing indications of the equipment and intangibles utility impairment. If such indications exist, the Bank calculates the value of the indemnity which shall be equal to the bigger of the fair value of the asset less the selling costs or the value of use. The book value is reduced to the indemnity value, and the utility impairment loss is recognized in the profit or loss in the Statement of Profits and Losses and other Comprehensive Income. The utility impairment loss recognized in respect of any asset in the past periods is reversed in case of change in the estimates used for determining the asset use value or its fair value less selling costs.

Current repair and maintenance expenses are recognized as costs as they arise. Expenses on major repairs and replacement of important components of the fixed assets are capitalized with further depreciation in accordance with the useful life.

Depreciation and amortization

The depreciation and amortization is accrued by means of the straight-line method for the assessed useful life of the assets. The depreciation and amortization is accrued as from the date when the purchased asset becomes ready for use or – if the assets created at the expense of own funds are concerned – from the completion of the relevant asset and its readiness for use.

The expected useful life of the assets is as follows:

Buildings	50 years
Furniture and equipment	5 years
Computers	3 years
Vehicles	5 years

The expenses connected with the major repairs of leased premises are recognized as assets, and the wear and tear thereof is represented in profits and losses in the Item "Administrative and other Operating Expenses" within the fixed assets and intangibles depreciation/amortisation by means of the straight-line method for the shorter of the term of lease or the useful life thereof.

Intangible assets are amortised during the useful life in accordance with the terms and conditions of the concluded agreements of sale or receipt thereof for use, which shall not however exceed 10 years.

4.2.10. Assets Held for Sale

The Bank classifies non-current assets (or a retirement group) as those held for sale if the recovery of their book value is mainly planned as a result of the sale and not in the process of the use. To this end, the non-current assets (or a retirement group) must be readily sellable as is on the terms which are usual and typical sales conditions for such assets (retirement groups); their sale must be highly probable.

The high probability of the sale provides for a firm intention the Bank's Management to abide by the plan of sale of a non-current asset (or a retirement group). It is necessary that a program of active measures commence for the purpose of searching for a buyer and fulfilling such a plan. In addition, the non-current asset (or the retirement group) must be actively offered for sale at a price being reasonable, taking into account its current fair value. Besides, the agreement must be fully completed within one year after the date of classification of the non-current assets (or the retirement group) as those held for sale.

The Bank measures assets (or a retirement group) classified as those held for sale at the lesser of the book value or the fair value less selling costs. If events occur or changes take place which evidence a possible impairment of the utility of the book value of the assets (the retirement group), the Bank shall represent the utility impairment loss in the other utility impairment costs.

4.2.11. Lease

At the beginning of the lease, the Bank determines whether an agreement or its individual components are a lease agreement. The entire agreement or its individual components are a lease agreement if the agreement provides for the transfer of the right to control the use of an identified asset for a determined period in exchange for indemnity.

Bank as a Lessee

The Bank applies a single approach to the recognition and assessment of all lease agreements except short-term lease agreements (having the term of lease of up to 12 months) and agreements for lease of small-value assets (up to UAH 150 thousand). At the beginning of the lease, the Bank recognizes the right-of-use asset and lease liabilities.

Right-of-use assets. As of the starting date of the lease, the Bank measures the right-of-use assets at cost including the historic value of the lease liability, initial direct costs, and rental fee prepayments less received lease-related incentives. The right-of-use assets are subsequently measured at cost less any accrued amortisation and any accrued losses from utility impairment, adjusted by the lease liability remeasurement. The Bank amortises the right-of-use asset by means of the straight-line method during the shortest of the following periods: the term of lease or the useful life of the asssets.

Lease liabilities. As of the starting date of the lease, the Bank recognizes the lease liabilities in the amount of the present value of future rental fees discounted at the rate calculated at the level of the average rate of return of domestic national bonds for the relevant term and in the relevant currency plus a risk premium. Rental fees include fixed payments (including payments which are fixed in fact) less receivable lease-related incentives, variable rental fees depending on the index or rate, and the amount to be paid under liquid value guarantees. Lease-related payments also include the purchase option exercise price subject to sufficient confidence as to the exercise of such an option, and payments towards fines for an early termination of the lease, if the term of lease reflects a potential exercise of an early termination option. Variable rental fees which are independent from the index or rate are recognized as expenses of the period in which they appeared. After the initial recognition, the Bank measures the lease liabilities by increasing the book value for reflecting the interest and by reducing the book value by the amount of the fees paid; they are also adjusted by the remeasurement or modification amount in case of revision of the term of lease, change of the rental fees, and change of the measurement of asset purchase options.

In the Statement of Cash Flow, the Bank presents payments at the expense of the main lease liability in the financial activities, and the payments at the expense of interest expenses under the liabilities, in the cash flows from operating activities.

The Bank in the Capacity of a Lessor

Financial lease – the Bank in the capacity of a lessor. The Bank represents the rental fee receivables in the amount being equal to the net investments in the lease, beginning with the starting date of the term of lease. The financial income is calculated on the basis of a scheme reflecting the constant periodical rate of return on the book amount of net investments. The initial direct costs are recorded within the initial amount of the rental fee receivables.

The Bank represents the receivables under the financial lease within the Item "Loans and Due from Customers." In respect of the financial lease receivables, the Bank applies a general approach to the measurement of the expected loan losses.

Operating lease. The Bank represents the assets being the subject of the operating lease in the Statement of Financial Position by the types of assets. The rent revenue under operating lease agreements is evenly represented in profits and losses in the Item "Other Incomes." The total value of the privileges granted to the lessees is evenly represented as reduction in the rent revenue during the term of lease. The initial direct costs incurred in connection with an operating lease agreement are added to the book value of the asset let on lease.

4.2.12. Due to Banks and Customers

In the course of its regular activities, the Bank obtains funds of other banks, individuals, and business entities which are placed on current and deposit accounts and initially recognized at the date of the payment. The said instruments are initially measured at fair value. They are subsequently measured at the amortised cost.

The interest expenses related to the obtained funds are recognized in profits or losses in the Item "Interest Expenses."

The Bank derecognizes the obtained funds when it discharges liabilities to a creditor, is exempted from liabilities to creditors or when one debt instrument is exchanged for another one on materially different conditions. Materially different conditions are considered to be the difference of at least 10% between the present value of the cash flows under the new conditions, discounted at the initial EIR, and the flows remaining under the initial financial liabilities.

4.2.13. Liabilities security

Securities are recognized if as a result of a certain event in the past the Bank has legal or voluntarily assumed obligations for the settlement of which an outflow of resources is most probably required which resources contain future economic benefits and may be sufficiently reliably measured.

4.2.14. Share Capital

Ordinary shares are represented in the Share Capital. Expenses related to the payment for third parties' services directly connected with the issue of new shares are represented in the capital as reduction in the amount received as a result of the issue. The excess of the fair value of the received funds over the par value of the issued shares is represented as additional paid-in capital.

4.2.15. Recognition of Income and Expenses

Based on the result of the provision of bank services, the Bank recognizes incomes and costs by the accrual method. In connection with one-time services (currency exchange, remittances, issuance of certificates, etc.), it records incomes and costs without accrual if the funds were received/paid in the period in which the services were actually provided/received. The Bank consolidates incomes in the Statement of Profits and Losses by their nature.

Interest incomes. The Bank calculates the interest income using the EIR method in respect of the gross book value of the financial assets except loan-impaired assets. In connection with the assets which became loan-impaired assets after the initial recognition (the 3rd stage), the Bank recognizes the interest income by applying the EIR to the depreciated cost of the asset, and beginning with the next period when the asset stops being loan-impaired, the Bank resumes applying the EIR to the gross book value of the asset.
In case of purchase or creation of loan-impaired assets (POCI assets), the Bank calculates the interest income by applying the EIRpd to the amortised cost of such assets.

For the on-call financial assets or the instruments for which it is impossible to forecast cash flows, the Bank does not apply the EIR and recognizes the interest income on the basis of the contractual rate.

Interest expenses. The Bank recognizes the interest expenses from the moment of the initial recognition by means of the EIR method applied to the amortised cost of a financial liability.
In connection with on-call financial liabilities, the Bank recognizes the interest expenses at the contractual rate.

Commission incomes. The Bank receives commission incomes from different types of services rendered by it to the customers. The commission incomes may be divided into the following two categories:

- *Commission incomes received for the provision of services during a certain period of time.* The commission incomes received for the provision of services during a certain period of time are accrued during this period. Such items include the commission incomes and a fee for assets management, safe custody, and other management and consulting services. Commissions for undertakings to extend loans (provided the probability of using the loan is considerable), and other commissions related to the extension of loans are carried forward (together with the expenses directly connected with the extension of the loans) and are recognized as adjustment of the effective interest rate.

- *Commission incomes from transaction performance services.* The commission incomes received for holding or participation in negotiations for transaction on behalf of a third party, e.g. conclusion of an agreement for the purchase of shares or other securities or for the purchase or sale of a company, are recognized after the completion of the transaction. The commission fee (or a part thereof) connected with certain profitability indicators are recognized after the relevant criteria are met.

Dividend income. Dividends are recognized when the Bank's right to receive the payment is recognized.

Taxes

The annual income tax consists of the current and deferred taxes. The income tax is recognized in profits and losses in the Item "Income Tax Expenses" except for the cases when it concerns the items represented in the other comprehensive income or directly in the Statement of Changes in Equity. In such cases, it is recognized in the other comprehensive income or directly in the Statement of Changes in Equity.

The current income tax consists of the expected payable tax calculated on the basis of the annual taxable profit by means of the tax rates which are applied or prevail as of the reporting date and any adjustments of the tax payable for the preceding years. The current expenses related to the income tax are calculated in accordance with the Ukrainian legislation.

The deferred tax is calculated by means of the method of book liabilities under all temporary differences between the book amounts of assets and liabilities used for the purposes of the Financial Statements and the amounts used for the purpose of tax. The amount of the deferred tax is calculated depending on the foreseen method of realizing the book value of the assets or the discharge of the book value of the liabilities, by means of tax rates which will be applied in the periods of a possible realization of the temporary differences between the tax and financial accounting.

A deferred tax asset is only recognized in the case when there is probability of a future obtaining of a taxable profit in respect of which the available deductable tax losses and temporary differences may be applied. The deferred tax asset is reduced when the realization of the relevant tax relief is improbable.

In addition, there are other operating taxes in Ukraine which are applied to the Bank's activities. These taxes are represented in the other operating expenses.

5. New Standards and Interpretations that have not yet come into force

Individual new standards and interpretations were published, which will be binding on the Bank in the reporting periods beginning on January 1, 2020, and in subsequent periods. The Bank had not applied these standards and interpretations before they came into force.

IFRS 17 "Insurance Contracts" (issued in May 2017). When it comes into force, this Standard will replace IFRS 4 "Insurance Contracts" issued in 2005. IFRS 17 is applicable to all insurance contracts irrespective of the issuing organization. The main purpose of IFRS 17 is to create a single accounting model for all insurance contracts.

IFRS 17 requires that a business entity measure insurance contracts by means of updated estimates and suppositions reflecting the conditions of the cash flows and taking into account any uncertainty relating to insurance contracts. A business entity's financial statements will represent the time value of money in measurement-related payments which are necessary for meeting arising claims. Insurance contracts shall only be measured on the basis of the liabilities arising from the contracts. The business entity has to recognize profits on the actual provision of the insurance services and not after the receipt of premiums.

This standard is applied to the annual periods beginning on or after January 1, 2023, and provides for an early application. This standard is not applied to the Bank.

IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – adjustments according to the said standards change the key definition of materiality and facilitate making estimates concerning it.

The amendments to IAS 1 and IAS 8 are valid for the periods beginning on or after January 1, 2020. These amendments will not have any material influence on the Bank's Financial Statements.

Amendment to IFRS 3 "Business Combinations" - the adopted amendments provide a new definition of "business" which enables companies to understand completely whether they are purchasing a business or a group of assets which do not form a business themselves. In accordance with the new definition, the business is understood as the activities relating to the sale of goods or services to buyers. An amendment is applied to the annual periods beginning on January 1, 2020. This amendment shall not have any influence on the Bank's Financial Statements.

Conceptual Framework for Financial Statements. The International Standards Board issued a Conceptual Framework in March 2018. It establishes a broad range of conceptions for Financial Statements, the development of standards, advice concerning the development of consistent accounting policies for those preparing Financial Statements, and rendering assistance to experts in the understanding and construction of standards.

The Conceptual Framework includes also new concepts, updated definitions and assets and liabilities recognition criteria and specifies some important concepts. It consists of eight sections:

• Section 1 – Objective of Financial Reporting
• Section 2 – Qualitative Characteristics of Useful Financial Information
• Section 3 – Financial Statements and the Reporting Entity
• Section 4 – Elements of Financial Statements
• Section 5 – Recognition and Derecognition
• Section 6 – Measurement
• Section 7 – Presentation and Disclosure
• Section 8 – Concept of Capital and Capital Maintenance

The revised Conceptual Framework comes into force for the yearly periods beginning on January 1, 2020, or at a later date.

This amendment shall not have any material influence on the Bank's Financial Statements.

6. Material Accounting Assumptions and Estimates

The Bank applies assumptions and estimates, influencing the amounts, disclosed in the Financial Statements, book value of assets and liabilities during subsequent financial year. Assumptions and estimates are regularly reviewed and based on previous experience of management and other factors, including effect of future events, reasonable in current situation. In addition to assumptions based on accounting estimates, management of the Bank uses professional judgments for accounting policies applied. Professional judgments, materially influencing book values of assets, disclosed in Financial Statements, and estimates, which may result in significant adjustments of book values of assets and liabilities in the subsequent financial year, include:

Going concern

The factors described in Note 2 to these Financial Statements continued to affect the financial position and performance of the Bank. According to the results of 2019, the Bank received the net profit of UAH 75,292 thousand.

The Bank's management has prepared these Financial Statements in accordance with the going concern basis. In forming such professional judgment, the Management Board took into account the consistent actions of the Bank's Shareholder regarding financial support of the Bank, implementation of the Restructuring Plans approved by the Supervisory Board and approved by the National Bank with Capitalization Programs and Action Plans to eliminate violations of the Bank's economic ratios. During 2016-2019, the Shareholder paid contributions to the share capital in the total amount of UAH 2,373.5 million and as of December 31, 2019, the Shareholder paid UAH 866,561 thousand contributions used in January 2020 to increase the share capital (Note 32). The Bank's Shareholder ensured the improvement of the Bank's financial result for 2019 in the amount of UAH 627 million, as a result of settlement of non-performing loans through their sale and by receipt of UAH 328 million non-repayable financial support. In addition, the Bank's management took into account the stabilization of political and economic situation in Ukraine, cessation of active hostilities on the territory of Ukraine, the financial condition of the Bank, the planned access to financial resources, as well as analyzed the impact of the current financial and economic situation on the future activities of the Bank.

Considering such assumptions, the Bank's management also took into account the following factors and concluded that the going concern assumption is appropriate in preparing these Financial Statements.

Capital. As of January 1, 2020, the value of the regulatory capital ratio (N1) is UAH 1,263 million (as of January 1, 2019: UAH 1,035 million), the regulatory capital adequacy ratio (N2) was 20.0% (as of January 1, 2019: 13.8%) (not less than 10% required), the core capital adequacy (N3) - 15.9% (as of January 1, 2019: 12.6%) (not less than 7% required).

In 2019, in accordance with the Resolution of the NBU Board of December 22, 2017 №141 "On Approval of the Regulations on Assessing the Stability of Banks and the Banking System of Ukraine" (hereinafter - Regulation 141) the Bank passed the resilience evaluation in three stages, according to which as of 01.01.2019 the estimated capital requirement was UAH 2,429 million under the base macroeconomic scenario and UAH 3 792 million under the negative scenario. In order to increase capital and ensure the required level of regulatory capital adequacy ratio (N2) and core capital adequacy ratio (N3), the Bank's Supervisory Board approved on November 29, 2019 the Capitalization / Restructuring Program of JSC "BANK CREDIT DNEPR" for the period up to September 30, 2020 (hereinafter - the Capitalization Program) which the Board of the National Bank of Ukraine approved by the decision dated 24.12.2019. The Capitalization Program includes a list of measures, in particular: increasing the Bank's capital by the Shareholder, improving the Bank's operating activities, collecting non-performing loans, reducing credit risk by capital cover. The Bank's Shareholder is obliged to ensure UAH 752mln increase of the Bank's capital.

The Bank's shareholder provided the letter of guarantee confirming its intentions to ensure the capitalization of the Bank under the conditions specified in the Bank's Capitalization Program, in order to comply with the values of regulatory capital adequacy ratio (N2) and core capital adequacy ratio (N3) at the required level and time, defined in the Bank's Capitalization Program by September 30, 2020. As of the date of these Financial Statements, the Shareholder has procured UAH 519 million increase in the Bank's capital.

According to the Bank's Management, consistent financial support by the Shareholder provides sufficient confidence of the management in the Bank's ability to continue its operation as a going concern. However, due to the crisis related to the effects of the COVID-19 pandemic, the Bank may face a deterioration in the quality of its loan portfolio, lower value of investment property, a decrease in income and an increase in capital needs. The capitalization program includes measures to increase the Bank's capital by improving the Bank's operating activities. The crisis related to the consequences of the COVID-19 pandemic may have a negative impact on the Bank's ability to ensure the implementation of the measures envisaged by the Capitalization Program due to the inability to improve the Bank's performance in the planned amount.

The Bank's ability to continue as a going concern will depend on the continued support of the Bank by its Shareholder (s) in the future, taking into account the information in Note 32.

During 2019, the Bank consistently implemented the strategic directions of development approved by the Supervisory Board. The events described in Note 32 will require a review of the Bank's strategic direction. The Bank's ability to continue its operations in the future will depend on the timeliness and success of the revision of the Bank's strategic directions, meeting the new challenges of the changing environment, as well as the Bank's management's ability to implement the chosen strategy.

The quality of the loan portfolio. In assessing the quality of credit operations, the Bank adheres to the principle of precedence of active transactions over their form, which, in particular, provides that the Bank ensures a complete and adequate assessment of credit risk when calculating the amount of credit risk on an asset on both individual and group basis, taking into account their own experience by applying the judgment of management in terms of determining the materiality of the impact of certain factors on the quality of the asset.

In calculating future cash flows, management uses estimates based on confirmed forecast information, taking into account past experience of losses on assets with similar credit risk characteristics and objective signs of impairment by group of loans. The methodology and assumptions used to calculate both the amounts and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Estimates of the mass portfolio of retail loans are made by applying coefficients calculated using statistical methods to estimate the probability of default (PD) and expected losses given default (LGD). The ratios are calculated using a method based on the Bank's own experience, namely portfolio default statistics for the last five calendar years using models for forecasting changes in the quality of the financial institution's assets in an environment affected by various macroeconomic factors.

Future cash flows, calculated during the valuation of the Bank's assets, and may be formed by foreclosure on collateral, are calculated taking into account the available legal capacity of the Bank to exercise the rights of the mortgagee, taking into account the quality of debt service by the borrower and the stage of claims assets and liquidity ratio of collateral, as well as the Bank's experience in the term of realization of collateral related to a certain type in accordance with its general features and properties. Any potential or actual restrictions on the exercise of the rights of the pledgee, which may be considered temporary but not permanent, are taken into account in the valuation of the asset, taking into account the features listed in this paragraph, based on the Bank's own experience. If these restrictions become permanent in the form of loss of collateral by the Bank, they may increase the Bank's losses by reviewing future cash flows calculated in valuing the Bank's assets and affect the Bank's ability to continue as a going concern.

As of December 31, 2019, the Bank had loans and advances to customers related to the territories of Donetsk and Luhansk oblasts not controlled by the Government of Ukraine, as well as in the Crimea, in the amount of UAH 877,510 thousand (2018: UAH 1,257,832 thousand). The amount of the created provision for the specified category of loans amounted to UAH 788,295 thousand. (2018: UAH 1,023,550 thousand). The collateral for these loans, in particular, includes real estate located in the territory controlled by Ukraine.

The Bank's management has taken into account the known and assessed risk factors as at the date of these Financial Statements and applied professional judgment in assessing the impairment of such loans. In the event of further escalation of hostilities, the Bank may incur losses on assets registered in such territories.

In addition, the Bank's management took into account the risk factor associated with the outbreak of coronavirus COVID-19 and, in this regard, the anti-epidemic measures introduced by Ukraine's Cabinet of Ministers and the establishment of quarantine after the reporting date. Uncertainty about the future situation related to this factor, as well as measures to be taken to prevent the further spread of COVID-19, do not allow to reliably assess the consequences and impact on the activities of the Bank and its counterparties, as well as the impact on further retail lending strategy, taking into account the uncertainty about the amount of credit risk and the overall profitability of products.

Such losses and uncertainties may affect the Bank's ability to continue as a going concern.

Economic ratios. As part of the Restructuring Plan, the Action Plan was approved to eliminate violations of economic ratios by January 1, 2020 (hereinafter - the Action Plan).

As noted in the previous paragraphs, due to the Shareholder's additional contributions to the share capital, the sale of impaired non-performing loans and receipt of non-repayable financial support, capital needs were covered ahead of schedule, while the Bank increased the amount of highly liquid assets and achieved early implementation of the indicators of the Restructuring Plan.

In turn, this led to the early elimination of violations of the credit risk ratio (N7) and the limit of open long currency position (L13-1). As of 01.01.2020, the value of the N7 ratio was 17.61% (regulatory value - not more than 25%), the limit of the total long currency position - 1.3509% (regulatory value - not more than 5%).

As of January 1, 2020, the Bank complies with all mandatory economic standards and open currency position limits set by the National Bank with a significant safety cushion.

Management estimates that, given the above and the consistent support of the Shareholder, there is reasonable assurance that the Bank will be able to meet the required economic ratios. However, due to the crisis related to the consequences of the COVID-19 pandemic, the Bank may face a deterioration in the quality of the loan portfolio, lower value of investment property, falling income, loss of capital and, consequently, deterioration of mandatory economic ratios.

Losses on impaired loans and receivables

The Bank regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recognized in profit or loss for the year, the Bank uses the assumption that data is available that indicates a decrease in expected future cash flows from the loan portfolio that can be measured before it is measured. the decrease can be compared to a specific asset in that portfolio. Such features may include existing data indicating adverse changes in the solvency of borrowers in the group or national or local economic conditions associated with defaults on assets in the group. Management uses estimates based on previous loss experience for assets with credit risk characteristics and objective evidence of impairment similar to this portfolio in determining future cash flows.

The methodology and assumptions used to estimate both the timing and amount of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In preparing these Financial Statements, management has used judgments to estimate future cash flows from loans, taking into account ongoing restructuring of assets. In forming judgments about future cash flows, the Bank assessed the counterparty's debt load and prospects to repay / service the debt in the future, taking into account the target direction of the loan. In the event of a change in estimates of future cash flows from restructuring, the estimated amount of the required provisions may be increased.

The fair value of collateral is taken into account when calculating expected credit losses on loans assessed on an individual basis and is determined in accordance with property revaluations performed on a regular basis by appraisal entities or a responsible employee of the Bank who has a qualification certificate of appraiser. The acceptability of collateral for use in assessing future losses is assessed taking into account the presence of factors that indicate the possibility of the Bank's application of the right to recover property in favor of the pledgee, regardless of the stage of claims and recovery period.

According to the Bank, accounting estimates related to the determination of loan loss provisions are the main source of estimation uncertainty due to the fact that: they are particularly sensitive to changes from period to period, as assumptions about the future the level of default and the assessment of potential impairment losses on loans and advances are based on the Bank's recent performance, and any significant difference between the Bank's expected losses (reflected in provisions) and actual losses will be required from the Bank. formation of provisions, which, in case of significant differences, may significantly affect its Income Statement and other comprehensive income and Statement of financial position in future periods. The amount of provisions for impairment losses on financial assets in the Financial Statements was determined on the basis of existing economic and political conditions, taking into account forecasts of changes in macroeconomic indicators obtained from open sources. The Bank is unable to predict what changes in the economic and political situation will occur in Ukraine and what impact such changes may have on the adequacy of provisions for impairment losses on financial assets in future periods. The Bank is currently reviewing estimates based on the best available information about past events, current conditions and forecasts of economic conditions, taking into account the consequences of COVID-19, state support measures, the Bank's debt restructuring programs.

Recognition of a deferred income tax asset

A recognized deferred tax asset is the amount of income tax that can be credited against future income taxes and is recognized in the statement of financial position. A deferred tax asset may be recognized for all temporary differences that are deductible if it is probable that taxable profit will be available against which the temporary difference can be utilized. The assessment of future taxable income and the amount of deferred tax assets that may be used in the future is based on the Bank 's financial model, which is based on priority business lines until 2025, agreed by the Bank' s Management Board and the results of its extrapolation for future periods. The financial model is based on management's expectations, which are considered reasonable in the current circumstances.

The Bank is expected to receive stable profits in the future. The main assumptions used in the financial model include the expected stabilization of Ukraine's economy and avoidance of stress scenarios, moderate growth of the loan portfolio and interest income, organic growth of commission and trading income from all business lines, gradual reduction of interest rates on borrowed resources, and further strengthening cost control. Given the planned future income and the fact that the current Ukrainian tax legislation does not set limits on the period of use of deferred tax losses, the Management considers it reasonable to recognize a deferred tax asset on income tax as of December 31, 2019 in the amount of UAH 263 099 thousand. (Note 14).

Tax legislation The tax, currency and customs legislation of Ukraine provides for the possibility of different interpretations (Note 20).

Recognition of related party transactions

In the normal course of business, the Bank conducts transactions with related parties. IFRS 9 requires financial instruments at initial recognition to be accounted at fair value. In the absence of an active market for such transactions, professional judgment is used to determine whether such transactions were carried out at market or non-market rates. Such judgments are based on pricing for similar unrelated transactions and an analysis of the effective interest rate. The terms of related party transactions are described in Note 27.

On May 12, 2015, the NBU approved Resolution No.315 "Regulations on Determining Bank-Related Parties", which established criteria for the recognition of related parties that differ significantly from the criteria for recognizing related parties in accordance with IAS 24. In particular, related persons under this Resolution are: (1) two legal entities, only because they have a joint director or another member of the senior management or because a member of the senior management has significant influence over another legal entity; (2) two persons who are members of a joint venture only because they exercise joint control over the joint activity; (3) the parties providing the funding; (4) individual buyer, supplier, etc. with which the entity conducts significant transactions only because of those transactions resulting in economic dependence, whereas in accordance with IAS 24 such persons are not related.

Fair value of financial instruments

If the fair value of financial assets and financial liabilities reflected in the statement of financial position cannot be determined on the basis of prices in an active market, it is determined using various valuation models, including mathematical models. The input data for such models are determined on the basis of data observed in the market, if possible; otherwise, judgments must be made to determine fair value. Judgments take into account inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors may affect the fair value of the financial instruments presented in the Financial Statements. (Note 29).

Determining the revalued value of buildings and investment property

Buildings occupied by the owner (the Bank) are carried at revalued amount, which is equal to the fair value at the valuation date less accumulated depreciation and impairment losses.

Investment property is carried at fair value. In 2019, the Bank assessed the fair value of owner-occupied buildings and investment property with the involvement of independent experts, as a result of which the Bank's Management Board decided to adjust the value of properties where the fair value of real estate differs from their carrying amount. In the course of valuation, independent appraisers use professional judgments and valuations to determine the analogues of buildings, land and property complexes used in applying the market analogue method and the useful lives of the assets being revalued.

Changes in the fair value of owner-occupied buildings are recognized in other comprehensive income and, in the absence of accumulated revaluation reserve, in losses, and changes in the fair value of investment property are recognized in profit or loss (Notes 11 and 13). To determine the fair value of these assets, the appraiser used the market method, which is based on the analysis of the results of comparable sales of similar buildings and structures.

Crisis driven by the consequences of COVID-19 pandemic may negatively impact both the real estate market in general and decrease of investment property value in particular.

Lease

The Bank defines the lease term as not subject to early termination, together with such periods for which there is an option to extend the lease term and for which there is an option to terminate the lease, but only if there is sufficient certainty that the Bank will exercise such options.

Under several lease agreements, the Bank has considered the option to extend the lease of the real estate in which the Bank's branches are located. Under these agreements, the Bank usually exercises options to extend the lease term because there is no possibility to easily replace these assets, which will adversely affect the Bank's operating activities.

To discount the lease liability, the Bank applies a rate determined on a quarterly basis based on the fair value of domestic government bonds (OVDP) in terms of currencies and terms, and adjusts for the risk premium. In the absence of a rate of return on OVDP for a lease term, the available rate of return adjusted for the closest approximate known term is accepted, to discount the flows under such an agreement.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

7. Cash and Cash Equivalents

The cash and cash equivalents include:

	2019	*2018*
Cash	155,550	151,585
Balance on current bank accounts	311,196	1,249,540
Balance on accounts with the National Bank of Ukraine	506,143	74,527
Overnight deposits with other banks	151,832	41,563
Cash and cash equivalents	**1,124,721**	**1,517,215**
Cash and cash equivalents allowance	(599)	(2,141)
Total cash and cash equivalents	**1,124,122**	**1,515,074**

As of December 31, 2019, an amount equivalent to UAH 462,978 thousand (2018: UAH 1,291,068 thousand) was placed on the current and deposit accounts with banks from the OECD member-countries, which are the Bank's main counterparts in the sphere of international settlements.

Amount of the cash and cash equivalents for the purpose of drawing up the Statement of Cash Flow as of December 31:

	2019	*2018*
Cash and cash equivalents	1,124,122	1,515,074
Deposit certificates issued by the National Bank of Ukraine	1,502,244	1,201,973
Accrued incomes	(2,244)	(1,976)
Total cash and cash equivalents	**2,624,122**	**2,715,071**

As of December 31, 2019, the Bank recognized the measurement allowance for cash and cash equivalents in the amount of the expected 12-month loan losses:

	2019	*2018*
As of January 1	**2,141**	**-**
Changes caused by application of IFRS 9	-	1,682
Accrual/(release) of allowance	(1,344)	527
Exchange differences	(198)	(68)
As of December 31	**599**	**2,141**

The cash and cash equivalents consist both of cash in hand and on-call deposits (with banks having the credit rating being equivalent at least to the A- rating assigned by the international rating agency Fitch) and of short-term, high-liquidity investments which are freely converted into known cash amounts and which are characterized by an insignificant value change risk. A change in the book value of the said category of assets did not result in any material influence on the formation of the allowance: as of December 31, 2019, the total amount of the formed cash and cash equivalents allowances was 0.05% of their gross book value (as of December 31, 2018: 0.14% of their gross book value as of the reporting date).

8. Due from other Banks

The Due from other banks include:

	2019	*2018*
Guarantee deposits with other banks	339,396	297,514
Correspondent accounts with other banks	30,913	29,558
Due from other banks	**370,309**	**327,072**
Allowance for due from other banks	(4,402)	(6,162)
Total due from other banks	**365,907**	**320,910**

The guarantee deposits with other banks are presented as follows:

	2019			*2018*			
	Ukraine	*OECD*	*Total*	*Ukraine*	*OECD*	*Other*	*Total*
Payment card transactions	10,614	153,297	**163,911**	10,119	131,242	-	**141,361**
Documentary transactions	-	174,735	**174,735**	-	154,778	775	**155,553**
Transactions within remittance systems	750	-	**750**	600	-	-	**600**
Total guarantee deposits with other banks	**11,364**	**328,032**	**339,396**	**10,719**	**286,020**	**775**	**297,514**

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

The maturities of the deposits, the currency risk concentration, and other risks are disclosed in Note 26.

Please find below an analysis of due from other banks by the credit quality as of December 31:

	2019	*2018*
A+/A-	328,032	261,630
BBB+/BBB-	27,124	24,477
BB+/BB-	261	22,481
B+/B-	227	611
CCC	2,898	1,731
Non-rated	11,767	16,142
Due from other banks	**370,309**	**327,072**
Allowance for due from other banks	(4,402)	(6,162)
Total Due from other banks	**365,907**	**320,910**

The credit ratings are based on the ratings which are assigned by the international rating agency Fitch (if any) or ratings of other international rating agencies transformed according the nearest equivalent on the basis of the Fitch rating scale.

A complex of special economic sanctions was introduced by Decree No. 1300 of the Government of the Russian Federation dated November 1, 2018, in respect of individuals and legal entities, which provides for blocking cashless funds, non-documentary securities, and property in the territory of Russia and the prohibition to remit funds (to pull capital) outside Russia. Taking into account the fact that the Bank is liable to the relevant sanctions, one of the correspondent banks in the Russian Federation has restricted the use of the cash placed on the Bank's correspondent account and applied to the Central Bank of the Russian Federation for appropriate explanation as to the practical application of the provisions of the aforesaid decree. As of December 31, 2019, the Bank's total balance on the account with that correspondent bank was UAH 26,990 thousand which was equivalent to USD 826.2 thousand; EUR 38.5 thousand; and RUB 16,773 thousand (2018: UAH 21,685 thousand which was equivalent to USD 510 thousand; EUR 35.1 thousand; and RUB 16,191 thousand).

The following changes took place by the items of the allowance for impairment of due from other banks:

	2019	*2018*
As of January 1	**6,162**	**2,114**
Stage 1	6,162	2,114
Changes caused by application of IFRS 9	-	150
Accrual/(release) of allowance	(918)	4,004
Exchange differences	(842)	(106)
As of December 31	**4,402**	**6,162**
Stage 1	**4,358**	**6,162**
Stage 3	**44**	**-**

The due from other banks consist of the balances as are not recognized as cash and cash equivalents because of the placement thereof on the accounts "Uncleared Balances of Banks" or because of a higher credit risk as compared with the said category of assets. At the same time, 89.6% of all the balances with other banks are placed with banks having the credit rating being equivalent at least to the A- rating assigned by the international rating agency Fitch. As a result, a change in the gross book value of the said category of assets did not result in a considerable influence on the formation of the allowance: as of December 31, 2019, the total formed allowance for due from other banks amounted to 1.19% of their gross book value (2018: 2.36% of their gross book value as of the reporting date).

9. Loans and Advances to Customers

The loans and advances to customers include:

	2019	*2018*
Loans to legal entities	**4,502,104**	**6,036,584**
Loans to individuals	**1,456,728**	**1,043,087**
- mortgage	26,222	72,662
- car loans	73,966	76,727
- consumer loans	1,356,540	893,698
Loans to customers	**5,958,832**	**7,079,671**
Allowance for loans and advances to customers	(2,658,037)	(3,116,615)
Total loans to customers	**3,300,795**	**3,963,056**

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

As of December 31, 2019, the total indebtedness under loans to individuals, provided for the purchase of cars mainly during the period from 2007 to 2014, amounted to UAH 73,966 thousand, and the allowance formed for this category amounted to UAH 73,966 thousand (2018: UAH 76,727 thousand and UAH 74,207 thousand accordingly). As of December 31, 2019, the total indebtedness under mortgage loans to individuals, provided mainly during the period from 2007 to 2013, amounted to UAH 26,222 thousand, and the allowance formed for this category amounted to UAH 13,998 thousand (2018: UAH 72,662 thousand and UAH 59,317 thousand accordingly). In 2019, the Bank did not provide loans to borrowers within the said segments.

In 2018, the Bank carried out the restructuring of indebtedness under two non-performing loans which resulted in the derecognition of the valid indebtedness and the recognition of new loan-impaired assets (POCI). As of December 31, 2019, the balance of the indebtedness amounted to UAH 416,499 thousand (2018: UAH 416,457 thousand). As of December 31, 2019, the allowance formed for such non-performing loans amounted to UAH 76,524 thousand (2018: UAH 0 thousand). In order to maintain an appropriate level of the Bank's capital ratios, the Shareholder of the Bank procured pledge provided by property surety providers as collateral under the said indebtedness. In case of dissolution of the said security agreements, the amount of the formed allowance related to the said two npn-perfoming loans would increase by UAH 255,639 thousand as of December 31, 2019 (2018: UAH 332,220).

During the reporting period, in pursuance of the approved capitalization program, the Bank's Shareholder ensured increase in the Bank's capital including by settling the non-performing loans through selling them; the Bank represented the income from the derecognition of the financial instruments under such agreements in the amount of UAH 627 million.

During the reporting period, the Bank stopped recognizing a part of the impaired portfolio "Loans to Individuals" having the gross book value of UAH 105,670 thousand (2018: UAH 41,993 thousand) by selling it. The obtained income in the amount of UAH 39,862 thousand (2018: UAH 624 thousand) was represented in the Item "Income/(costs) from Derecognition of Financial Instruments" of the Statement of Profits and Losses and Other Comprehensive Income.

During the reporting period, the Bank stopped recognizing a part of the impaired portfolio "Loans to Individuals" having the gross book value of UAH 813,212 thousand (2018: UAH 139,618 thousand) by selling it, and incurred losses in the amount UAH of 2,263 thousand and received incomes in the amount of UAH 588,525 thousand (2018: income in the amount of UAH 254,507) was represented in the Item "Income/(costs) from Derecognition of Financial Instruments" of the Statement of Profits and Losses and Other Comprehensive Income.

Changes by the items in provisions for impairment of loans in 2019:

	Loans to legal entities	***Loans to individuals***	***Total***
January 1, 2019	**2,674,804**	**441,811**	**3,116,615**
stage 1	24,992	25,539	**50,531**
stage 2	670	9,192	**9,862**
stage 3	2,649,142	407,080	**3,056,222**
Accrual of provision	704 910	136,317	**841,227**
Derecognition	(927,605)	(125,116)	**(1,052,721)**
Adjustment of interest income under impaired loans	76,524	45,478	**122,002**
Exchange differences	(340,936)	(28,150)	**(369,086)**
December 31, 2019	**2,187,697**	**470,340**	**2,658 037**
stage 1	**24,591**	**30,307**	**54,898**
stage 2	**13,766**	**23,224**	**36,990**
stage 3	**2,149,340**	**416,809**	**2,566,149**

The amount of the provisions in 2019 is different from the amount recorded in the profit or loss for the period as a result of a partial recovery of the bad loans written off in the preceding periods in the amount of UAH 2,814 thousand (2018: UAH 287 thousand) including indemnity in the amount of UAH 3 thousand under the loans to legal entities (2018: 142 thousand) and UAH 2,814 thousand under the loans to individuals (2018: UAH 145 thousand), and also by the amount of provisions for amounts due from other banks. The amount of the indemnity was credited directly to the line "Recovery/(Allocation to) Allowance for Loan Impairment and Funds with other Banks" in the profit or loss for the period.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

During the reporting period, the Bank did not write off non-discharged contractual amounts in respect of which it would continue to take measures aimed at the recovery of the written off indebtedness (2018: UAH 11,116 thousand).

Changes by the items of the loan repairmen allowance in 2018:

	Loans to legal entities	*Loans to individuals*	*Total*
January 1, 2018	**2,047,739**	**454,161**	**2,501,900**
Change due to application of the IFRS 9	17,443	2,719	**20,162**
Adjusted balance	**2,065,182**	**456,880**	**2,522,062**
stage 1	3,584	11,413	**14,997**
stage 2	157,179	1,536	**158,715**
stage 3	1,904,419	443,931	**2,348,350**
Postponement of interest income adjustments	8,525	4,689	**13,214**
Accrual of provision	714,635	95,535	**810,170**
Write-off of indebtedness at the expense of allowance	-	(11,116)	**(11,116)**
Derecognition	(119,148)	(127,383)	**(246,531)**
Adjustment of interest income under impaired loans	23,182	28,406	**51,588**
Other	(1)	-	**(1)**
Exchange differences	(17,571)	(5,200)	**(22,771)**
December 31, 2018	**2,674,804**	**441,811**	**3,116,615**
stage 1	**24,992**	**25,539**	50,531
stage 2	**670**	**9,192**	9,862
stage 3	**2,649,142**	**407,080**	3,056,222

Please find below an analysis of the credit quality of the loans and the customers' indebtedness recorded at the amortised cost as of December 31, 2019:

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Minimum credit risk	673,895	-	-	-	**673,895**
Low credit risk	1,531,459	-	-	-	**1,531,459**
Medium credit risk	-	158,636	-	-	**158,636**
High credit risk	-	45,132	-	-	**45,132**
Default assets	-	-	3,133,211	416,499	**3,549,710**
Total gross book value of loans	**2,205,354**	**203,768**	**3,133,211**	**416,499**	**5,958,832**
Loan impairment allowance	(54,898)	(36,990)	(2,489,625)	(76,524)	**(2,658,037)**
Loans to customers	**2,150,456**	**166,778**	**643,586**	**339,975**	**3,300,795**

As of December 31, 2019, the accrued interest income under the loans belonging to the 3rd stage of impairment amounted to UAH 1,171,331 thousand (2018: UAH 1,351,357 thousand).

In 2019, the Bank took measures in order to improve the loan portfolio quality structure by increasing the loan debt within the first stage by extending loans to individuals and companies belonging to the agro-industrial sector.

Please find below an analysis of the credit quality of the loans and the customers' indebtedness recorded at the amortised cost as of December 31, 2018:

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Minimum credit risk	878,269	-	-	-	**878,269**
Low credit risk	1,133,193	-	-	-	**1,133,193**
Medium credit risk	-	7,537	-	-	**7,537**
High credit risk	-	15,058	-	-	**15,058**
Default assets	-	-	4,629,157	416,457	**5,045,614**
Total gross book value of loans	**2,011,462**	**22,595**	**4,629,157**	**416,457**	**7,079,671**
Loan impairment allowance	(50,531)	(9,862)	(3,056,222)	-	**(3,116,615)**
Loans to customers	**1,960,931**	**12,733**	**1,572,935**	**416,457**	**3,963,056**

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

Please bind below an analysis of a change of the gross book value of loans and customers' debts which were recorded at the amortised cost as of December 31, 2019:

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross book value as of the beginning of the period	**2,011,462**	**22,595**	**4,629,157**	**416,457**	**7,079,671**
Change of gross book value	504,010	17,397	11,843	42	**533,292**
Transfer to stage 1	4,135	(2,563)	(1,572)	-	**-**
Transfer to stage 2	(179,251)	179,456	(205)	-	**-**
Transfer to stage 3	(80,122)	(13,116)	93,238	-	**-**
Derecognized/written off at the expense of allowances	-	-	(1,052,721)	-	**(1,052,721)**
Exchange differences	(54,880)	(1)	(546,529)	-	**(601,410)**
Gross book value as of the end of the period	**2,205,354**	**203,768**	**3,133,211**	**416,499**	**5,958,832**

Please bind below an analysis of a change of the gross book value of loans and customers' debts which were recorded at the amortised cost as of December 31, 2018:

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross book value as of the beginning of the period	**1,266,973**	**1,140,429**	**4,213,481**	**-**	**6,620,883**
Change of gross book value	755,809	3,461	17,839	-	**777,109**
Transfer to stage 1	50,171	(41,874)	(8,297)	-	**-**
Transfer to stage 2	(7,831)	8,084	(253)	-	**-**
Transfer to stage 3	(49,175)	(671,048)	720,223	-	**-**
Transferred to POCI	-	(416,457)	-	416,457	**-**
Derecognized/written off at the expense of allowances	-	-	(257,647)	-	**(257,647)**
Exchange differences	(4,485)	-	(56,189)	-	**(60,674)**
Gross book value as of the end of the period	**2,011,462**	**22,595**	**4,629,157**	**416,457**	**7,079,671**

The Bank shall revise prior measurements of the cash flows from loans to customers in case of modification agreed on by the parties. If the modification of an asset involves derecognition, the Bank recognizes a new asset or a POCI asset, and the result, as profit or loss from derecognition. If the modification of the asset does not involve any derecognition, the Bank discounts the modified cash flows at the initial effective interest rate and recognizes the profit or loss from the modification.

During the reporting period, the Bank modified assets the amortised cost of which had amounted to UAH 4,073 thousand; the income from the modification amounted to UAH 2 thousand (Note 23), and the loss from the modification amounted to UAH 96 thousand (Note 24).

The amount and security required by the Bank depend on the measurement of the counterparty's credit risk. The principles of admissibility of the securities types and measurement parameters were established. The main types of the security received when extending loans to legal entities and individuals are cash, mortgage, and other liquid assets, and suretyship of individuals and legal entities; however, suretyship and property rights under contracts are not taken into account when calculating the expected loan loss allowance.

The influence of the security as of December 31, 2019 is shown below:

	Gross book value of loans	*Expected cash flows from sale of pledged security*
Loans to legal entities	**4,502,104**	**2,051,097**
Loans to individuals	**1,456,728**	**60,564**
mortgage	26,222	18,009
car loans	73,966	25
consumer loans	1,356,540	42,530
Loans to customers	**5,958,832**	**2,111,661**

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The influence of the security as of December 31, 2018 is shown below:

	Gross book value of loans	Expected cash flows from sale of pledged security
Loans to legal entities	**6,036,584**	**3,286,988**
Loans to individuals	**1,043,087**	**63,603**
mortgage	72,662	14,899
car loans	76,727	3,230
consumer loans	893,698	45,474
Loans to customers	**7,079,671**	**3,350,591**

According to the estimates of the Management, the amount of the expected losses from loans at the 3rd stage of impairment and the POCI assets without regard to the security would be bigger by UAH 983,561 thousand as of December 31, 2019 (December 31, 2018: UAH 1,989,392 thousand) for loans to legal entities and individuals. The influence of the use of different forecast information scenarios on the amount of the allowance for expected loan losses is insignificant. According to the requirements of Paragraph 120 of the Regulations on Ukrainian Banks' Determination of the Amount of Credit Risk under Active Banking Transactions approved by Decree No. 351 of the Board of the National Bank of Ukraine dated June 30, 2016, a gradual reduction in the amount of the pledge which may be admitted during the calculation of the credit risk under a non-performing loan will take place from 2019 to 2022. If a non-perfming debt is not settled during the aforesaid period by recovering a debt/pledged property, the relevant amortisation of the security value may be carried out during the calculation of the reserve for expected losses under loans to legal entities and individuals.

In 2019, the Bank acquired ownership of pledged property under loans and dues from clients in the amount of UAH 16,875 thousand (2018: UAH 262,640 thousand) (Notes 11, 12 and 15). Within the scope of fulfillment of the Bank's Capitalization Program, in March 2020, the Bank acquired the ownership of pledged property which had served as security for a non-performing loan, at a starting price of a repeated auction in the amount of UAH 80,397 thousand as a result of a bid as did not take place (Note 32).

In the reporting period, the Bank increased the volume of loans to individuals within the scope of the mass segments of crediting: cash loans and credit cards, and did not practice the extension of the loans the authorized purpose of which is the purchase of cars or real estate.

Concentration of Loans to Customers

The loans provided to the five biggest groups of borrowers which are no related parties of the Bank in the meaning of IAS 24 amount to UAH 2,189,525 thousand or 36.7% of the total value of the loans to customers as of December 31, 2019 (2018: UAH 2,609,533 thousand or 36.9%).

As of December 31, 2019, the total loans provided to the borrowers which do not meet the related party criteria as per IAS 24 but are considered to be the Bank's related parties in accordance with the regulatory acts of the NBU amounted to UAH 361 thousand (2018: UAH 161,448 thousand).

The Bank's loan portfolio by economic sectors is presented below:

	2019	2018
Processing industry	1,770,826	2,174,884
Individuals	1,456,728	1,043,087
Wholesale and retail trade	1,404,127	2,052,555
Agriculture	904,770	1,048,033
Real estate transactions	146,381	298,230
Mining industry and quarry development	157,194	182,917
Information and telecommunications	55,292	80,122
Transport and warehousing	45,040	89,622
Activities in the sphere of administrative and auxiliary services	7,847	90,507
Financial and insurance activities	7,788	7,768
Construction	1,972	5,649
Disposal of wastes	867	6,280
Other	-	17
Loans to customers	**5,958,832**	**7,079,671**

As of December 31, 2019 and 2018, there were no loans transferred for securing any liabilities of the Bank.

An analysis of the loans to customers by maturity, interest rates, and currency indebtedness is set forth in Note 26.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

10. Investments in Securities

Fair value of the investments in securities measured at fair value through other comprehensive income:

	2019	*2018*
Capital instruments	330	330
Debt securities refinanced by the National Bank of Ukraine	-	407,852
Investments in securities	**330**	**408,182**
Allowance for investments in securities	-	-
Total investments in securities	**330**	**408,182**

The Bank decided to classify the investments in capital instruments as investments measured at fair value through other comprehensive income because they were not intended for trade. The said investments include mandatory contributions to capitals of exchanges, clearing centers, etc.

During the reporting period ended December 31, 2019, the Bank received dividend income in the amount of UAH 16 thousand.

11. Investment Property

Investment property is represented in the Statement of Financial Position at fair value.

Change of the fair value of the investment property:

	2019	*2018*
As of January 1	**1,518,665**	**1,335,439**
Transfer from other assets (Note 12)	44,086	39,830
Repossessed pledged property	-	25,523
Transfer from the category of buildings occupied by the owner (Note 13)	-	8,293
Contributions in investment property	354	280
Transfer from non-current assets held for sale (Note 15)	-	255
Sale	(14,150)	(33,702)
Loss from remeasurement according to the fair value	(56,235)	(35,987)
Profit from remeasurement according to the fair value	4,976	178,734
As of December 31	**1,497,696**	**1,518,665**

In 2019, the Bank received rental income and compensation for investment property maintenance expenses in the amount of UAH 21,619 thousand (2018: UAH 13,826 thousand). The operating expenses and investment property maintenance expenses for 2019 amounted to UAH 9,149 thousand (2018: UAH 9,384 thousand).

If the real estate a part of which is occupied by the owner and a part of which is leased fails to meet the delimitation criteria for recognizing the real estate as investment one, the Bank recognizes such a facility as the real estate occupied by the owner.

In 2019 and 2018, the Bank involved independent experts for the measurement of the fair value of the investment property on the basis of which the Board of the Bank resolved to adjust the value of the facilities where the fair value of the real estate is different from their book value. Based on the results of the adjustment of the book value, a loss was recognized in the amount of UAH 51,259 thousand (2018: a profit of UAH 142,747 thousand) which was represented in the Statement of Profit and Loss and other Comprehensive Income.

As of December 31, 2019, one real estate facility having the value of UAH 7,006 thousand (2018: UAH 14,000 thousand) was located in the Autonomous Republic of Crimea; the Bank retained its control over it (Note 32).

12. Other Financial and other Assets

As of December 31, the other financial and other assets included:

	2019	*2018*
Other financial assets		
Accrued income receivable	99,472	89,882
Receivables under settlements with banks	39,470	67,215
Receivables under settlements with customers	2,499	4,206
Other financial assets	246	594
Other financial assets	**141,687**	**161,897**
Other financial assets allowance	(125,252)	(109,250)
Total other financial assets	**16,435**	**52,647**

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

	2019	*2018*
Other assets		
Pledged property the title to which passed to the Bank	123,347	147,507
Prepaid services	12,881	12,993
Settlements with the Bank's employees	7,007	8,220
Prepaid expenses	5,484	7,759
Taxes and compulsory payments paid in advance exclusive of income tax	2,449	1,883
Purchase of non-current assets	1,262	2,397
Inventory	347	6,120
Precious metals	364	360
Other assets	**153,141**	**187,239**
Allowance for other assets	(18,546)	(18,877)
Total other assets	**134,595**	**168,362**

Changes by the items of the allowance for other financial and other assets:

	2019	*2018*
As of January 1	**128,127**	**102,315**
Provisions	21,994	27,050
Derecognition	(798)	(187)
Write-off	-	(492)
Exchange differences	(5,525)	(559)
As of December 31	**143,798**	**128,127**

For the purpose of measurement of the other financial assets including receivables relating to the settlements with customers and banks, a simplified approach is applied within the scope of IFRS 9 "Financial Instruments." Subject to the use of the simplified approach to the financial assets impairment measurement, a measurement allowance for the expected losses is recognized during the entire term of a financial instrument as of every date after the recognition thereof.

Please find below an analysis of the credit quality of the other financial assets as of December 31, 2019:

	Accrued incomereceivable	***Receivables under settlements with banks***	***Receivables under settlements with customers***	***Other financial assets***	***Total***
Undue	1,285	-	-	2	**1,287**
Delay in payment of up to 30 days	466	16,948	973	7	**18,394**
From 31 to 60 days	699	-	-	-	**699**
From 61 to 91 day	187	-	-	-	**187**
Over 90 days	96,835	22,522	1,526	237	**121,120**
Gross book value of other financial assets	**99,472**	**39,470**	**2,499**	**246**	**141,687**
Other financial assets impairment allowance	(97,510)	(25,789)	(1,714)	(239)	(125,252)
Total other financial assets	**1,962**	**13,681**	**785**	**7**	**16,435**

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Please find below an analysis of the credit quality of the other financial assets as of December 31, 2018:

	Accrued incomes receivable	***Receivables under settlements with banks***	***Receivables under settlements with customers***	***Other financial assets***	***Total***
Undue	11,615	40,888	-	410	52,913
Delay in payment of up to 30 days	152	-	-	-	152
From 31 to 60 days	928	-	-	-	928
From 61 to 91 day	56	-	2,452	-	2,508
Over 90 days	77,131	26,327	1,754	184	105,396
Gross book value of other financial assets	**89,882**	**67,215**	**4,206**	**594**	**161,897**
Other financial assets impairment allowance	(77,904)	(27,983)	(3,164)	(200)	(109,250)
Total other financial assets	**11,978**	**39,232**	**1,042**	**394**	**52,647**

Changes in the pledge the title to which passed to the Bank during the reporting period:

	2019	***2018***
As of January 1	**147,507**	**66,065**
Repossessed pledged property	16,875	220,349
Transfer from non-current assets held for sale	9,442	20,503
Result from revaluation	(6,391)	(14,439)
Sale	-	(32,171)
Transfer to investment property	(44,086)	(39,830)
Transfer to fixed assets	-	(72,970)
As of December 31	**123,347**	**147,507**

The profit/loss from the sale of the pledge the title to which passed to the Bank as a pledge is disclosed in the Item "Other Incomes" of the Statement of Profits and Losses and other Comprehensive Income (Note 23).

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13. Property, equipment and intangible assets

Movement of Property, equipment and intangible assets for the year ended December 31, 2019:

	Buildings, structures, and transmitting devices	*Furniture, accessories and office equipment*	*Machinery and equipment*	*Transport vehicles*	*Other fixed and non-current tangible assets*	*Intangible assets*	*Incomplete capital investments in fixed assets and intangible assets*	*Total*
Initial / revalued cost								
January 1, 2019	**158,963**	**48,459**	**27,656**	**6,023**	**28,485**	**40,164**	**90,179**	**399,929**
Additions	218	5,063	380	5	87,705	1,644	(87,744)	**7,271**
Revaluation through other comprehensive income	479	-	-	-	-	-	-	**479**
Revaluation through profit and loss	(9,326)	-	-	-	-	-	-	**(9,326)**
Revaluation (exclusion from balance-sheet value)	(3,778)	-	-	-	-	-	-	**(3,778)**
Disposals	-	(1,620)	(124)	-	(2,310)	(976)	-	**(5,030)**
December 31, 2019	**146,556**	**51,902**	**27,912**	**6,028**	**113,880**	**40,832**	**2,435**	**389,545**
Accumulated depreciation and amortisation								
January 1, 2019	**84**	**36,867**	**20,666**	**4,678**	**24,945**	**25,478**	**-**	**112,718**
Accrued for the year	3,785	5,032	2,076	275	9,571	2,855	-	**23,594**
Revaluation (exclusion from balance-sheet value)	(3,778)	-	-	-	-	-	-	**(3,778)**
Disposals	-	(1,616)	(124)	-	(2,217)	(976)	-	**(4,933)**
December 31, 2019	**91**	**40,283**	**22,618**	**4,953**	**32,299**	**27,357**	**-**	**127,601**
Depreciated value:								
January 1, 2019	**158,879**	**11,592**	**6,990**	**1,345**	**3,540**	**14,686**	**90,179**	**287,211**
December 31, 2019	**146,465**	**11,619**	**5,294**	**1,075**	**81,581**	**13,475**	**2,435**	**261,944**

Buildings are accounted at a revalued cost equal to their fair value less accumulated depreciation.

In 2019 and 2018 the Bank carried out the owner-occupied buildings fair value assessment with the involvement of independent experts, on which basis the Bank management decided to adjust the facilities' cost where the real estate fair value differs significantly from their balance-sheet value.

If the Bank's "Buildings and structures " were accounted for using the prime cost model, their blance-sheet value would be as follows:

	2019	*2018*
Initial cost	**192,937**	**192,747**
Accumulated depreciation	(36,123)	(31,623)
Depreciated value:	**156,814**	**161,124**

As of December31, 2019, the initial cost of fully amortised fixed assets classified under "Furniture, accessories and office equipment" group was UAH 28,299 thousand (2018: UAH 28,093 thousand), of these under "Machinery and equipment" group : UAH 14 707 thousand (2018: UAH 14 765 thousand), FA of "Transport vehicles" group: UAH 4,632 thousand (2018: UAH 4,632 thousand), these of "Other fixed and non-current tangible assets" group : UAH 23,501 thousand (2018: 20,576 thousand UAH).

In the reporting period, the Bank included to Other fixed and non-current tangible assets the equipment amounting to UAH 72,970 thousand, acquired through foreclosing on collateral to repay a non-perfoming loan, and entered into agreement for transfer of that property to an operating lease until 2022. The lease payment for the equipment use depends on the volume of products manufactured using those facilities. As of December 31, 2019, lease income amounted to UAH

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2,862 thousand; depreciation charges amounted to UAH 6,189 thousand. The depreciated value of the equipment was UAH 66,781 thousand as of December 31, 2019.

As of December 31, 2019 and of December 31, 2018, fixed assets were not transferred into collateral.

Movement of property, plant and equipment and intangible assets for the year ended December 31, 2018:

	Buildings, structures and communication devices	*Furniture, appliances and office equipment*	*Machinery and equipment*	*transport facilities*	*Other fixed and non-current assets*	*Intangible assets*	*Incomplete capital investments in fixed assets and intangible assets*	*Total*
Initial / revalued cost								
January 1, 2018	**189,679**	**43,689**	**29,364**	**4,632**	**29,759**	**37,118**	**9,754**	**343,995**
Additions	-	6,461	2,412	1,391	2,143	3,046	80,425	**95,878**
Transfer to investment property	(8,293)	-	-	-	-	-	-	**(8,293)**
Revaluation through other comprehensive income	(5,749)	-	-	-	-	-	-	**(5,749)**
Revaluation through profit and loss	(9,356)	-	-	-	-	-	-	**(9,356)**
Revaluation (exclusion from balance-sheet value)	(6,920)	-	-	-	-	-	-	**(6,920)**
Other transfers	(398)	-	-	-	-	-	-	**(398)**
Disposals	-	(1,691)	(4,120)	-	(3,417)	-	-	**(9,228)**
December 31, 2018	**158,963**	**48,459**	**27,656**	**6,023**	**28,485**	**40,164**	**90,179**	**399,929**
Accumulated depreciation and amortisation								
January 1, 2018	**3,842**	**33,898**	**22,963**	**4,588**	**24,886**	**21,558**	**-**	**111,735**
Accrued for the year	3,560	4,660	1,823	90	3,476	3,920	-	**17,529**
Revaluation (exclusion from balance-sheet value)	(6,920)	-	-	-	-	-	-	**(6,920)**
Other transfers	(398)	-	-	-	-	-	-	**(398)**
Disposals	-	(1,691)	(4,120)	-	(3,417)	-	-	**(9,228)**
December 31, 2018	**84**	**36,867**	**20,666**	**4,678**	**24,945**	**25,478**	**-**	**112,718**
Depreciated value:								
January 1, 2018.	**185,837**	**9,791**	**6,401**	**44**	**4,873**	**15,560**	**9,754**	**232,260**
December 31, 2018	**158,879**	**11,592**	**6,990**	**1,345**	**3,540**	**14,686**	**90,179**	**287,211**

As of December 31, 2019 the Bank has contractual obligations related to the acquisition of intangible assets in the amount of UAH 20 thousand (2018: UAH 1,003 thousand).

14. Income tax

In accordance with the Tax code of Ukraine, the income tax rate for 2018 – 2019 amounted to 18%.

The components of income tax expense/(benefit) recognized in profit and loss for the year ended December 31, include:

	2019	*2018*
Current income tax	(18)	(37)
Change in deferred tax related to the temporary differences occurrence and write-off	-	(138)
Income tax expenses	**(18)**	**(175)**

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Reconciliation of expected and actual tax expenses is shown below:

	2019	*2018*
Income before taxation	**75,310**	**(551,290)**
Theoretical tax deductions at the appropriate tax rate	13,556	(99,232)
Change in deferred tax asset not recognized in the financial position statement	(15,879)	101,674
Expenses deductible only for tax purposes	281	(2,524)
Loans writing-off /relief that increases (decreases) the tax base	80	41
Amount of expenses not recognized in tax accounting	1,980	216
Income tax (benefit)/expense	**18**	**175**

Differences between tax rules and IFRS give rise to temporary differences between certain assets' and liabilities' value recorded in these Financial Statements and their tax base. The tax effect of changes in these temporary differences was determined by the Bank using the known income tax rate, which will be effective from January 1, 2020.

As of December 31, 2019 the deferred tax assets and liabilities are taken to the following accounts:

	As of January 1, 2019	***Recognized in profit and loss***	***As of December 31, 2019***
Provisions for impairment of loans and liabilities	47,020	(47,020)	-
Fixed assets and investment property	(5,234)	1,325	(3,909)
Other temporary differences	67	1	68
Tax losses deferred to future periods	345,335	29,815	375,150
Estimated amount of net deferred tax asset /(liability)	**387,188**	**(15,879)**	**371,309**
Deferred tax asset not recognized in the financial position statement	(124,089)	15,879	(108,210)
Net deferred tax asset /(liability)	**263,099**	**-**	**263,099**

As of December 31, 2018 deferred tax assets and liabilities are taken to the following accounts:

	As of January 1, 2018	**Effect from *applying* IFRS 9**	***Recognized in profit and loss***	***Recognized in other comprehensive income***	***As of December 31, 2018***
Provisions for impairment of loans and liabilities	94,040	3,959	(50,979)	-	47,020
Fixed assets and investment property	(6,682)	-	1,448	-	(5,234)
Investments in securities that evaluated at fair value through other comprehensive income	(138)	-	-	138	-
Other temporary differences	722	(19)	(636)	-	67
Tax losses deferred to future periods	197,572	-	147,763	-	345,335
Estimated amount of net deferred tax asset /(liability)	**285,514**	**3,940**	**97,596**	**138**	**387,188**
Deferred tax asset not recognized in the financial position statement	(22,415)	(3,940)	(97,734)	-	(124,089)
Net deferred tax asset /(liability)	**263,099**	**-**	**(138)**	**138**	**263,099**

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15. Non-current assets held for sale

As of December, 31, non-current assets held for sale are represented by the following facilities:

	2019	*2018*
Residential building	-	21,580
Other	-	1,267
Total non-current assets held for sale	**-**	**22,847**

During the reporting year the Bank's management took decisions on assets reclassification in connection with the changes in the plans for their use or sale. These and other changes in the composition of assets held for sale include:

	2019	*2018*
As of January 1	**22,847**	**40,827**
Foreclosure on the collateral	-	18,405
Sale of assets held for sale	(13,462)	(8,989)
Transfer from investment property (note 11)	-	(255)
Transfer to other assets (note 12)	(9,442)	(20,503)
Increase /(decrease) in the carrying amount of assets held for sale to their fair value	57	(6,638)
As of December 31	**-**	**22,847**

The result of the sale of non-current assets held for sale is disclosed in the "other income" section of the income and loss and other comprehensive income Statement (note 23).

16. Due to customers

Due to customers as of December 31 are as follows:

	2019	*2018*
Current accounts		
- legal entities	3,067,479	3,555,378
- individuals	932,589	1,018,857
	4,000,068	**4,574,235**
Term deposits		
- legal entities	767,796	1,360,135
- individuals	2393,589	2,940,737
	3,161,385	**4,300,872**
Total due to customers	**7,161,453**	**8,875,107**

As of December 31, 2019, the legal entities current accounts balances in the amount of UAH 916 711 thousand or 22.9% of total amount on the clients current accounts, placed by the ten largest corporate clients (2018: 1 643 717 thousand UAH, or 35.9%). As of December 31, 2019, balances on current accounts of individuals in the amount of UAH 85 947 thousand or 2.1% of the total amount on clients current accounts, placed by the ten largest clients (2018: UAH 113 803 thousand, or 2.5%).

As of December 31, 2019 the legal entities deposits in the amount of UAH 481 518 thousand, or 15.23% of the total amount of clients deposits (2018: UAH 762,656 thousand or 17.73%) were placed by the five largest corporate clients. As of December 31, 2019, deposits of individuals in the amount of UAH 257,101 thousand or 8.1% of the total amount of client deposits were placed by the two largest clients (2018: UAH 300,577 thousand or 7.0%).

As of December 31, 2019 balances on current accounts and term deposits of legal entities and individuals totaling UAH 825 009 thousand. or 11.6% (2018: UAH 1 330 280 thousand, or 15.0%) of the total amount of Due to customers were raised from customers who do not meet the criteria for being related parties in accordance with IAS 24, but are considered related to the Bank in accordance with the NBU regulations.

As of December 31, 2019, current funds of legal entities in the amount of UAH 245,644 thousand (2018: UAH 513,313 thousand) were placed as collateral for documentary operations.

As of December 31, 2019 term deposits of legal entities and individuals in the amount of UAH 76,545 thousand (2018: UAH 544,410 thousand) were placed as collateral for the clients credit operations.

As of December 31, 2018, balances on current accounts of legal entities totaling 378,568 thousand UAH were placed by the Bank's Shareholder and used to pay for the Bank's shares during 2019.

During 2019, the average monthly balance of clients' funds in UAH increased by UAH 283 million, and funds in foreign currency decreased by UAH 457 million (UAH equivalent at the exchange rate effective for December 31, 2019). In 2019, the average monthly balance of clients' funds (UAH equivalent at the exchange rate as of December 31, 2019) on current accounts of legal entities amounted to UAH 2,767 million (2018: UAH 3,347 million), and on current accounts of individuals that was UAH 989 million (2018: UAH 1,032 million). During 2019, the average monthly balances (UAH equivalent at the NBU exchange rate as of December 31, 2019) of legal entities' term deposits amounted to UAH 1,123 million (2018: UAH 477 million), and the term deposits of individuals average balance amounted to UAH 2,504 million (2018: UAH 2,700 million). The average monthly balance indicator allows us to evaluate the dynamics without taking into account the balances volatility inherent in reporting dates.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

In accordance with Ukrainian legislation, the Bank is obliged to pay the individual's deposit ahead of time at the request of the depositor, if the Bank receives a corresponding request and the agreement provides for an early refund.

The analysis of Due to customers by maturity, interest rate and currency is provided in Note 26.

17. Other financial and other liabilities

Other financial and non-financial liabilities as of December 31, include the following items:

	2019	*2018*
Other financial liabilities		
Balances on transit accounts from operations with payment cards	63,804	46,649
Balances on transit accounts from operations with clients	12,358	7,875
Other accrued expenses	3,572	8,780
Operating lease expenses accrued	2,003	10,860
Accounts payable on operations with financial instruments	282	2,259
Other	8,577	3,364
Total other financial liabilities	**90,596**	**79,787**
Other liabilities		
Accrued payments for unused vacations	19,652	17,652
Obligations on contributions to the Individuals' deposit guarantee fund	7,683	11,776
Other taxes payable apart of the income tax	6,847	5,906
Deferred revenues	2,646	2,805
Accounts payable for assets purchased, services received	1,693	2,591
Accrued payroll wages	235	194
Total other liabilities	**38,756**	**40,924**

18. Lease

Bank as a lessee

The Bank leases non-residential premises that it uses for allocating there its own structural divisions. The rental period varies from 2 to 10 years. Some contracts contain options to extend the lease term.

Among others the Bank has contracts which duration never exceeds 12 months, and contracts characterised with a low asset value. The Bank applies to such agreements several practically simplified procedures on exemption from recognition provided for short-term leases and low-value assets.

As of IFRS 16 first application date (January 1, 2019), the Bank estimated the right-of-use assets in the amount of UAH 125 903 thousand and lease obligations in the amount of UAH 130 043 thousand. The amounts shown as of January 1, 2019 differ from the amounts shown below due to the updated recalculation.

The balance-sheet value of recognized right-of-use assets and its changes during the reporting period are presented below:

	2019
As of January 1	**133,047**
Asset recognition	5,578
Asset revaluation	1,334
Asset termination	(3,443)
Depreciation expenses	(25,780)
As of December 31	**110,736**

During the reporting period, the Bank received income from subleasing right-of-use assets in the amount of UAH 3,140 thousand.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

The balance-sheet value of the lease liability and its changes during the reporting period are presented below:

	2019	*2018*
As of January 1	**137,654**	**-**
Recognition of a liability	5,325	578
Interest accrual	13,441	65
Revenue from modifications	(161)	-
Liability revaluation	(11,641)	-
Liability termination	(3,443)	-
Payments	(35,026)	(179)
As of December 31	**106,149**	**464**

The payment periods for lease liabilities are disclosed in note 26.

During the reporting period, the Bank incurred short–term lease expenses in the amount of UAH 1,318 thousand, and low-value asset lease expenses in the amount of UAH 82 thousand.

Bank as a lessor

The Bank has entered into operating lease agreements within the portfolio of investment property and certain fixed assets (non-residential premises, equipment repossessed by the Bank as collateral holder). These agreements are concluded for a period of up to 3 years. During the reporting period, the Bank received profit in the amount of UAH 26,381 thousand (2018: UAH 13,941 thousand), including income related to variable lease payments and amounting to UAH 3,823 thousand (2018: UAH 517 thousand).

Minimum lease payments before receipt under operating leases as of December 31:

	2019	*2018*
Up to 1 year	6,748	1,938
From 1 year to 5 years	11,967	11,548
	18,716	**13,486**

In 2018, the Bank entered into a contract for the property sale on installment payments basis for the period up to 5 years classifying that contract as a Finance lease. The balance-sheet value as of December 31, 2019 makes UAH 31,869 thousand (2018: UAH 46,458 thousand). During the reporting period, the Bank received interest income in the amount of UAH 389 thousand (2018: UAH 47 thousand). The rights to the transferred asset are retained by the Bank until the buyer pays its full value in addition, provided it fails to fulfill the obligation to effect payments within 3 months, the Bank has the right to terminate the contract, and previously received payments shall be considered a fine for failure to comply with its terms.

As of December 31, 2019 the total amount of undiscounted finance lease payments and their present value make:

	Up to 1 year	*From 1 year to 5 years*	*Total*
Total amount of undiscounted lease payments receivables	9,617	22,812	**32,429**
Future financial income	281	279	**560**
Current value of lease payments	9,569	22,300	**31,869**

As of December 31, 2018 the total amount of undiscounted Finance lease payments and their present value is:

	Up to 1 year	*From 1 year to 5 years*	*Total*
Total amount of undiscounted lease payments receivables	11,450	36,427	**47,877**
Future financial income	420	654	**1,074**
Provision	-	-	**(345)**
Current value of lease payments	11,400	35,402	**46,802**

Accounts receivable under a property sale contract on installment payment basis are classified by the Bank as "Loans and customers receivables" (Note 9).

19. Equity capital and reserves

As of December 31, 2019, the Bank's authorized and registered share capital consists of 2,720,000,000 ordinary shares with a par value of 1 UAH per share. All ordinary shares are fully paid and bear equal voting rights, rights to receive dividends, and rights to capital returning.

In 2018 and 2019, prior to the date of these Financial Statements approval, the Bank did not declare dividends payment.

On December 12, 2019, a new version of the Charter has been registered in connection with an increase in the Bank's share capital to UAH 3.58 billion, which decision was taken by the Shareholder on November 05, 2018 through private placement of additional existing par value, shares paid by the Shareholder in the amount of UAH 866,561 thousand (UAH 488,454 thousand in December 2018 and 378,107 thousand UAH. in January 2019). The Bank incurred expenses for registering the additional shares issue totalizing the amount of UAH 108 thousand and recognized them as a deduction from equity.

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The certificate of share issue registration was received by the Bank on January 23, 2020 (note 32).

Nature and purpose of reserves

Fixed assets revaluation reserve

The fixed assets revaluation reserve serves to reflect the increase in fair value of buildings occupied by the owner, and its decrease, respectively, but to the extent that such decrease relates to the cost increase of the same asset previously recognized in the equity capital.

Securities revaluation reserve

This reserve reflects changes in the securities fair value measured at fair value through other comprehensive income.

The categories of revaluation reserve and its changes include:

	Buildings revaluation reserve	***Reserve for revaluation of investments in securities***	***Total revaluation reserve***
January 1, 2018	**97,421**	**629**	**98,050**
Changes due to the IFRS 9 application	-	(105)	**(105)**
Buildings revaluation	(5,749)	-	**(5,749)**
Revaluation of investments in securities	-	(1,897)	**(1,897)**
December 31, 2018	**91,672**	**(1,373)**	**90,299**
Buildings revaluation	(8,724)	-	**(8,724)**
Revaluation of investments in securities	-	1,231	**1,231**
December 31, 2019	**82,948**	**(142)**	**82,806**

20. Contractual and contingent liabilities

Legal issues

In the normal course of business, the Bank is subject to lawsuits and claims. As of December 31, 2019, the Bank is a defendant in several claims for funds recovery under partially created collateral in the amount of UAH 2 thousand.

During the period there occurred the following such changes in the items providing for other non-financial liabilities:

	2019	***2018***
As of January 1	**76**	**310**
Collateral creation/(decrease)	91	392
Use of created collaterals	(165)	(626)
As of December 31	**2**	**76**

Taxation and compliance with legal requirements

Ukrainian legislation governing taxation issues and other transactions procedure still continues to change. Legislation and regulations are not always clearly defined, and their interpretation depends on the viewpoint of local, regional and central government authorities as well as other governmental bodies. often there arise the conflicting interpretations cases. The management believes the Bank having met the requirements of all relevant regulations and all taxes provided for by law having been accrued and paid.

At the same time, there exists a risk that transactions and correct interpretations that have not been questioned by regulatory authorities in the past will be questioned in the future.

Contractual and contingent liabilities

Contractual and contingent revocable credit obligations as of December 31:

	2019	***2018***
Guarantees	441,628	792,185
Unsecured letters of credit	-	48,178
	441,628	**840,363**
Cash collateral for guarantees	(173,812)	(322,451)
Provisions for liabilities	(377)	(94)
Contractual and contingent liabilities	**267,439**	**517,818**

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

As of December 31, 2019 the Bank has an obligation to make settlements on letters of credit for which it does not bear any risk, since these operations have monetary coverage in the amount of UAH 71,832 thousand (2018: UAH 190,862 thousand).

As of December 31, 2019, the credit lines provided by the Bank and undrawn by customers amounted to UAH 1,022,019 thousand (2018: UAH 2,525,449 thousand). The customer's request for credit funds from these free limits must be obligatorily approved by the Bank, which has the right of refusal to issue a loan in the event of the potential borrower's creditworthiness deterioration, the customer's failure to comply with the necessary credit procedures, or for other reasons.

During the year the following changes took place in the reserve items securing the liabilities:

	2019	*2018*
As of January 1	**94**	**1,020**
Accrual/ (release) of provision	483	(919)
Utilization of provision	(194)	(5)
Exchange rate differences	(6)	(2)
As of December 31	**377**	**94**

Pledged assets and assets under limited use

As of December 31, 2019, guarantee deposits placed with other banks are disclosed in note 8.

As of December 31, 2019 the Bank's assets were not pledged.

21. Interest income and expense

Interest income and expense calculated at the effective interest rate for the year:

	2019	*2018*
Interest income from financial assets accounted at amortised cost		
Loans to customers	701,886	621,893
- *to legal entities*	*347,704*	*438,073*
- *to individuals*	*354,182*	*183,820*
Securities	117,248	69,744
Due from other banks	7,317	4,430
	826,451	**696,067**
Interest income on financial assets accounted at fair value through other comprehensive income		
Securities	26,696	15,546
	26,696	**15,546**
Total interest income	**853,147**	**711,613**
Interest expense on financial assets accounted at amortised cost		
Due to customers	(618,086)	(514,618)
- *legal entities*	*(333,810)*	*(240,810)*
- *individuals*	*(284,276)*	*(273,808)*
Interest expense on a lease liability	(13,441)	(65)
Other securities issued by the Bank	-	(88)
Total interest expense	**(631,527)**	**(514,771)**
Net interest income	**221,620**	**196,842**

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

22. Net commission income

Net commission income for the year:

	2019	*2018*
Commission income		
Corporate and Retail banking services	320,282	95,468
Operations with payment cards	91,558	84,351
Foreign currency transactions	39,162	50,646
Guarantees and letters of credit	11,807	20,272
Operations on credit services	761	1,596
Depository activity	688	654
Other	19	142
	464,277	**253,129**
Commission expense		
Corporate and Retail banking services	(221,145)	(41,491)
Operations with payment cards	(56,634)	(48,590)
Commission expense for guarantees and letters of credit	(1,916)	(2,799)
Commission expense for customer loyalty programs	(435)	(12,150)
Other expense	(629)	(644)
	(280,759)	**(105,674)**
Net commission income	**183,518**	**147,455**

23. Other income

	2019	*2018*
Non-repayable financial support	328,000	-
Agency fee for financial services	112,243	61,498
Income from operating leases	26,381	13,941
Reimbursement of operating expenses from rent	4,576	2,795
Income from the sale of investment property	1,240	814
Reimbursement of debt collection expenses	796	1,336
Fines and penalties received	742	2,784
Income from the sale of assets held for sale	334	845
Income from modification of leasing (rental)	161	-
Income from disposal of fixed assets	118	161
Revaluation of non-current assets held for sale	57	2
Dividends	16	-
Income from modification of financial instruments	2	-
Income from the sale of property acquired by the Bank as a pledge holder	-	1,874
Other	4,442	777
Other income	**479,108**	**86,827**

The Bank received non-repayable financial support to implement the capitalization program (Note 27).

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

24. Administrative and other operating expenses

	2019	*2018*
Payroll costs	305,476	290,882
Payments to the Individuals deposit guarantee fund	38,885	49,060
Marketing and advertising	25,950	25,265
Depreciation of right-of-use assets	25,780	-
Depreciation of fixed assets and intangible assets	23,594	17,529
Operating and maintenance expenses	22,743	22,469
Customer acquisition costs	22,092	10,223
Expense for maintenance of fixed assets and intangible assets	16,307	12,662
Communication service	15,861	16,638
Security service costs	13,866	16,605
Professional service	13,634	25,773
Costs of debt collection	11,793	19,118
Taxes and other mandatory payments apart the income tax	9,364	6,372
Revaluation of fixed assets	9,326	9,356
Operational leasing (rental) expenses)	8,314	38,656
Depreciation of property acquired by the Bank as a pledge holder	6,391	14,439
Cash-in-transit services	4,354	3,904
Travel expenses	2,918	4,035
Costs of financial instruments modification	96	-
Depreciation of non-current assets held for sale	-	6,640
Other	23,854	4,549
Administrative and other operating expenses	**600,598**	**594,175**

25. Basic and diluted earnings/ (loss) per share

Basic and diluted earnings/(loss) per share include:

	2019	*2018*
Earnings/(loss) for the year	75,292	(551,465)
Average annual number of ordinary shares circulating (thousand pcs)	2,720,000	1,977,605
Net basic earnings / (loss) in UAH per share	0.03	(0.28)

During 2019 and 2018, the Bank did not have any financial instruments capable to involve the dilution of earnings/ (loss) per share as a result of their conversion to shares.

26. Financial risk management policy

The Bank's activities are characterized by risks. The Bank manages material risks through a continuous process of identification, measurement, monitoring, reporting, control and mitigation, as well as by establishing risk appetite, limits, restrictions, risk triggers and other internal control tools. The risk management process is crucial for maintaining the Bank's stable profitability and each individual employee of the Bank is responsible for the risks associated with his/her responsibilities. The Bank is exposed to significant risks such as credit risk, liquidity risk, Bank book interest rate risk, market risk, operational risk and compliance risk. The Bank has identified strategic risk and systemic risk as additional significant risks in its operations.

Risk management structure

The risk management policy is purposed to identify, monitor, analyze and manage the risks faced by the Bank. The risk management system provides for a balanced policy to determine the level of risk appetite, implementation of risk limits, restrictions and triggers within the established risk appetite values and continuous monitoring of their compliance, and implementation of relevant control tools.

The Bank organizes a risk management system, based on the distribution of responsibilities between the Bank's divisions using the protection three lines model:

1. the first line is at the level of the Bank's business units and business support units, monitoring risks and responsible for risks; these units submit reports on such risks running management;
2. the second line is at the level of Risks Director (CRO), risks management Department, head of compliance Department (CCO) and the compliance Department properly;

the third line lays at the level of the internal audit Department head and the internal audit Department concerned for checking and evaluating the risk management system effectiveness. The Bank's risk management system subjects are:

1. Bank Supervisory Board ;

2. Bank's Management Board and its committees:
   - Committee on individuals' business;
   - Committee on legal entities' business;
   - Assets and liabilities managing Committee;
   - Committee on information security and operational-and -technological risks;
   - Committee on distressed assets;
3. Internal Audit Department (third line of defense);
4. Director for Risks Management (CRO) and risks management Department (second line of defense);
5. Head of compliance Department (CCO) and compliance Department (second line of defense);
6. Business units and support units (first line of defense).

Risk management functions are distributed in the Bank as follows:

Supervisory Board

The Supervisory Board is fully responsible for creating a comprehensive, adequate and effective risk management system concerning the risks the Bank is exposed to carrying out its activities, and is responsible for:

- creating a comprehensive, adequate and effective risks management system concerning the risks the Bank is exposed to carrying out its activities;
- determining and monitoring compliance with the Bank's corporate values, based on the implementation in business practice of legal and ethical activity principles;
- it supports the Bank's high risk management and control culture, ensures an effective risks management and an effective internal control system in the Bank;
- devoting sufficient time, effort and resources to participate in risks management and to control the complexity, adequacy and effectiveness of the Bank's risk management system;
- approval of the Bank's organizational structure of the risks management system and internal control system, including the structure of risks management involved divisions, monitoring compliance with relevant norms, internal audit functions and procedures for their submission and reporting to the Supervisory Board, as well as these units' reporting subordination and interaction;
- support at the appropriate level of the Bank's organizational structure, risks management information system and internal control system;
- ensuring distribution and delegation of powers to the Supervisory Board committees and the management Board in accordance with the Bank's internal documents;
- registering cases when the risks management division and compliance control division heads impose an interdiction (veto) on the Bank's collegial management bodies decisions;
- ensuring the Bank's risks management system and internal control system due functioning and monitoring its effectiveness;
- approval of the list of limits (restrictions) for each type of risks as well as the procedure for escalating the risks limit violations;
- making decisions on introducing significant changes in the Bank's operations;
- creating and maintaining an effective process for managing distressed assets in the Bank.

Governing body

The Bank's Management Board provides the due fulfillment of its Supervisory Board tasks and decisions on the implementation of the risks management system, including Strategy and risks management Policy, risks management Culture as well as procedures, methods and other arrangements for effective risks management.

Director of risk management (CRO) and risk management Department (second line of defense)

Head of compliance Department (CCO) and compliance Department (second line of defense)

These structural units are in the second line of defense and provide an analytical and methodological basis for risks management, being responsible for implementing and conducting procedures related to risks management in order to ensure independent control processes.

Committees

The risk management strategy is carried out by the legal entities' business Committee and the individuals' business Committee, the assets and liabilities management Committee, the information security and operational-and -technological risks Committee, and the non-performing assets Committee.

Business units

Business units are in the first line of defense bearing responsibility at their level for risks monitoring and limits set. This level also provides for the collection of complete, reliable and timely information in the risks assessment and reporting system.

Internal audit

The internal audit Department carries out periodical audits of the Bank's risks management processes, while verifying both the sufficiency of the procedures and the Bank's compliance with these procedures. The internal audit Department discusses the audit results and submits its conclusions and recommendations to the Bank's Supervisory Board and the Bank Management Board.

Excessive risk concentration

The Bank controls the risk concentration. Risk concentrations arise when a number of counterparties are engaged in similar activities, or their activities are conducted in the same geographical region, or the counterparties have similar economic characteristics, and as a result, changes in economic, political and other conditions have a similar impact on these counterparties ability to meet their contractual obligations. The risks concentrations reflect the Bank's performance relative sensitivity to changes in conditions that affect a particular industry or geographical region.

In order to prevent excessive concentrations of risks, the Bank's policies and procedures include special principles aimed at maintaining a diversified portfolio. The established risks concentrations are controlled and managed.

Credit risk

The Credit risk is the risk of financial loss to the Bank as a result of the borrower's or counterparty's failure to fulfill its contractual obligations to the Bank. The Bank manages its credit risk by setting quantitative indicators of risk appetite for credit risk and limits the Bank is prepared to accept for individual counterparties or a group of counterparties bearing overall economic risk, also this risk is managed by monitoring compliance with the identified risk indicators.

Under agreements classified as credit-related obligations (liabilities under non-used irrevocable credit lines, letters of credit and guarantees), the Bank incurs risks that are similar to those on arising loans and which are reduced using the same risk control procedures and policies that in loan risks case.

The balance-sheet value of the financial position statement items, including derivatives and excluding the impact of reduced risk due to the use of general offsetting agreements and collateral agreements does most accurately reflect the maximum amount of credit risk for these statement items.

As to financial instruments accounted at fair value, their balance-sheet value reflects the current amount of credit risk, but not the maximum amount of risk that may arise in the future as a result of their value changes.

Financial assets credit quality

The Bank manages the credit quality of financial assets using an internal system for monitoring the level of risks inherent to both counterparties and individual assets portfolios. This system allows the focused management of existing risks, as well as provides possibility to compare the amount of credit risk for different types of activities, geographical regions and products. The system is based on series of financial and analytical methods, as well as on processed market data, embodying the main source information for counterparties' risks assessing.

The Management estimates the expected credit losses on loans to customers by assessing the probability of advances repayment and recovery based on an analysis of individual borrowers by individual significant loans, as well as in aggregate for loans with similar terms and risk characteristics. Factors taken into account when evaluating individual loans include the repayment history, the borrower's current financial condition, the timeliness of repayment and collateral provided, time frame for paying future interest, condition of the borrower's economic industry, and so on. To assess the expected credit losses amount, the Bank estimates the amounts and timing of future payments to repay the loan's principal amount and interest, as well as the amount of proceeds from the sale of collateral, in accordance with the principles disclosed in Note 4.2.1.

Detailed information on the Bank's active operations quality analyzed by individual asset groups is provided in note 8 "Due from other banks", which discloses this highly liquid assets group structure by the Bank's counterparties' ratings; in note 9" Loans and advances to customers", which contains detailed information on the extent of individual asset groups impairment .

The Bank is sensitive to credit risk, which is primarily caused by a significant concentration of credit indebtedness accounted at amortised cost on the 3rd stage of depreciation or as the POCI asset. The total indebtedness on such assets as of December 31, 2019 is UAH 3,549,710 thousand, which, due to the Bank's active claim and pretension processing work during 2019, is less than UAH 1,495,904 as compared to December 31, 2018. (as of December 31, 2018, these assets total balance amounted to 5,045,614 UAH). At the same time, during 2019, the net book value of this category of assets decreased by UAH 1,005,831 thousand and as of December 31, 2019 it makes UAH 983,561 thousand.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

Sensitivity to credit risk due to loans at the 3rd stage of depreciation and POCI assets is caused by the significant value of collateral held as warranty collateral for the specified asset type. As a result, the Bank is sensitive to changes in the fair value of the specified property. According to the management staff estimates, the amount of expected losses on loans at the depreciation 3rd stage and on POCI assets without collateral accounting would be as of December 31, 2019 higher by UAH 983,561 thousand (December 31, 2018: UAH 1,989,392 thousand) for loans to legal entities and individuals.

The amount of expected losses on loans at the depreciation 1st and 2nd stages depends on the probability of default indicators which is calculated both taking into account the borrowers' current financial condition, the quality of debt servicing, and the impact of macro factors, which correlation with the probability of default is confirmed by the models practically used by the Bank. At the same time, the sensitivity of credit risk in the corporate portfolio to changes in macro factors and internal ratings is insignificant due to the high requirements to collateral defined by the Bank's credit policy. At the same time, the loan portfolio of individuals, assessed on a collective basis, is more sensitive to changes in the external environment and the corresponding change in the probability of default, used while determining these assets amortised cost, through the loans' blank nature: the deterioration of macro factors, involving an increase in default probability by 20% compared to values used in calculations as of 31.12.2019, thus will lead to an increase in the volume of the created reserve by UAH 10,585 thousand.

Concentration of the Bank's financial assets and liabilities by geographical location:

	2019				***2018***			
	Ukraine	***OECD***	***CIS and other countries***	***Total***	***Ukraine***	***OECD***	***CIS and other countries***	***Total***
Assets								
Cash and cash equivalents	661,694	462,379	49	**1,124,122**	226,111	1,288,927	36	**1,515,074**
Due from other banks	12,434	327,935	25,538	**365,907**	15,545	285,649	19,716	**320,910**
Loans and advances to customers	3,300,436	-	359	**3,300,795**	3,963,015	-	41	**3,963,056**
Investment in securities	330	-	-	**330**	408,182	-	-	**408,182**
Deposit Certificates of the National Bank of Ukraine	1,502,244	-	-	**1,502,244**	1,201,973	-	-	**1,201,973**
Other financial assets	16,433	-	2	**16,435**	52,643	-	4	**52,647**
	5,493,571	**790,314**	**25,948**	**6,309,833**	**5,867,469**	**1,574,576**	**19,797**	**7,461,842**
Liabilities								
Due to other banks	-	-	39	**39**	-	-	45	**45**
Due to customers	7,139,824	14,265	7,364	**7,161,453**	8,398,300	12,347	464,460	**8,875,107**
Provisions for liabilities	336	43	-	**379**	131	39	-	**170**
Lease liabilities	106,149	-	-	**106,149**	464	-	-	**464**
Other financial liabilities	90,331	263	2	**90,596**	79,561	226	-	**79,787**
	7,336,640	**14,571**	**7,405**	**7,358,616**	**8,478,456**	**12,612**	**464,505**	**8,955,573**
Net geographical concentration	**(1,843,069)**	**775,743**	**18,543**	**(1,048,783)**	**(2,610,987)**	**1,561,964**	**(444,708)**	**(1,493,731)**

Market risk

The market risk refers to that the changes in market indicators such as interest rates, securities rates, exchange rates and credit spreads (which do not relate to changes in the debtor/lender's creditworthiness) will produce effect on the earnings or the value of financial instruments. The market risks management purpose is to manage and control market risks within acceptable parameters while optimizing the return on risk.

The Bank divides its market risks between a portfolio of instruments intended for trading operations and a portfolio of instruments not intended for trading operations.

Portfolios of instruments intended for trading operations include positions that arise when creating a market and when opening an own position, together with financial assets and liabilities that are managed on a fair value basis.

The Bank assesses the default risk, interest rate risk of the trading book, credit spread risk and stock market risk exclusively for the instruments contained in the Bank's trading book.

When measuring market risks, the Bank uses clear, complete and documented assumptions that are consistent with the Bank's Business plan, as well as the Bank's historical market and its own statistics.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

Currency risk within market risk

The currency risk is that one when changes in official exchange rates affect the Bank's income or the value of its portfolios of financial instruments.

The Bank has assets and liabilities denominated in several foreign currencies. The currency risk arises when actual or forecasted assets in a foreign currency are greater or less than liabilities in the same currency. The management establishes relevant limits and constantly monitors foreign currency positions in accordance with the NBU regulations and the bank's internally adopted methodology.

The policy on open currency positions is limited to certain maximum values established in accordance with the legislation of Ukraine, and the NBU monitors them carefully on a daily basis.

The Bank's currency position on monetary assets and liabilities as of December 31, 2019:

	UAH	*USD*	*EUR*	*Other currency*	*Total*
Assets					
Cash and cash equivalents	639,722	379,982	99,024	5,394	**1,124,122**
Due from other banks	2,207	332,713	24,811	6,176	**365,907**
Loans and advances to customers	2,270,709	761,859	268,227	-	**3,300,795**
Investment in securities	330	-	-	-	**330**
Deposit Certificates of the National Bank of Ukraine	1,502,244	-	-	-	**1,502,244**
Other financial assets	11,455	3,501	1,479	-	**16,435**
Total monetary assets	**4,426,667**	**1,478,055**	**393,541**	**11,570**	**6,309,833**
Liabilities					
Due to other banks	-	31	8	-	**39**
Due to customers	5,077,455	1,680,974	400,981	2,043	**7,161,453**
Provisions for liabilities	336	43	-	-	**379**
Lease liabilities	106,149	-	-	-	**106,149**
Other financial liabilities	70,184	18,105	1,582	725	**90,596**
Total monetary liabilities	**5,254,124**	**1,699,153**	**402,571**	**2,768**	**7,358,616**
Net long / (short) currency position	**(827,457)**	**(221,098)**	**(9,030)**	**8,802**	**(1,048,783)**
Off-balance sheet position of the Bank	-	-	-	-	**-**
Net long / (short) position	**(827,457)**	**(221,098)**	**(9,030)**	**8,802**	**(1,048,783)**

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

The Bank's currency position on monetary assets and liabilities as of December 31, 2018:

	UAH	*USD*	*EUR*	*Other currency*	*Total*
Assets					
Cash and cash equivalents	192,619	977,137	341,399	3,919	**1,515,074**
Due from other banks	1,419	284,831	28,776	5,884	**320,910**
Loans and advances to customers	2,106,644	1,692,484	163,928	-	**3,963,056**
Investment in securities	330	407,852	-	-	**408,182**
Deposit Certificates of the National Bank of Ukraine	1,201,973	-	-	-	**1,201,973**
Other financial assets	41,172	9,140	2,240	95	**52,647**
Total monetary assets	**3,544,157**	**3,371,444**	**536,343**	**9,898**	**7,461,842**
Liabilities					
Due to other banks	-	36	9	-	**45**
Due to customers	5,016,540	3,198,020	657,297	3,250	**8,875,107**
Provisions for liabilities	131	39	-	-	**170**
Lease liabilities	464	-	-	-	**464**
Other financial liabilities	74,655	2,672	1,835	625	**79,787**
Total monetary liabilities	**5,091,790**	**3,200,767**	**659,141**	**3,875**	**8,955,573**
Net long /(short) currency position	**(1,547,633)**	**170,677**	**(122,798)**	**6,023**	**(1,493,731)**
Off-balance sheet position of the Bank	-	-	-	-	**-**
Net long /(short) position	**(1,547,633)**	**170,677**	**(122,798)**	**6,023**	**(1,493,731)**

As of December, a 10% depreciation of UAH against such currencies would have increased (decreased) profit before taxation and equity by the amount indicated below. This analysis assumes that all other variables, in particular interest rates, remain constant:

	2019	*2018*
USD	(22,110)	17,068
EUR	(903)	(12,280)

As of December 31, a 10% strengthening of UAH exchange rate against the above currencies would have exactly the opposite effect on profit before taxation and equity for the above amount, provided that all other variables remain constant.

Interest rate risk on the banking book

The Banking book interest rate risk refers to that the changes in interest rates produce effect on future cash flows or the fair value of financial instruments. The interest rate risk of the Bank book affects the economic value of the Bank's capital and the Bank's net interest income.

The interest rate risk is measured by the extent to which changes in market interest rates affect interest margins and net interest income. When the terms of interest-bearing assets differ from the terms of interest-bearing liabilities, net interest income will increase or decrease depending on the result of changes in interest rates. In order to manage the Bank's interest rate risk, management continuously assesses the market interest rates for various types of assets and liabilities subject to interest accrual.

Interest margins on assets and liabilities that have different payment terms may increase depending on the result of changes in market interest rates. In practice, the Bank changes interest rates on assets and liabilities based on current market conditions and mutual agreements, which are formalized in the Appendix to the main agreement, which specifies the new interest rate.

The Bank measures the banking book interest rate risk as the amount of change in the Bank's net interest income based on a complete and economically justified list of changes in interest rates and stress scenarios.

The Bank uses such tools as GAP analysis and the modified duration method to assess the banking book interest rate risk.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

Average effective interest rates for fixed assets and liabilities on which interest is accrued:

	2019			***2018***		
	UAH	***USD***	***EUR***	***UAH***	***USD***	***EUR***
Cash and cash equivalents	-	0.7%	-	-	0.3%	-
Loans and advances to customers	26.1%	7.8%	7.1%	22.0%	7.3%	3.8%
Investment in securities	-	6.1%	-	-	5.4%	-
Deposit Certificates of the National Bank of Ukraine	16.0%	-	-	17.0%	-	-
Current accounts of clients	8.5%	0.5%	-	7.3%	0.4%	-
Customers' term deposits	16.6%	2.7%	0.4%	15.6%	3.4%	2.1%
Lease liabilities	18.7%	8.3%	-	23.0%	-	-

In case of market conditions changes, the Bank's management may revise the interest rates on loans to customers in accordance with the terms of the agreements. In addition, the Bank regularly reviews the interest rates for attracting Due to customers, depending on market conditions. The Bank calculates an indicator of absolute interest rate risk or changes in net interest income for such scenarios:

1) the same pace of rate growth for all terms (parallel shock up);
2) the same pace of rate decline for all terms (parallel shock down);
3) rate increases only for periods up to six months inclusive (short rates shock up);
4) a drop in rates for terms up to and including six months (short rates shock down).

As of December 31, 2019, an increase in interest rates on liabilities by one percent, provided that all other variables remain constant, would reduce the annual net interest income by UAH 6,377 thousand (2018: decrease by UAH 7,290 thousand). A one per cent reduction in interest rates, provided that all other variables remain constant, would have exactly the opposite effect on net interest income for the above amount

Liquidity risk

Liquidity risk arises in the overall financing of activities and in positions management . It includes both the risk that the assets cannot be financed at the appropriate time and at the appropriate rates, and the risk that the asset cannot be liquidated at an acceptable price and at the appropriate time, as well as the risk that the Bank will not meet its obligations to pay when they become due in normal or unforeseen circumstances.

Management's approach to liquidity management consists in ensuring that, as far as possible, there shall be always sufficient liquidity to meet its obligations in due time, both under normal and emergency conditions, without incurring undue losses and without risking The Bank's reputation.

The Bank actively supports diversified and stable sources of financing, which include current and term deposits of legal entities and individuals, as well as diversified portfolios of highly liquid assets, in order to be able to quickly and easily meet unforeseen liquidity needs.

To maintain short-term liquidity, the Bank attracts short-term deposits, buys and sells foreign currency. To maintain long-term liquidity, the Bank attracts medium-and long-term deposits, buys and sells securities, regulates its interest rate policy, and controls expenses. When managing liquidity, the Bank takes into account the need to create mandatory reserves in the National Bank of Ukraine, which size depends, in particular, on the level of customer deposits.

Undiscounted financial liabilities of the Bank in terms of delay remaining until their repayment on the basis of contractual terms and other undiscounted cash expenditures as of December 31, 2019:

	Up to 3 months	***From three months to one year***	***From one year to five years***	***More than five years***	***Total***
Financial liability					
Due to other banks	39	-	-	-	**39**
Due to customers	5,837,934	1,256,010	196,281	-	**7,290,225**
Provisions for liabilities	302	`77	-	-	**379**
Lease liabilities	8,613	24,992	81,283	40,123	**155,011**
Other financial liabilities	87,630	2,966	-	-	**90,596**
Undiscounted cash outflow	**5,934,518**	**1,284,045**	**277,564**	**40,123**	**7,536,250**

The column "Up to 3 months" also includes funds on demand.

This table provides a summary analysis of the Bank's financial liabilities contractual maturities as of December 31, 2019. The table shows the undiscounted liabilities expected to be settled under the contract and the planned interest expense under the contract. Payments expected to be made upon notification receipt are considered these payable immediately. However, the Bank expects that most customers will not require payments immediately after the date when the Bank is required to make a payment in accordance with the contract, therefore the table does not reflect the expected cash flows determined based on the amounts of deposits held in previous periods. In addition, a significant portion of current account balances is assessed by Management as conditionally stable balances. The maturity analysis does not reflect the stability of current liabilities in the past.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

Undiscounted financial liabilities of the Bank by the delay remaining until their repayment on the basis of contractual terms and other undiscounted cash expenditures as of December 31, 2018:

	Up to 3 months	*From three months to one year*	*From one year to five years*	*More than five years*	*Total*
Financial liability					
Due to other banks	45	-	-	-	**45**
Due to customers	5,708,000	2,648,119	268,085	439,483	**9,063,687**
Provisions for liabilities	170	-	-	-	**170**
Lease liabilities	464	-	-	-	**464**
Other financial liabilities	79,787	-	-	-	**79,787**
Undiscounted cash outflow	**5,788,466**	**2,648,119**	**268,085**	**439,483**	**9,144,153**

The column "Up to 3 months" also includes funds on demand.

The periods when payments shall be made on assets and liabilities and the ability to replace interest-bearing liabilities at an acceptable price at their maturity are important factors in assessing the Bank's liquidity and the risk that arises from changes in interest rates and currency exchange rates.

Analysis of financial assets and liabilities based on expected maturities as of December 31, 2019:

	Up to 3 months	*From three months to one year*	*From one year to five years*	*More than five years*	*Total*
Assets					
Cash and cash equivalents	1,124,122	-	-	-	**1,124,122**
Due from other banks	49,483	207,704	108,720	-	**365,907**
Loans and advances to customers	821,733	930,664	1,548,350	48	**3,300,795**
Investment in securities	330	-	-	-	**330**
Deposit Certificates of the National Bank of Ukraine	1,502,244	-	-	-	**1,502,244**
Other financial assets	16,293	142	-	-	**16,435**
Total assets	**3,514,205**	**1,138,510**	**1,657,070**	**48**	**6,309,833**
Liabilities					
Due to other banks	39	-	-	-	**39**
Due to customers	5,820,488	1,165,300	175,665	-	**7,161,453**
Provisions for liabilities	302	77	-	-	**379**
Lease liabilities	6,272	15,607	52,954	31,316	**106,149**
Other financial liabilities	87,630	2,966	-	-	**90,596**
Total liabilities	**5,914,731**	**1,183,950**	**228,619**	**31,316**	**7,358,616**
Liquidity difference for the period	(2,400,526)	(45,440)	1,428,451	(31,268)	**(1,048,783)**
Cumulative liquidity gap	**(2,400,526)**	**(2,445,966)**	**(1,017,515)**	**(1,048,783)**	

The column "Up to 3 months" also includes funds on demand.

The table shows loans and customer debt receivable, including overdue credit debt, with the exception of reserves created. At the same time, overdue debt is attributed to the repayment period of one to five years in accordance with the Bank's judgment on its collection possible terms. The table shows the financial liabilities payable under the relevant contract. Payments expected to be made upon notification receipt are considered these payable immediately. However, the Bank expects that most customers will not require payments immediately after the date when the Bank is required to make a payment in accordance with the contract, therefore the table does not reflect the expected cash flows determined based on the amounts of deposits held in previous periods. In addition, a significant portion of current account balances is assessed by Management as conditionally stable balances.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

Analysis of financial assets and liabilities based on expected maturities as of December 31, 2018:

	Up to 3 months	*From three months to one year*	*From one year to five years*	*More than five years*	*Total*
Assets					
Cash and cash equivalents	1,515,074	-	-	-	**1,515,074**
Due from other banks	320,910	-	-	-	**320,910**
Loans and advances to customers	170,139	1,595,553	2,197,310	54	**3,963,056**
Investment in securities	-	271,643	136,209	330	**408,182**
Deposit Certificates of the National Bank of Ukraine	1,201,973	-	-	-	**1,201,973**
Other financial assets	52,647	-	-	-	**52,647**
Total assets	**3,260,743**	**1,867,196**	**2,333,519**	**384**	**7,461,842**
Liabilities					
Due to other banks	45	-	-	-	**45**
Due to customers	5,677,064	2,579,238	179,322	439,483	**8,875,107**
Provisions for liabilities	170	-	-	-	**170**
Lease liabilities	464	-	-	-	**464**
Other financial liabilities	79,787	-	-	-	**79,787**
Total liabilities	**5,757,530**	**2,579,238**	**179,322**	**439,483**	**8,955,573**
Liquidity difference for the period	(2,496,787)	(712,042)	2,154,197	(439,099)	**(1,493,731)**
Cumulative liquidity gap	**(2,496,787)**	**(3,208,829)**	**(1,054,632)**	**(1,493,731)**	

The column "Up to 3 months" also includes funds on demand.

According to the legislation of Ukraine and the credit agreements terms, in case of the borrowers' financial condition deterioration, systematic failure to fulfill their obligations, as well as the occurrence of several other factors, the Bank has the right to demand early repayment of debt payable.

Operational risk

The Operational risk represents probability of losses or additional expenses or loss of planned revenues due to deficiencies or errors in the internal processes organization, deliberate or unintentional actions of Bank employees or other persons, failures in the Bank's information systems or due to the influence of external factors. Operational risks includes legal risk, but should exclude reputation risk and strategic risk.

The operational risk is inherent in all products, processes, activities, procedures, and systems. Operational risk management is an integral part (function) at all management levels. The approach to managing and monitoring operational risk is coordinated with the management and monitoring of other risks types of the Bank, in particular market and credit risks.

The operational risk is managed in accordance with the three lines of protection model:

1. The first defense line is secured by the Bank's business and support divisions. They do bear all operational risks arising in their area of responsibility. These divisions are responsible for identifying and assessing operational risks, taking management measures, and reporting on such risks. On this first defense line, the Bank appoints within the divisions specialized employees responsible for internal control of operational risk.
2. In the second defense line protection, the RMD performs the following functions in terms of operational risk management: elaboration implementation and continuous development of the operational risk management system; assessment of the Bank's operational risk, including assessment based on information provided by the Bank's employees responsible for operational risk internal control in the first line of these risk securing units.
3. On the third defense line, the internal audit Department evaluates the effectiveness of the operational risk management system by divisions of the first and second protection levels, including evaluation of the internal control system effectiveness.

The operational risk is managed at all stages of subsequent banking processes.

The Bank uses the following response methods:

- risk minimization (mitigation) – taking the necessary measures to reduce the identified risk level to an acceptable level;
- risk acceptance: after analyzing the risk identified circumstances, the implementation of measures to its minimization is not economically justified;
- risk avoidance: refusal to conduct the banking process operations due to the inherent risk;
- risk insurance (transfer): insurance of operational risks that cannot be managed by the Bank and are beyond its direct control.

Operational risk did not significantly affect the Bank's performance in 2019.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

Compliance risk

The Compliance risk is the probability of losses and/or sanctions, additional expenses or loss of planned revenue or loss of reputation due to the Bank's failure to comply with legal requirements, regulatory acts, market standards, fair competition rules, corporate ethics rules, conflicts of interest, as well as internal Bank documents.

The Bank strives to avoid compliance risks as much as possible by maintaining a high level of compliance risk management culture, staff continuous training , strict compliance with the legislation of Ukraine, regulations of the National Bank of Ukraine and internal documents of the Bank, assessment of external and internal factors that may lead to compliance risks and timely response to such factors occurrence.

In order to control the compliance risk level, the Bank has introduced an effective system for:

- identification of compliance risks and incidents, ensuring timely response to them;
- identification of potential and existing conflicts of interest, ensuring their timely avoidance / elimination;
- involvement of the compliance Department to solve problematic issues that are within its competence;
- analysis of new products and significant changes in the Bank's operations (before their implementation);
- analysis of the Bank's collegial bodies' decisions;
- analysis of reports from Bank divisions, including audit reports, and so on;
- escalation of identified risks and / or procedures violations, and organization of due response process.

27. Transactions with related parties

In the normal course of business, the Bank provides loans to customers, attracts deposits, and performs other transactions with related parties. The Parties are considered related if one party has the ability to control the other party or significantly influence the other party in making financial and operational decisions. The terms of transactions with related parties are set at the time of the transaction.

Related parties are the Bank's shareholder, members of the Supervisory Board, members of the Management Board and their close family members, and companies that the shareholder, key management personnel, or their family members do control. Key management personnel are those who have the authority and responsibility to plan, manage and control the Bank's operations, should it be directly or indirectly, and include members of the Management Board and Supervisory Board. None business entities can be considered related parties just because of the fact that they share a Director or other member of the Bank's senior management staff, or because a member of the Bank's key management staff has significant influence over another business entity.

The Bank's management believes that the terms under which transactions are performed by related parties did not differ from those offered to unrelated parties.

The Bank's transactions with related parties and balances with related parties as of December 31, 2019:

	Parent company	***Major participants (shareholders) of the Bank***	***Senior management staff***	***Other related parties***	***Total***
Loans and advances to customers (contractual interest rate: UAH – 46%)	-	-	226	34	**260**
including the reserve securing an impairment of loans and receivables	-	-	(5)	(1)	**(6)**
Other financial assets	-	-	-	9	**9**
Due to customers (contractual interest rates: UAH-12.1%, USD -1.1%, EUR – -%)	-	17,453	3,010	203,194	**223,657**

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

Related party balances as of December 31, 2018:

	Parent company	Major participants (shareholders) of the Bank	Senior management staff	Other related parties	Total
Loans and advances to customers (contractual interest rate: UAH – 48%)	-	-	71	117	**188**
including the reserve securing an impairment of loans and receivables	-	-	(3)	(6)	**(9)**
Other financial assets	-	-	-	35	**35**
Due to customers (contractual interest rates: UAH-11.6%, USD -0.09%, EUR – -%)	440,104	19,594	2,971	321,156	**783,825**

Other rights and liabilities related to transactions with related parties as of December 31 2019:

	Parent company	Major participants (shareholders) of the Bank	Senior management staff	Other related parties	Total
Potential lending obligations (revocable)	-	-	741	125,215	**125,956**

For potential lending obligations (revocable credit lines), the Bank has the right to refuse to issue a loan, so it does not bear credit risk.

Other rights and liabilities related to transactions with related parties as of December 31, 2018:

	Parent company	Major participants (shareholders) of the Bank	Senior management staff	Other related parties	Total
Potential lending obligations (revocable)	-	-	557	205,130	**205,687**

Total loans granted to related parties and repaid by related parties during the period ended on December 31, 2019:

	Parent company	Major participants (shareholders) of the Bank	Senior management staff	Other related parties	Total
Amount of loans granted to related parties	-	-	6,699	1,083	**7,782**
Amount of loans repaid by related parties	-	-	(6,542)	(1,171)	**(7,713)**

Total loans granted to related parties and repaid by related parties during the period ended on December 31, 2018:

	Parent company	Major participants (shareholders) of the Bank	Senior management staff	Other related parties	Total
Amount of loans granted to related parties	-	-	4,177	32,008	**36,185**
Amount of loans repaid by related parties	-	-	(4,110)	(31,916)	**(36,026)**

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

The Bank's transactions with related parties for the period ending on December 31, 2019:

	Parent company	*Major participants (shareholders) of the Bank*	*Senior management staff*	*Other related parties*	*Total*
Interest income	-	-	10	6	**16**
Interest expense	-	-	(38)	(16,787)	**(16,825)**
Commission income	193	15	93	4,300	**4,601**
Result from operations with foreign currency	3,110	176	-	16,474	**19,760**
Recovery /(accrual of provision) for impairment of loans and due from other banks	-	-	(2)	5	**3**
Other operating income	-	-	-	328,007	**328,007**
Administrative and other operating expenses	-	-	(55,575)	-	**(55,575)**

The Bank's transactions with related parties for the period ending on December 31, 2018:

	Parent company	*Major participants (shareholders) of the Bank*	*Senior management staff*	*Other related parties*	*Total*
Interest income	-	-	18	113	**131**
Interest expense	-	(12)	(195)	(19,665)	**(19,872)**
Commission income	245	14	97	7,237	**7,593**
Result from operations with foreign currency	-	-	-	23,502	**23,502**
Recovery /(accrual of provision) for impairment of loans and due from other banks	-	-	(1)	(2)	**(3)**
Recovery /(accrual of provision) for impairment of for impairment of other financial and other assets	-	-	-	(19)	**(19)**
Administrative and other operating expenses	-	-	(58,258)	-	**(58,258)**

Remuneration to the key management personnel for the year ended on December 31, 2019 is represented by short-term payments in the amount of UAH 45,620 thousand (2018: UAH 44,920 thousand). Remuneration to the members of the Supervisory Board for the year ended on December 31, 2019 amounted to UAH 5,740 thousand (2018: UAH 8,154 thousand).

28. Segments information

For financial reporting purposes, the Bank identifies three operating segments:

Services rendered to legal entities. Providing loans, attracting deposits and opening current accounts to legal entities and institutions, providing guarantees and avals, opening letters of credit, supporting foreign economic activities.

Services rendered to individuals. Servicing deposits of individuals, providing consumer loans, overdrafts, credit cards and money transfers.

Investment banking activity. Trading operations with securities and foreign currency, operations with derivative instruments, raising and placing funds on the interbank market, investments in other financial instruments.

In order to encourage Business segments to make decisions on the assets and liabilities in order to reduce liquidity risks and optimize the profit of segments as well as of the Bank as a whole, the Bank determines the Business segments result taking into account the internal cost of resources, at which the conditional purchase/ sale of free/ excess resources from Business segments/ by Business segments are carried out.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

Information on income and expense, profit and loss, assets and liabilities for the Bank's operating segments for the year ended on December 31, 2019:

	Services rendered to legal entities.	***Services rendered to individuals.***	***Investment banking***	***retained amounts***	***Total***
Interest income	347,704	354,182	151,261	-	**853,147**
Interest expense	(333,810)	(284,276)	-	(13,441)	**(631,527)**
Transfer	161,278	191,562	(148,834)	(204,006)	**-**
Net interest income	**175,172**	**261,468**	**2,427**	**(217,447)**	**221,620**
Net commission income	97,502	188,345	(102,329)	-	**183,518**
Other income and expenses	473,226	(158,994)	71,401	143,064	**528,697**
Accrual of provisions	(705,196)	(133,597)	602	(20,334)	**(858,525)**
Segment result	**40,704**	**157,222**	**(27,899)**	**(94,717)**	**75,310**
Income tax expenses	-	-	-	(18)	**(18)**
Profit /(loss) for the year	**40,704**	**157,222**	**(27,899)**	**(94,735)**	**75,292**
Segment assets	2,314,855	987,223	3,006,648	2,269,177	**8,577,903**
Segment liabilities	3,845,994	3,402,147	465	148,766	**7,397,372**

Retained earnings represent revaluation of foreign currency items on the financial position statement balance sheet, as well as other income not related to the Bank's main operating activities. Other retained expenses are represented by general banking administrative expenses and other expenses on provisions.

Management monitors the operating results of each division separately for the purpose of making decisions about resource allocation and performance evaluating. Segment results are defined differently than in the Financial Statements. The Income tax is accounted on a general basis and is not distributed among operating segments.

Information on income and expenses, profit, assets and liabilities for the Bank's operating segments for the year ended on December 31, 2018:

	Services rendered to legal entities.	***Services rendered to individuals.***	***Investment banking***	***retained amounts***	***Total***
Interest income	438,073	183,820	89,720	-	**711,613**
Interest expense	(240,,809)	(273,897)	-	(65)	**(514,771)**
Transfer	115,476	229,385	(149,476)	(195,385)	**-**
Net interest income	**312,740**	**139,308**	**(59,756)**	**(195,450)**	**196,842**
Net commission income	114,369	96,007	(62,921)	-	**147,455**
Other income and expenses	155,442	(199,576)	45,666	(56,183)	**(54,651)**
Accrual of provisions	(713,573)	(95,782)	(6,189)	(25,392)	**(840,936)**
Segment result	**(131,022)**	**(60,043)**	**(83,200)**	**(277,025)**	**(551,290)**
Income tax expenses	-	-	-	(175)	**(175)**
Profit / (loss) for the year	**(131,022)**	**(60,043)**	**(83,200)**	**(277,200)**	**(551,465)**
Segment assets	3,373,568	602,888	3,485,746	2,259,824	**9,722,026**
Segment liabilities	4,925,273	4,021,190	1,317	48,717	**8,996,497**

29. Fair value measurement

The Bank uses this hierarchical structure of valuation methods to determine and disclose information about the financial instruments fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that are available at the valuation date.
- Level 2: valuation models where all input data that has a significant impact on the reported fair value amount is directly or indirectly based on information observed in the market.
- Level 3: valuation models that use inputs that have a significant impact on the reported fair value amount never based on observable market information.

As of December 31. 2019 and 2018, there was no movement between levels 1 and 2 of the fair value hierarchy.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

For the purpose of fair value disclosure, the Bank determined classes of assets and liabilities based on the asset or liability nature, characteristics and risks, as well as the level of fair value sources hierarchy:

		Fair value measurement using				
December 31, 2019	***Valuation date***	***Level 1***	***Level 2***	***Level 3***	***Total***	***Balance-sheet value***
Assets accounted at their fair value						
Investment in securities	31.12.2019	-	-	330	**330**	**330**
Fixed assets						
Buildings and structures	01.11.2019	-	146,359	-	**146,359**	**146,359**
Investment property	01.11.2019	-	1,497,696	-	**1,497,696**	**1,497,696**
Assets whose fair value is disclosed						
Cash and cash equivalents	31.12.2019	-	-	1,124,122	**1,124,122**	**1,124,122**
Due from other banks	31.12.2019	-	-	365,907	**365,907**	**365,907**
Loans and advances to customers	31.12.2019	-	-	3,323,260	**3,323,260**	**3,300,795**
Deposit Certificates of the National Bank of Ukraine	31.12.2019	-	-	1,502,244	**1,502,244**	**1,502,244**
Other financial assets	31.12.2019	-	-	16,435	**16,435**	**16,435**
Liabilities whose fair value is disclosed						
Due to other banks	31.12.2019	-	-	39	**39**	**39**
Due to customers	31.12.2019	-	-	7,175,710	**7,175,710**	**7,161,453**
Lease liabilities	31.12.2019	-	-	106,419	**106,149**	**106,149**
Other financial liabilities	31.12.2019	-	-	90,596	**90,596**	**90,596**

Reconciliation of amounts recognized at the reporting period beginning and end for assets accounted at fair value is presented in notes 10, 11, 13.

The following methods and assumptions were used to determine fair value:

Management has determined that the fair value of cash, short-term financial assets and liabilities and other assets and liabilities is approximately equal to their accounted value, since these instruments have a short maturity.

Fixed assets (buildings) and investment property. To determine the fair value of buildings and investment property, the Bank engages independent appraisers, using a comparative method based on transaction prices of facilities that have a similar nature, location and condition.

Investments in securities. Investments in capital instruments, which value is determined using any valuation technique, are represented by shares that do not circulate inactive market, and participation shares. The value of these assets is determined using models that in some cases include only data observable in the market, and in others, include both observable data and those never observed in the market. Input data that are not observable in the market include assumptions about the investee future financial performance, the nature of its risks, and economic assumptions related to the industry and geographical jurisdiction in which the respective investee operates.

Loans and advances to customers. The Bank evaluates loans and customer debt as well as accounts receivable based on such parameters as interest rates, risk factors, and individual solvency of the borrower. Based on this estimate, the assessment reserves are created to account to expected losses on these assets. The fair value of loans and customer debt is determined using the cash flow discount method that applies market rates for loans in UAH at 25.26% and for loans in foreign currency at the rate of 5.4%.

Due to customers. The fair value of borrowed funds is determined using the method of discounting cash flows that involves market interest rates for term deposits in local currency in the amount equal to 15.48% and for term deposits in foreign currency in the amount of 2.87%. The company's own credit default risk as of December 31, 2019 is assessed as insignificant.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

Information on the fair value of the Bank's assets and liabilities as of December 31, 2018:

December 31, 2018	*Valuation date*	*Fair value measurement using*				*Balance-sheet value*
		Level 1	*Level 2*	*Level 3*	*Total*	
Assets accounted at their fair value						
Investment in securities	31.12.2018	407,852	-	330	**408,182**	**408,182**
Fixed assets						
Buildings and structures	01.11.2018	-	158,794	-	**158,794**	**158,794**
Investment property	01.11.2018	-	1,518,665	-	**1,518,665**	**1518,665**
Assets whose fair value is disclosed						
Cash and cash equivalents	31.12.2018	-	-	1,515,074	**1,515,074**	**1,515,074**
Due from other banks	31.12.2018	-	-	320,910	**320,910**	**320,910**
Loans and advances to customers	31.12.2018	-	-	3,963,056	**3,963,056**	**3,963,056**
Deposit Certificates of the National Bank of Ukraine	31.12.2018	-	-	1,201,973	**1,201,973**	**1201,973**
Other financial assets	31.12.2018	-	-	52,647	**52,647**	**52,647**
Liabilities whose fair value is disclosed						
Due to other banks	31.12.2018	-	-	45	**45**	**45**
Due to customers	31.12.2018	-	-	8,875,107	**8,875,107**	**8,875,107**
Lease liabilities	31.12.2018	-	-	464	**464**	**464**
Other financial liabilities	31.12.2018	-	-	79,787	**79,787**	**79,787**

The valuation methods and inputs used in estimating the assets fair value as of December 31, 2019 are described below:

	Balance-sheet value	*Evaluation method*	*Parameter*	*Range of parameter values*
Investment in securities	**330**	discounting cash flows	risk coefficient	0 -1,0
Investment property	**1,497,696**			
- *Real estate*	919,718	comparative	square meter	2,2 thousand UAH - 176,3 thousand UAH
- *land plot*	577,978	comparative	100 sq.m.	0,1 thousand UAH - 880,1 thousand UAH
Fixed assets	**146,359**			
- *Real estate*	146,359	comparative	square meter	2,5 thousand UAH – 58,2 thousand UAH

Below exposed is a description of the valuation methods and inputs used to measure the fair value of assets as of December31, 2018.:

	Balance-sheet value	*Evaluation method*	*Parameter*	*Range of parameter values*
Investment in securities	**330**	discounting cash flows	risk coefficient	0 -1,0
Investment property	**1,518,665**			
- *Real estate*	937,560	comparative	square meter	1,0 thousand UAH - 488,9 thousand UAH
- *land plot*	581,105	comparative	100 sq.m.	0,1 thousand UAH - 841,0 thousand UAH
Fixed assets	**158,794**			
- *Real estate*	158,794	comparative	square meter	1,0 thousand UAH - 288,1 thousand UAH

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

30. Presentation of financial instruments by valuation category

Financial assets by valuation category as of December 31, 2019:

	Financial assets at amortised cost	*Financial assets at fair value through other comprehensive income*	*Total*
Cash and cash equivalents	1,124,122	-	**1,124,122**
Due from other banks	365,907	-	**365,907**
Loans and advances to customers	3,300,795	-	**3,300,795**
Investment in securities	-	330	**330**
Deposit Certificates of the National Bank of Ukraine	1,502,244	-	**1,502,244**
Other financial assets	16,435	-	**16,435**
Total financial assets	**6,309,503**	**330**	**6,309,833**

Financial assets by valuation category as of December 31, 2018:

	Financial assets at amortised cost	*Financial assets at fair value through other comprehensive income*	*Total*
Cash and cash equivalents	1,515,074	-	**1,515,074**
Due from other banks	320,910	-	**320,910**
Loans and advances to customers	3,963,056	-	**3,963,056**
Investment in securities	-	408,182	**408,182**
Deposit Certificates of the National Bank of Ukraine	1,201,973	-	**1,201,973**
Other financial assets	52,647	-	**52,647**
Total financial assets	**7,053,660**	**408,182**	**7,461,842**

31. Capital management

Regulatory capital

The Bank actively manages the level of capital adequacy in order to protect against risks inherent in its operations, ensuring that the Bank complies with external capital requirements, and maintains a high credit rating and capital adequacy standards necessary to operate and maximize the well-being of shareholders. The Bank's capital adequacy is monitored using, when supervising the Bank activities, among other methods, the principles and ratios established by the Basel capital agreement (approved in July 1988 with amendments and additions adopted in November 2005, that take into account, inter alias, the inclusion of market risk) and the standards adopted by the NBU

The Bank manages its capital structure and adjusts it in the light of changes in economic conditions and its activities risk characteristics. Compared to previous years, there were no changes in the goals, policies and procedures of capital management.

NBU capital adequacy ratio

The NBU sets requirements as to the banks' capital adequacy and monitors their implementation. According to the existing NBU capital requirements, banks shall maintain the ratio of capital to risk-weighted assets ("capital adequacy ratio in accordance with Ukrainian regulatory requirements") above a certain minimum set as obligatory. If the Bank does not maintain or does not sufficiently increase its own capital in accordance with the increase in its risk-weighted assets, it may violate the established capital adequacy indicators, that potentially involves the application of NBU sanctions and can negatively affect the operational results and financial condition.

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

As of January 1, 2020, the value of the regulatory capital indicator (H1) is UAH 1,263 million (as of January 1, 2019: UAH 1,035 million), the regulatory capital adequacy ratio (H2) was 20.0% (as of January 1, 2019: 13.8%) (at least 10% required), the capital adequacy ratio (H3) - 15.9% (as of January 1, 2019: 12.6%) (when at least 7% required).

In order to promote the financial stability of the Ukrainian banking system, especially in the face of adverse changes in the macroeconomic environment, since 2018, the National Bank of Ukraine is conducting on the annual basis the assets quality assessment (asset quality review - AQR), and stress testing for the largest banks. In accordance with the NBU Board resolution No. 141 dated of December 22, 2017 "On approval of the Regulation for the banks and the banking system of Ukraine stability assessment" (hereinafter referred to as the regulation 141), the stability assessment of the largest Ukrainian banks is carried out in three stages with the involvement of an independent auditor. At the first stage, the independent auditor assesses the quality of banks ' assets and the acceptability of collateral for credit operations. At the second stage, the National Bank extrapolates the results obtained and calculates capital adequacy ratios. At the last stage, banks are subjected to stress testing under two macroeconomic scenarios: basic and unfavorable. Stress testing involves calculating the impact of negative factors on banks ' capital adequacy to cover risks.

According to the Bank's stability assessment results as of 01.01.2018, the estimated capital required under the basic macroeconomic scenario amounted to UAH 739 million and UAH 2,846 million under the adverse situation scenario. With the aim of increasing capital to the required level, on 19.12.2018 the Bank's Supervisory Board approved the Plan of restructuring the JSC “BANK CREDIT DNEPR” with capitalization Program for the period till 01.02.2019 year (hereinafter referred to as the restructuring Plan), approved by the National Bank of Ukraine Board decision. Due to the support of the Shareholder and the Bank's implementation of planned measures, the Plan of restructuring was completed ahead of schedule, during 2019 The Bank's shareholder provided for the Bank's financial result improvement in the amount of UAH 627 million. as a result of non-performing loans settlement by selling these and receiving non-repayable financial support in the amount of UAH 328 million..

According to the results of the Bank's stability assessment as of 01.01.2019, the estimated capital requirement under the basic macroeconomic scenario was UAH 2,429 million and UAH 3,792 million under the unfavorable scenario. In order to increase the capital and ensure the necessary level of regulatory capital adequacy (H2) and capital adequacy ratio (H3), on 29.11.2019 the Bank Supervisory Board approved the capitalization/restructuring Program of JSC “BANK CREDIT DNEPR” for the period up to 30.09.2020 (hereinafter referred to as the capitalization Program) approved by the decision of the National Bank of Ukraine Board dated of 24.12.2019. The capitalization program provides a list of measures consisting in an increase of the Bank's capital through the shareholder's support, the Bank's operating activities improvement, non-performing loans collecting, and credit risk reduction through capital coverage. The shareholder shall ensure that the Bank's capital increase for a total amount of UAH 752 million; as at this statement date the shareholder already provided the Bank's capital increase for UAH 519 million by ensuring the loans repayment as well as the Bank financing under non-repayable financial assistance contracts.

The capital adequacy ratio is in accordance with the requirements of the Basel agreement

As of December 31, the Bank's capital adequacy ratio, calculated in accordance with the Basel agreement criteria, accounting the subsequent adjustments for market risk based on the financial indicators reflected in these Financial Statements, was:

	2019	***2018***
1-tier capital		
Share capital	3,586,561	3,208,454
Uncovered losses	(2,506,305)	(2,590,801)
Share premium	17,469	17,577
Total 1-tier capital	**1,097,725**	**635,230**
2-tier capital		
Revaluation reserves	82,806	90,299
Total 2-tier capital	**82,806**	**90,299**
Total regulatory capital	**1,180,531**	**725,529**
Total risk-weighted assets	**5,597,306**	**6,369,952**
Capital adequacy indicators		
1-tier capital adequacy ratio	**19.6%**	**10.0%**
Total capital adequacy ratio	**21.1%**	**11.4%**

(in thousands of UAH, unless otherwise stated) Translation from Ukrainian original

As of December 31, the Bank's capital adequacy ratio, calculated in accordance with the requirements of the National Bank of Ukraine, was:

	2019	*2018*
1-tier capital		
Share capital	3,586,561	3,208,454
Uncovered losses	(2,595,851)	(2,280,752)
Share premium	17,469	17,577
Total 1-tier capital	**1,008,179**	**945,280**
2-tier capital		
Revaluation reserves	80,504	89,709
Total 2-tier capital	174,954	-
1-tier capital	**255,458**	**89,709**
Deductions from capital	**(330)**	**(330)**
Total regulatory capital	**1,263,307**	**1,034,658**
Total risk-weighted assets	**6,305,262**	**7,104,133**
Open currency position	**17,204**	**382,728**
1-tier capital adequacy ratio	**15.95%**	**12.6%**
Total capital adequacy ratio	**19.98%**	**13.8%**

32. Subsequent events

On January 23, 2020, the Bank received the certificate for registration of UAH 3,58 billion issue of shares, while UAH 866,561 thousand contributions paid by the Shareholder were used to increase the share capital.

In January 2020, the Bank sold an investment property located in the Autonomous Republic of Crimea (Note 11) for UAH 8,516 thousand.

In March 2020, in line of the Capitalization Program, the Supervisory Board approved the decision of the Bank's Management Board to enter into the agreement on non-repayable financial support in the amount of up to UAH 250,000 thousand. As of the date of this reporting, the Bank has received UAH 153 million under the above agreement.

As part of the Bank's Capitalization Program, in March 2020 the Bank recognized on its balance sheet the collateral on a non-performing loan at UAH 80,397 thousand - initial price of the re-auction that did not take place.

In order to enable full repayment of the non-performing debt and preserve the respective collateral, on June 17, 2020, the Bank restructured the USD 1,1 million loan by purchasing property that served as collateral for UAH 19.1 million. with its subsequent transfer to financial leasing and payment of the rest of debt (USD 0.4mln) by installments.

Four times after the reporting date, the National Bank of Ukraine reduced the discount rate from 13.5% to 6%, which led to significant changes in the cost of funding, the yields on NBU-refinanced securities in the Bank's portfolio and the interest rates on corporate loans.

On June 10, 2020, the Board of Directors of the International Monetary Fund approved the 18-month Stand-By program for Ukraine worth USD 5 billion. Adoption of the program will also allow Ukraine to raise an additional USD 3 billion from the World Bank in the European Union and refinance a significant portion of state FX debt repayments, having a positive impact on the domestic financial market.

Intentions to acquire significant interest in the Bank

O.V. Yaroslavsky and JSC "BANK CREDIT DNEPR" submitted the joint application for a concentration permit to the Antimonopoly Committee of Ukraine. On April 9, 2020 the Antimonopoly Committee of Ukraine granted permission to Oleksandr Vladylenovych Yaroslavsky, a citizen of Ukraine, to purchase more than 50% shares in JSC "BANK CREDIT DNEPR".

In compliance with the requirements of the current legislation, on 02.04.2020 Mr. O.V. Yaroslavsky submitted for approval to the National Bank of Ukraine the application for the intention to acquire a significant stake in JSC "BANK CREDIT DNEPR", on 15.04.2020 the Bank received the notification about the submission. As of the date of the Financial Statements, the Bank has no information about the results of the above submission.

The events surrounding the COVID-19 pandemic and their aftermath

In connection with the COVID-19 pandemic the quarantine was established until July 31, 2020 and certain anti-epidemic measures were introduced throughout Ukraine by the decisions of the Cabinet of Ministers. For many businesses, the

COVID-19 pandemic, the introduction of quarantine and restrictive measures have a direct and indirect financial impact on their activities. In order to minimize the negative impact of such restrictions on the financial stability and economy of Ukraine, public authorities shall take appropriate urgent measures. In particular, the legislation adopted by the Verkhovna Rada of Ukraine provided additional social and economic guarantees and support to taxpayers for the period of measures preventing the occurrence and spread of coronavirus disease (COVID-19).

Despite the fact that banks continue their activities to provide financial services to all categories of customers, the measures taken by the state directly affect the relationship between banks and their debtors. In particular, the law suspends the obligation to fulfill the main liability secured by the mortgage for the period of quarantine, and does not allow foreclosure on the subject of the mortgage, prohibits the accrual and collection of penalties (fines, penalties) for late payment of loans and increase interest rate on the loan agreement. Such restrictions directly affected banks' ability to work with non-performing debtors and triggered massive debt restructuring programs for troubled borrowers, which led to lower profitability of retail lending on the background of deteriorating debt service and increased credit risk. The risks of uncertainty regarding the further development of the situation are disclosed in Note 6 to these Financial Statements.

In support of the banking system, the National Bank of Ukraine issued a number of resolutions aimed at simplifying regulatory and organizational processes and providing recommendations how to mitigate the impact of the crisis on the financial condition of borrowers by restructuring loans to individuals and legal entities experiencing financial difficulties due to circumstances related to the pandemic.

The separate decision of the Bank, approved by the Supervisory Board, temporarily suspended lending to retail customers and private banking for the period of measures preventing the occurrence and spread of coronavirus disease (COVID-19).

On April 21, 2020, the Management Board and the Supervisory Board of the Bank approved tools for restructuring the Cash Loan banking product for open market and current salary projects, due to financial difficulties of the debtor / counterparty driven by quarantine and restrictions due to coronavirus disease. The Bank's capitalization programs provide for debt capitalization, extension of the loan term to 5 years with the provision of grace period for three months and a change in the loan fee. Mass short-term restructuring program for cash loans and credit cards is separately approved. Forced changes in the basic parameters of lending due to the deterioration of retail debt service and the use of restructuring tools will require a revision of the strategy of retail lending as a whole and by individual segments, taking into account updated assumptions about profitability and credit risk.

On April 29, 2020, the Supervisory Board reviewed the current situation in Ukraine in the context of the impact of quarantine measures on the Ukrainian economy and decided to close nine branches of the Bank in Kyiv, Dnipro, Zaporizhia, Lviv and Kherson. It was also decided to optimize the number of the Bank's staff in connection with the optimization of the branch network and the temporary suspension of lending to retail and private banking customers.

Given the above and the uncertainty of the future situation related to the possible negative consequences of the outbreak of coronavirus COVID-19 and the measures of Ukraine's Cabinet of Ukraine to prevent its further occurrence and spread, the Bank can not reliably assess the impact on both the Bank and its counterparties (Note 6).

June 30, 2020

Chairman of the Management Board Olena Malynska

Deputy Chairman of the Management Board Sergiy Volkov

Chief accountant Ruslan Chudakivskiy