RwSbank
Respect with Stability

# JSC "RWS BANK"

## ANNUAL FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

for the year ended December 31, 2019

and INDEPENDENT AUDITOR'S REPORT

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# FINANCIAL STATEMENTS

# STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2019

| *thousand UAH* | **Notes** | **December 31, 2019** | **December 31, 2018** listed |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 6 | 379,695 | 505,982 |
| Loans and customer debt | 7 | 277,817 | 116,361 |
| Investments in securities | 8 | - | 55,658 |
| Investment property | 9 | 308,377 | 193,260 |
| Current income tax receivable | | 182 | - |
| Fixed assets, right-of-use assets and intangible assets | 10 | 31,617 | 16,424 |
| Other assets | 11 | 72,936 | 53,005 |
| **Total assets** | | **1,070,624** | **940 690** |
| **OBLIGATION** | | | |
| Client funds | 12 | 767,480 | 731,995 |
| Derivative financial liabilities | | - | - |
| Provisions for liabilities | 13 | 212 | 462 |
| Other obligations | 14 | 82,710 | 28,473 |
| **Total liabilities** | | **850 402** | **760 930** |
| **EQUITY** | | | |
| Authorized capital | 15 | 300,039 | 300,039 |
| Other additional capital | | 48,000 | |
| Reserve and other funds of the bank | | 9,445 | 9,400 |
| Revaluation reserves | | - | (41) |
| Retained earnings (uncovered loss) | | (137,262) | (129,638) |
| **Total equity** | | **220 222** | **179,760** |
| **Total liabilities and equity** | | **1,070,624** | **940 690** |

Approved for release and signed on April 24, 2020

Chairman of the Board O.V. Kotlyarevska

Chief Accountant O.M. Burdina

# STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR 2019

| *thousand UAH* | **Notes** | **2019 year** | **2018 year** listed |
|---|---|---|---|
| Interest income | 18 | 85 855 | 42,908 |
| Interest expenses | 18 | (56,459) | (26,178) |
| **Net interest income/(Net interest expense)** | | **29,396** | **16,730** |
| Commission income | 19 | 60 605 | 51,416 |
| Commission costs | 19 | (7,918) | (5,159) |
| Net profit/(loss) from transactions with financial instruments at fair value through profit or loss | | (2,303) | 4,038 |
| Net profit/(loss) from transactions with debt financial instruments carried at fair value through other comprehensive income | | 5 4 | 5,179 |
| Net profit/(loss) from foreign currency transactions | | 8,220 | 19,918 |
| Net profit/(loss) from foreign currency revaluation | | 5,987 | 2 120 |
| Net profit/(loss) from revaluation of investment property | | 13,174 | (15,561) |
| Net gain/(loss) from impairment of financial assets | | (21,230) | (3,565) |
| Net gain/(loss) from impairment of other assets | | 7,807 | (12,570) |
| Net loss/(gain) from increase/(decrease) in provisions for liabilities | 13 | 250 | (69) |
| Other operating income | 20 | 124,650 | 26,236 |
| Employee benefits expenses | | (47,115) | (52,863) |
| Depreciation and amortization expenses | | (10,801) | (2,469) |
| Other administrative and operating expenses | 21 | (168,357) | (65,395) |
| **Profit/(loss) before tax** | | **(7 5 79 )** | **(32,014)** |
| Income tax expenses | 22 | **-** | **-** |
| **Profit/(loss)** | | **(7 5 79 )** | **(32,014)** |
| **OTHER TOTAL INCOME:** | | | |
| ITEMS TO BE RECLASSIFIED TO PROFIT OR LOSS | | | |
| Changes in the results of revaluation of debt financial instruments | | 41 | (41) |
| **Total cumulative income** | | **(7 5 38 )** | **(32,055)** |

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# STATEMENT OF CHANGES IN EQUITY FOR 2019

| *thousand UAH* | Authorized capital | Other additional capital | Reserve and other funds | Revaluation reserves | Retained earnings | **Total** |
|---|---|---|---|---|---|---|
| **Balance as of January 1, 2018** | **300,039** | **-** | **9,400** | **-** | **(97,624)** | **211,815** |
| Total cumulative revenue for 2018 | - | - | - | (41) | (32,014) | (32,055) |
| listed | | | | | | |
| *profit/(loss)* | - | - | - | - | *(32,014)* | *(32,014)* |
| *other comprehensive income* | - | - | - | *(41)* | - | *(41)* |
| **Balance as of December 31, 2018** | **300,039** | **-** | **9,400** | **(41)** | **(129,638)** | **179,760** |
| listed | | | | | | |
| Total cumulative revenue for 2019 | - | - | 45 | 41 | (7,624) | (7 5 38 ) |
| *profit/(loss)* | - | - | *45* | *(9)* | *(7 61 5 )* | *(7 5 79 )* |
| *other comprehensive income* | - | - | - | *50* | *(9)* | *41* |
| Financial assistance | | 48,000 | - | - | - | 48,000 |
| **Balance as of December 31, 2019** | **300,039** | **48,000** | **9,445** | **-** | **(137,262)** | **220 222** |

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# CASH FLOW STATEMENT FOR 2019

| *thousand UAH* | **Notes** | **2019 year** | **2018 year** |
|---|---|---|---|
| OPERATIONAL ACTIVITIES | | | |
| Interest income received | | 82,518 | 41,370 |
| Interest expenses paid | | (56,697) | (19,347) |
| Commission income received | | 57,436 | 50,609 |
| Commissions paid | | (7,918) | (8,649) |
| Result of foreign currency transactions | | 5,917 | 19,918 |
| Other operating income received | | 23,437 | 17,065 |
| Personnel maintenance payments paid | | (46,628) | (51,607) |
| Administrative and other operating expenses paid | | (164,822) | (63,515) |
| Income tax paid | | (182) | - |
| **Cash received/(paid) from operating activities before changes in operating assets and liabilities** | | **(106,939)** | **(14,156)** |
| Changes in operating assets and liabilities | | | |
| Net (increase)/decrease in loans and bank debt | | - | (946) |
| Net (increase)/decrease in financial assets at fair value through profit or loss | | 1,776 | 4,038 |
| Net (increase)/decrease in loans and advances to customers | | (185,129) | (89,680) |
| Net (increase)/decrease in other assets | | (12,838) | (16,609) |
| Net increase/(decrease) in banks' funds | | - | (10,000) |
| Net increase/(decrease) in customer funds | | 35,724 | 459,495 |
| Net increase/(decrease) in other liabilities | | 45,503 | 4,366 |
| **Net cash flows from operating activities** | | **(221,903)** | **336,508** |
| INVESTMENT ACTIVITIES | | | |
| Purchase of securities | | 55,700 | (55,903) |
| Purchase of investment property | | (5,463) | - |
| Proceeds from the sale of investments in securities | | - | 5,179 |
| Proceeds from the sale of investment property | | - | 2,898 |
| Proceeds from the sale of fixed assets | | - | 16 |
| Acquisition of fixed assets | | (6,594) | (15,314) |
| Acquisition of intangible assets | | (1,875) | (2,256) |
| **Net cash flows from investing activities** | | **41,768** | **(65,380)** |
| FINANCIAL ACTIVITIES | | | |
| Other shareholder contributions, other than share issuance | | 48,000 | - |
| **Net cash flows from financing activities** | | **48,000** | **-** |
| Net exchange rate difference | | 5,986 | (23) |
| **Net increase/(decrease) in cash and cash equivalents** | | **(126,149)** | **271 105** |
| **Cash at the beginning of the period** | | **505,652** | **234,547** |
| **Cash at the end of the period** | 6 | **379,503** | **505,652** |

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# NOTES TO THE FINANCIAL STATEMENTS

## 1. INFORMATION ABOUT THE BANK

Name of the bank: JOINT STOCK COMPANY "RWS BANK".

Abbreviated name of the Bank: JSC "RWS BANK".

Bank location: JOINT STOCK COMPANY "RWS BANK" is located at: Ukraine, 04071, Kyiv, Vvedenska Street, building 29/58.

Country in which the bank is registered: The bank is registered in Ukraine.

JOINT-STOCK COMPANY "RWS BANK" is the legal successor of PUBLIC JOINT-STOCK COMPANY "RWS BANK", which in turn is the legal successor of the property, rights and obligations of PUBLIC JOINT-STOCK COMPANY "TRANSITION BANK "RWS BANK" (banking license No. 277 dated June 25, 2015), which is the legal successor in terms of assets (including rights under security agreements) and obligations under the claims of creditors (depositors) under the transferred obligations of PUBLIC JOINT-STOCK COMPANY "OMEGA" BANK" (name of the insolvent bank), identification code 19356840, registered by the National Bank of Ukraine on October 31, 1991 under number 69.

PJSC "RWS BANK" was established in accordance with the decision of the Executive Directorate of the Deposit Guarantee Fund of Individuals dated June 18, 2015 (minutes No. 132/15) on the creation of a transitional bank in order to implement the method of withdrawing an insolvent bank from the market of PUBLIC JOINT-STOCK COMPANY "OMEGA BANK" (hereinafter referred to as "PJSC "OMEGA BANK"), provided for by paragraph two of part sixteen of Article 42 of the Law of Ukraine "On the Deposit Guarantee System of Individuals".

The founder of the Bank was the Deposit Guarantee Fund for Individuals, which owned 100% of the Bank's shares at the time of the Bank's establishment.

The bank was registered by the State Registrar of the Registration Service of the Main Department of Justice in Kyiv on June 22, 2015, and entered into the State Register of Banks on June 25, 2015 under No. 354.

As of December 31, 2019, the shareholders of the Bank are:

- Oleksandr Volodymyrovych Stetsyuk, who is the ultimate beneficial owner of the Bank, owning 99% (ninety-nine percent) of the voting shares of the Bank and
- Demchak Ruslan Yevheniyovych, who owns 1% (one percent) of the Bank's voting shares.

Members of the Bank's Management Board and members of the Supervisory Board (except for O.V. Stetsyuk and R.E. Demchak) do not own shares in the Bank's authorized capital.

The bank was registered by the State Registrar of the Registration Service of the Main Department of Justice in Kyiv on June 22, 2015, and entered into the State Register of Banks on June 25, 2015 under No. 354.

Information regarding banking licenses:

- Banking license dated November 24, 2016 No. 277, issued by the National Bank of Ukraine.

The Bank carries out banking activities on the basis of a banking license. According to the banking license, the Bank has the right to provide banking services specified in Part Three of Article 47 of the Law of Ukraine “On Banks and Banking Activities”.

The Bank is a member of the Deposit Guarantee Fund for Individuals and was registered in the Register of Banks-Members of the Fund on July 15, 2015 under No. 239. The Bank received a certificate of participation in the Fund on July 15, 2015 under No. 230.

The Bank is a member bank of the National Association of Banks of Ukraine.

The Bank is a member of the Association "Ukrainian National Group of SWIFT Members and Users "UkrSWIFT".

The Bank is a member of the Public Union "UNION OF UKRAINIAN ENTREPRENEURS".

## 2. ECONOMIC ENVIRONMENT IN WHICH THE BANK CARRIES OUT ITS ACTIVITIES

Ukraine's economy is considered a market economy, and it continues to demonstrate certain features typical of a developing economy. The banking sector operated without significant internal and external shocks - banks actively raised funding and placed funds in loans. The banking sector is making profits for the first time since the beginning of the crisis.

In 2019, the National Bank of Ukraine eased monetary policy by accelerating the reduction of the discount rate, and the cost of resources in the national currency continues to decrease, with a parallel decrease in the yield of hryvnia government bonds for all placement terms due to significant demand for them and limited supply. Hryvnia rates for bank clients continue to decrease, responding to the general trend of cheaper resource costs in the market, while rates for households continue to demonstrate a weaker response to the decrease in market rates.

The foreign exchange market maintains a tendency to strengthen the hryvnia due to an excess supply of foreign currency over a long period, the main sources of foreign exchange inflows are traditional export-oriented industries, such as the agro-industrial complex, metallurgy and mining, portfolio investments and a significant supply of cash currency, thus the tendency to strengthen the hryvnia is based on fundamental, rather than situational, factors.

The number of banks operating in Ukraine as of January 1, 2020 is 75 banks, of which 35 are with foreign capital, including 23 with 100% foreign capital.

Assets of Ukrainian banks as of January 1, 2020 exceeded UAH 1.494 trillion, total assets (not adjusted for reserves from active operations) UAH 1.982 trillion. Return on assets: 1.65%. In 2019, the assets of Ukrainian banks increased by UAH 134.5 billion.

The total capital of banks is UAH 200.85 billion, including UAH 470.7 billion in authorized capital. Return on capital: 34.18%.

Bank income for 2019 amounted to UAH 244.4 billion, expenses – UAH 184.7 billion. The profit of operating banks of Ukraine, excluding insolvent banks, amounted to UAH 59.6 billion. (for 2018 – loss of UAH 22.3 billion).

Liabilities of Ukrainian banks as of January 1, 2020 exceeded UAH 1.293 trillion, where funds of legal entities amounted to UAH 498.2 billion (term deposits - UAH 103.2 billion), funds of individuals - UAH 552.6 billion (term deposits - UAH 336.6 billion). At the same time, there is a constant trend of growth in deposits of legal entities and individuals in the national currency, while there is a trend of decreasing attraction of funds of individuals in foreign currency.

Changes in the funding base in 2019 occurred as a result of the stabilization of the national currency exchange rate against foreign currencies and a decrease in the number of banks being withdrawn from the market.

The loan portfolio of solvent banks decreased by UAH 72.4 billion in 2019, mainly due to a decrease in the corporate loan portfolio by UAH 82.7 billion. Interest rates on new loans tended to decrease.

Changes in corporate sector lending: the bank loan portfolio in the national currency decreased by UAH 3.7 billion since the beginning of the year, and in foreign currencies decreased by UAH 78.9 billion. The loan portfolio of individuals increased by UAH 31.6 billion in the national currency since the beginning of the year, and in foreign currencies decreased by UAH 23.3 billion.

When preparing these financial statements, the known and estimated effects of the above factors on the financial position and performance of the Bank in the reporting period were taken into account.

The Bank's management plans to take all necessary measures to achieve the strategic goals for 2020:

- receive maximum returns (with minimal risk) from securities transactions (NBU certificates of deposit, other NBU financial instruments);
- to obtain maximum profitability from leasing investment property;
- continue the sale of real estate received by the Bank as collateral, which was subject to foreclosure upon repayment of overdue loans. The Bank plans to place the funds received from the sale of real estate in minimally risky financial instruments (NBU certificates of deposit, other NBU financial instruments);
- attracting customer funds and expanding the range of retail business credit operations.

Management is monitoring the current situation and is taking action, as necessary, to minimize any adverse effects to the extent possible. Further adverse developments in the political situation, macroeconomic conditions and/or foreign trade conditions may continue to adversely affect the financial condition and results of operations of the Bank in a manner that cannot currently be determined.

The quality of the loan portfolio of JSC "RWS Bank" corresponds to a fairly high level, overdue loans make up a small share of the loan portfolio, while the bank pursues a balanced and conservative credit policy, with meticulous selection of the client base, in order to obtain maximum profit with minimal risks. Given the growth of consumer sentiment among the population, in order to improve the financial result, the bank has implemented a project of high-yield lending to consumer needs of the population, methods of automatic analysis of potential borrowers are being improved to generate a solvent loan portfolio. Also, an important component of receiving commission income is the provision of guarantees that does not divert the bank's resources. The sources of financing the bank's current activities are attracting current funds from clients and term deposits.

Future conditions for the Bank's operations may differ from previous management assessments; in the event of a deterioration in the situation, management will take all necessary measures to support stable development and improve the Bank's position.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

These financial statements have been prepared by the Bank in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee.

The financial statements have been prepared on the historical cost basis, excluding financial instruments at fair value and investment property.

The financial statements are presented in hryvnias and all amounts are rounded to the nearest thousand unless otherwise stated.

**Business continuity**

The Bank's management believes that the Bank is able to continue its activities in the future and ensure sustainable development of the institution. The management believes that the Bank is able to ensure operational profitability and increase the efficiency of activities in priority areas in the near future while complying with the requirements of the regulatory legal acts of the National Bank of Ukraine and other requirements of the legislation of Ukraine regulating the activities of banking institutions.

Currently, the Bank's management is working on approving the Bank's strategic objectives for 2019-2021. The Bank's priority areas of activity are the following:

- ensuring profitability and regulating liquidity by conducting transactions with securities (NBU certificates of deposit, other NBU financial instruments);
- a moderate increase in consumer lending volumes while mitigating the associated risks by restricting lending to unscrupulous borrowers;
- sale of real estate acquired by the Bank in the status of PJSC "TRANSITIONAL BANK "RWS BANK" from the insolvent bank PJSC "OMEGA BANK" (hereinafter referred to as the insolvent bank "Omega Bank"). The Bank plans to invest the funds received from the sale of real estate in lending to individuals and minimally risky financial instruments (NBU certificates of deposit, other NBU financial instruments);
- continuation of claims work to repay the balances of problem debt received from the insolvent bank "OMEGA BANK", by exercising the rights of the pledgee in accordance with the terms of the agreements and current legislation;
- obtaining cash flows from the effective use of investment property;
- expanding the range and improving the quality of service to legal entities.

The Bank's management believes that the resources necessary to ensure the implementation of effective internal control and risk management systems in the Bank in accordance with the requirements of the National Bank of Ukraine are sufficient. The Bank is currently working on updating its internal regulatory framework and ensuring sufficient human resources to meet these requirements.

### 3.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies used in the preparation of these financial statements are set out below. These policies have been applied consistently to all periods presented, unless otherwise stated.

#### a) Foreign currency

Balances on analytical accounts that are recorded on the Bank's balance sheet in a currency other than the functional currency as of the reporting date are translated into the functional currency at exchange rates, with:

- assets and liabilities in the statement of financial position are translated at the exchange rate at the end of the relevant reporting period;
- Capital components, if any, are translated at the historical exchange rate.

Income and expenses are not translated, as accounting for such accounts is maintained on the Bank's balance sheet exclusively in the functional currency.

The financial statements are presented in thousands of hryvnias ("thousands of UAH"), unless otherwise stated.

The main exchange rates used for converting amounts in foreign currency were as follows:

| *UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| 1 US dollar | 23.6862 | 27.688264 |
| 1 euro | 26.4220 | 31.714138 |
| 1 Russian ruble | 0.38160 | 0.39827 |

**b) Initial recognition of financial instruments**

Financial instruments are any contract that gives rise to a financial asset for one party and a financial liability or equity instrument for the other.

A financial asset is any asset of the Bank that is:

- cash;
- capital instruments of another company;
- a contractual right to receive cash from another party to the contract or to exchange financial assets or liabilities with another party to the contract on terms potentially favorable to the Bank;
- a contract that will or may be settled in the equity instruments of the other party to the contract, and which is not a derivative that obliges or may oblige the Bank to receive a variable number of its own equity instruments, or a derivative that will or may be settled in a manner other than by exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

A financial obligation is any obligation of the Bank that is:

- a contractual obligation (to pay or transfer a financial asset to another party to a contract, or to exchange financial assets or liabilities under conditions that are potentially unfavorable to the Bank), or
- a contract that will or may be settled in the Bank's equity instruments, and which is not a derivative that obliges or may oblige the Bank to deliver a variable number of its own equity instruments, or a derivative that will or may be settled in a manner other than by exchanging a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments.

A Bank's equity instrument is any contract that represents the ultimate ownership interest in the Bank's assets after deducting all of its liabilities.

The Bank recognizes a financial liability in its financial statements when, and only when, it becomes a party to the contractual provision of the instrument.

The Bank, upon initial recognition of financial instruments carried at fair value through profit or loss, measures them at fair value with or without transaction costs. The Bank records transaction costs for the acquisition of such financial instruments in expense accounts on the date of their occurrence.

The Bank measures all other financial instruments upon initial recognition at fair value plus transaction costs.

All financial liabilities, other than those designated as financial liabilities at fair value through profit or loss and financial liabilities arising on the transfer of a financial asset carried at fair value that does not qualify for derecognition, are measured at amortized cost using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the relevant instrument and amortized using the effective interest method for that instrument.

**c) Diminishing utility**

From January 1, 2018, the Bank assesses impairment in accordance with IFRS 9 for active operations carried at amortized cost or at fair value through other comprehensive income.

In accordance with the general approach, depending on the degree of deterioration in credit quality since initial recognition, the Bank assigns financial instruments to one of the following stages of impairment assessment:

- Stage 1 – financial instruments for which there are no signs of a significant increase in credit risk. Expected credit losses are calculated for these financial instruments over the next 12 months;

- Stage 2 – financial instruments for which there are indications of a significant increase in credit risk since initial recognition, but there are no indications of impairment. Credit losses are calculated for these financial instruments over the entire life of the financial instruments;
- Stage 3 – financial instruments for which there are indications of a significant increase in credit risk since initial recognition and objective indications of impairment. Expected credit losses are calculated for these financial instruments over the entire life of the financial instruments.

The Bank applies two approaches to assessing the impairment of financial instruments:

- individual assessment – performed for financial instruments that are considered significant and for which there are indications of a significant increase in credit risk since initial recognition;
- The Bank estimates expected credit losses for each borrower's loan based on probability-weighted discounted cash flows. The Bank considers several scenarios for the borrower's repayment and takes each of them into account.
- Collective assessment - is carried out for financial instruments that are not considered significant or for which there is no evidence of a significant increase in credit risk since initial recognition. The collective approach applies a portfolio-level assessment.

To calculate the amount of expected losses under IFRS 9 (forward-looking expected credit loss, ECL), the Bank uses the following components:

- PD (the Probability of Default) is a component of the calculation of the amount of the reserve, which reflects the probability of the debtor/counterparty ceasing to fulfill its obligations. When calculating the reserve, estimates of the probability of default are adjusted depending on the forecast of the implementation of the economic development scenario;
- LGD (the Loss Given Default) - a component of calculating the amount of the reserve that reflects the level of losses (damages) due to the default of the debtor/counterparty;
- EAD (The Exposure at Default) is a component of calculating the size of the reserve, consisting of the following components: principal debt on the loan, accrued income, discounts / premiums.

The Bank determines whether there is objective evidence of impairment of a financial asset or a group of financial assets at each reporting date. A financial asset or a group of financial assets is considered to be impaired only when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event or events have an impact on the expected future cash flows from the financial asset or group of financial assets that can be reliably measured. Objective evidence of impairment may include indications that a borrower or group of borrowers is experiencing significant financial difficulty, is in default on interest or principal payments, is likely to enter bankruptcy or financial reorganization, evidence, based on observable market information, of a moderate decrease in expected future cash flows, for example, changes in the level of delinquencies or in economic conditions that correlate with asset losses, and indicators of external information that have occurred in the technological, market, economic or legal environment in which the entity operates. Impairment losses are recognized in profit or loss as they arise as a result of one or more events (“loss events”) that occurred after the initial recognition of a financial asset and have an impact on the amount or timing of estimated cash flows associated with the financial asset or group of financial assets, if those losses can be reliably measured. If the Bank determines that there is no objective evidence of impairment for an individually assessed financial asset (regardless of its materiality), it includes this asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The main factors that the Bank considers when determining the impairment of a financial asset are its past due status and the possibility of realising the relevant collateral, if any.

Write-off of financial assets against established reserves occurs in the absence of reasonable expectations of recovery of their value according to the decision of the Bank's management.

**d) Derecognition of financial instruments and modifications**

Derecognition of a financial asset (or part of a financial asset or part of a group of similar financial assets) occurs if:

- the rights to receive cash flows from the financial asset have expired;
- The Bank has transferred the rights to receive cash flows from such an asset, or if the Bank has retained the rights to receive cash flows from the asset, but has assumed a contractual obligation to transfer them in full to a third party under the terms of a “pass-through agreement”;

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

If the Bank has transferred its rights to receive cash flows from an asset, and has not transferred and retained substantially all the risks and rewards of the asset, or transferred control over the asset, such asset continues to be recognized to the extent of the Bank's continued involvement in the asset.

The Bank's continued interest in the asset is measured at the lower of the asset's original carrying amount or the maximum amount of consideration that may be payable to the Bank.

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

When replacing one existing financial liability with another liability to the same creditor on significantly different terms or in the event of significant changes to the terms of an existing liability, the original liability is derecognized, and the new liability is recorded in the accounting with the recognition of the difference in the carrying amount of the liability in profit/loss and other comprehensive income.

The Bank records in its accounting a change in the terms of the contract or a modification to a financial asset that results in a revision of its cash flows as:

- derecognition of the original financial asset and recognition of a new financial asset; or
- continued recognition of the original financial asset with new terms.

If the contractual terms of a financial asset are revised by mutual agreement or any other modification occurs that does not result in derecognition of the original financial asset, the Bank shall recalculate the gross carrying amount of the asset and recognize income or expenses from the modification.

The Bank calculates the new gross carrying amount as the present value of the revised or modified contractual cash flows, discounted at the original effective interest rate (or the original effective interest rate adjusted for credit risk) for purchased or originated impaired financial assets.

Transaction costs are included in the carrying amount of the modified financial asset and are amortized over its life.

The Bank recognizes the difference between the gross carrying amount under the original terms and the gross carrying amount under the revised or modified terms as modification income or expense.

**e) Cash and cash equivalents**

Cash and cash equivalents include cash, balances on correspondent accounts with the National Bank of Ukraine, funds on correspondent accounts opened with other banks (nostro accounts), highly liquid funds with a maturity of up to 90 days from the date of origination that are not encumbered by any contractual obligations. Cash and cash equivalents are recorded at amortized cost.

**f) Derivative financial instruments**

In the normal course of business, the Bank uses various derivative financial instruments, including forward contracts and swaps on foreign exchange markets, entered into with Ukrainian banks. Derivative instruments are initially recognized at fair value at the date of the contract, after which they are remeasured at fair value.

All derivatives are recorded as assets if their fair value is positive and as liabilities if their fair value is negative. Changes in the fair value of derivatives are recognized immediately in the statement of profit or loss and other comprehensive income. The Bank estimates and calculates the fair value of forward contracts and recognizes significant changes in it in profit or loss.

Derivative financial instruments embedded in other financial instruments or other combined agreements are accounted for as separate derivatives if their characteristics and risks are not closely related to the host agreement and the host agreement does not qualify as financial instruments at fair value through profit or loss.

**g) Loans and debts**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Based on the Bank's business model and the characteristics of the contractual cash flows, loans and receivables from customers are carried at amortized cost.

***Loans and funds provided to banks***

In the ordinary course of business, the Bank makes loans or places deposits with other credit institutions for certain periods of time. Due from credit institutions are initially recognized at fair value. Due from credit institutions with fixed maturities are measured at amortized cost using the effective interest method and are carried at amortized cost less any allowance for impairment losses.

***Loans granted to customers***

The initial cost of loans to customers is the amount of cash or cash equivalents paid, or the fair value of other resources provided to acquire the asset at the acquisition date, and includes transaction costs.

In cases where the fair value of the compensation provided is not equal to the fair value of the loan, for example, when the loan is provided at rates lower (higher) than market rates, the difference between the fair value of the compensation provided and the fair value of the loan is recognized as a loss (gain) upon initial recognition of the loan and is included in the statement of profit or loss and other comprehensive income in accordance with the nature of such losses (gains).

After recognition, loans are carried at amortized cost using the effective interest rate method.

The Bank includes transaction costs directly attributable to the recognition of a financial instrument in the amount of the discount (premium) on that financial instrument.

The Bank amortizes the discount (premium) over the term of the financial instrument using the effective interest rate. The discount (premium) amount must be fully amortized on the date of repayment (repayment) of the loan (deposit).

Loans to customers that do not have fixed maturities are accounted for using the effective interest method, based on the expected maturity.

The Bank recognizes impairment of loans and advances to customers by establishing provisions for expected credit losses. The carrying amount of the asset is reduced by the amount of the impairment provision. The amount of the loss is recognized in the statement of profit or loss and other comprehensive income.

***Write-off of loans and funds***

If it is impossible to return funds and loans, they are written off against the created reserve for expected credit losses, with a mandatory verification of compliance with the derecognition criteria.

**h) Investments in securities**

Investments in securities are financial assets held within a business model whose objective is achieved both by collecting contractual cash flows and by selling financial assets.

Investments in securities include:

a) securities carried at amortized cost. They are initially measured at fair value plus additional direct transaction costs and subsequently at amortized cost using the effective interest method;

b) securities carried at fair value through other comprehensive income;

c) securities carried at fair value through profit or loss, if such classification eliminates or significantly reduces the inconsistency in the valuation of assets or the recognition of related gains and losses.

For debt securities measured at fair value through other comprehensive income, gains and losses are recognized in other comprehensive income, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest income using the effective interest rate method;
- expected credit losses (ECL) and reversals;
- gains and losses from foreign exchange rate changes.

**i) Investment property**

***Recognition criteria***

The predominant criterion for dividing (defining as) real estate into investment and owner-occupied real estate is the purpose of its use.

The Bank recognizes real estate as investment property if this real estate (land or building or part of a building, or a combination thereof) is held by the Bank to earn rental payments or for capital appreciation or both and meets the following criteria:

- the property is not held for future use as owner-occupied property;
- the real estate is not held for the purpose of sale in the ordinary course of business;

- the property is not built or improved on behalf of third parties;
- real estate that is being constructed or improved for future use as investment property;
- If part of an item of property, plant and equipment is held for the purpose of earning rent and/or for capital appreciation, and the other part of the item is owner-occupied property, and these parts cannot be sold separately, then the item of property, plant and equipment is recognized as investment property provided that it is used primarily for the purpose of earning rent and/or for capital appreciation.

The decision to classify real estate as investment or owner-occupied real estate (including in the case of transfer from the investment category to owner-occupied real estate and vice versa, during operation) is made by a collegial body and is formalized in the relevant protocol.

The cost of investment property includes the purchase price of the property and all costs directly attributable to its acquisition. Costs for ongoing maintenance, repairs and upkeep of the investment property are recognised as expenses when incurred.

Capital investments in the construction or development and reconstruction of an investment property that will be used as investment property in the long term increase its value.

Upon initial recognition, the Bank measures and records investment property at cost. Subsequent recognition of investment property on the Bank's balance sheet is at fair value.

When determining the fair value of investment property, an independent valuation entity used International Valuation Standards ISA-2011 (9th edition), in particular ISA 300, 230, 233, and International Financial Reporting Standards, in particular IAS 40, IFRS 13. The calculation of the value of investment property was carried out within the framework of the market method.

### j) Fixed assets and intangible assets

Fixed assets (intangible assets) are recognized as assets if:

- The Bank obtains control over the asset (meaning that the asset can be sold, exchanged, leased and disposed of/transferred in any other way without losing the economic benefits generated by other assets; and also have economic benefits and restrictions on the access of others to these benefits, which arises from the legal rights to the relevant asset);
- it is highly probable that the Bank will receive future economic benefits associated with the asset;
- the value of the asset can be measured reliably

Accounting for fixed assets and intangible assets is carried out on an object-by-object basis. The unit of accounting for fixed assets and intangible assets is a separate inventory object.

***Initial recognition of property, plant and equipment and intangible assets***

The acquisition of non-current assets on the terms of prepayment (full or partial) until the documents confirming the ownership of the relevant object are received are reflected in the relevant accounts receivable for the acquisition of assets.

Fixed assets and intangible assets are recorded at their original cost, which is calculated taking into account all types of costs incurred by the Bank when recognizing such objects as assets (including costs of delivery, assembly, installation, indirect taxes paid in connection with the acquisition and other costs necessary to bring it into working condition).

***Valuation of non-current assets at the balance sheet date***

The carrying amount of a non-current asset is the amount at which the asset is recorded in the balance sheet after deducting any depreciation and accumulated impairment losses.

After the initial recognition of an item of fixed assets as an asset, its subsequent accounting is carried out using one of two methods:

- at original cost (cost) less accumulated depreciation and accumulated impairment losses;
- at revalued amount (fair value) less accumulated depreciation and accumulated impairment losses.

After the initial recognition of an item of fixed assets as an asset belonging to the group "Buildings, structures and transmission devices", further accounting for such an item is carried out at revalued value.

After the initial recognition of an item of fixed assets as an asset, with the exception of items belonging to the group "Buildings, structures and transmission devices", further accounting for such an item is carried out at its original cost (cost) less accumulated depreciation and accumulated impairment losses.

Revaluation of a fixed asset belonging to the group "Buildings, structures and transmission devices" is carried out if its residual value differs significantly from its fair value as of the balance sheet date. In the case of revaluation of one object of the group, all objects of the fixed asset group to which the revalued object belongs are revalued on the same date. In the future, revaluation is carried out with such regularity that the residual value as of the balance sheet date does not differ significantly from the fair value.

Low-value non-current tangible assets are not subject to revaluation.

Assets in the form of fixed assets were not provided as collateral for the Bank's liabilities in 2018.

Acquired (created) intangible assets are recognized at historical cost.

After initial recognition of intangible assets, they are subsequently accounted for at cost less accumulated amortization and accumulated impairment losses.

***Procedure and method of calculating depreciation***

***Depreciation*** is the systematic allocation of the cost of fixed assets and intangible assets, which is depreciated over the period of their useful use (operation). The Bank independently establishes and reviews the useful lives of objects, which are approved by an administrative document of the Bank's management.

Intangible assets with indefinite useful lives are not subject to amortization. The Bank considers an intangible asset to have an indefinite useful life if, based on an analysis of all factors (legal, regulatory, contractual, economic, etc.), there is no foreseeable limit to the period during which such an asset is expected to generate net cash flows to the Bank (for example, the right to perpetual use of land).

***The object of depreciation*** is all non-current assets, except for land and objects that are antiques, non-current assets held for sale, and unfinished capital investments in fixed assets.

Depreciation of non-current assets can be carried out separately for each component of the object.

The Bank uses the straight-line depreciation method, which consists in the fact that the current period's expenses are always determined by the same part of the original cost of the object minus the liquidation value throughout the entire specified period of their useful life, with the exception of low-value non-current tangible assets. Depreciation of low-value non-current tangible assets is carried out in the amount of 100 percent of its value at the time of commissioning.

The Bank, based on an internal order, has changed the approach to the valuation of intangible assets with an indefinite useful life. Starting from January 1, 2018, the right to use property, rights to trademarks for goods and services, copyright and related rights, other intangible assets have the following useful life, according to which depreciation deductions are made:

- Rights to use natural resources, rights to use property (land, building, premises, right to rent premises, subscriber telephone numbers, etc.), rights to commercial designations (rights to trademarks (trademarks for goods and services), commercial (company) names, etc.), except for those whose acquisition costs are recognized as royalties - in accordance with the title document;
- Rights to commercial designations (rights to trademarks (marks for goods and services), commercial (brand) names, etc.), except for those whose acquisition costs are recognized as royalties - in accordance with the title document, but not less than 6 years, for indefinite - 6 years;
- Copyright and related rights (rights to literary, artistic, musical works, computer programs, programs for electronic computers, compilations of data (databases), phonograms, videograms, broadcasts (programs) of broadcasting organizations, etc.), except for those whose acquisition costs are recognized as royalties - in accordance with the title document, but not less than 3 years, for indefinite - 3 years;
- Other intangible assets (right to conduct activities, use economic and other privileges, banking licenses, licenses of the State Securities and Markets Commission, patents) - in accordance with the title document, for indefinite - 10 years.

The Bank, based on its internal policy, has changed the useful lives of fixed assets due to changes in the expected economic benefits from their use. The following useful lives of fixed assets and intangible assets have been established:

- Buildings – 20 years;
- Buildings – 15 years;

- Transmission devices – 10 years;
- Machinery and equipment – 5 years;
- Vehicles – 8 years;
- Furniture, appliances – 7 years;
- Inventory, tools – 5 years;
- Other fixed assets - 12 years;
- Copyright and related rights, except for royalties – 3 years;
- Other intangible assets – 10 years;
- Capital investments in premises – lease term.

The useful life of fixed assets and intangible assets is reviewed if the expected economic benefits from their use change and at the end of each financial year.

The depreciation method applied to fixed assets and intangible assets may be revised by the Bank if there have been significant changes in the expected form of economic benefits from the use of these assets.

The Bank assesses intangible assets with indefinite useful lives at the end of each year for any indication that their useful lives may be limited. If there are no such indications, the Bank determines the useful lives of such intangible assets.

Intangible assets with indefinite useful lives are reviewed at the end of each year for any indications of possible impairment.

New depreciation methods are applied from the new fiscal year. In accounting, such a change is reflected as a change in accounting estimates.

**k) Rent**

In the current year, the Bank adopted IFRS 16 “Leases”, which is effective for annual periods beginning on or after 1 January 2019. IFRS 16 introduces new requirements for lease accounting. The standard introduces significant changes to lease accounting by eliminating the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at the inception date for all leases, except for short-term leases and leases of low-value assets. Unlike the lessee’s accounting, the lessor’s accounting has remained largely unchanged. The impact of the adoption of IFRS 16 on the Bank’s financial statements is described in Note 5 below.

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Typically, operating lease agreements provide for the transfer to the lessee of the right to use non-current assets for a period not exceeding their useful life, with the obligation to return such non-current assets to their owner upon the expiration of the lease agreement. Non-current assets transferred under an operating lease are recorded as part of the lessor's non-current assets.

Operating lease income and expenses are recognized in the reporting period to which they relate and are calculated in accordance with the concluded agreements. The amounts of operating lease income and expenses are disclosed in the Notes “Other operating income” and “Administrative and other operating expenses”.

**l) Non-current assets held for sale and disposal groups**

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through current use. To do this:

- the asset must be suitable for immediate sale in the condition in which it is at the time of sale, on terms that are usually observed in the sale of such assets;
- The bank has a plan to sell the asset and initiate a program to identify a buyer and implement the plan;
- The Bank actively promotes the asset for sale in the market at a price reasonable in view of their current fair value;
- The sale is expected to be considered completed within one year.

If the Bank acquires ownership of pledged assets for the purpose of subsequent sale, such assets are classified as held for sale if they meet the above criteria.

Non-current assets held for sale are measured and recorded in the accounting records at the lower of the two amounts: carrying amount or fair value less costs to sell. Depreciation is not charged on such assets. Impairment loss upon initial or subsequent write-down of an asset to fair value less costs to sell is recognized in the Statement of Profit and Loss and Other Comprehensive Income.

The Bank continues to classify non-current assets as held for sale if no sale was made during the year due to events or circumstances beyond the Bank's control, and if there is sufficient evidence that the Bank continues to implement a plan to sell the non-current asset.

If, at the date of the decision to recognize non-current assets as held for sale, the above conditions are not met, but will be met within three months after the asset is recognized, the bank has the right to classify them as held for sale.

Before initially classifying assets as held for sale, the bank assesses the carrying amount of the assets and reviews them for impairment, just as non-current assets are accounted for at cost.

In the event of a decrease in the fair value of non-current assets, the bank recognizes an impairment loss less costs to sell.

In the event of an increase in the fair value of non-current assets less costs to sell, the bank recognizes income, but in an amount not exceeding previously accumulated impairment losses.

If, during the valuation of assets held for sale, the bank did not recognize impairment and recovery of their useful life, the bank recognizes income or expenses at the date of derecognition. When transferring non-current assets to the category of assets held for sale, the bank adjusts the carrying amount taking into account the amounts of accumulated depreciation, impairment losses with simultaneous recognition of such adjustment in the Statement of financial performance and other comprehensive income.

**m) Raised funds**

Borrowings, including due from credit institutions, due from customers and issued debt securities, are initially recognized at fair value of the proceeds received, taking into account transaction costs that are directly attributable to the acquisition or issue of the financial liability. After initial recognition, borrowed funds are carried at amortized cost using the effective interest method. Income and expenses are recognized in the Statement of Profit or Loss and Other Comprehensive Income when the liability is extinguished, as well as during the amortization process.

**n) Provisions for liabilities**

Provisions are non-financial obligations of an indefinite duration or amount. Provisions are recognized in the financial statements when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

**o) Recognition of income and expenses**

***Interest income and expenses***

Interest income and expense are recognized on an accrual basis and calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future payments and receipts through the expected life of the financial instrument or a shorter period (if applicable) to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment) and all fees or additional costs that are directly related to the financial instrument and are an integral part of the effective interest rate, except for future credit losses. The carrying amount of a financial asset or financial liability is adjusted if the Bank revises its estimate of payments and receipts. The adjusted carrying amount is calculated based on the original effective interest rate, and changes in the carrying amount are recorded as interest income or expense.

Commissions that are an integral part of the effective interest rate of a financial instrument (for granting a loan, for opening credit accounts, for assessing the financial condition of the borrower, assessing and reflecting guarantees, collateral, etc.) together with the relevant costs associated with the issuance of the financial instrument are amortized using the effective interest rate.

When a financial asset or group of similar financial assets is written off (partially written off) as a result of an impairment loss, interest income is recognized using the interest rate that was used to discount future cash flows for the purpose of assessing the impairment loss.

When it is probable that a credit commitment will result in a loan, the credit commitment fee, together with related direct costs, is recognized as an adjustment to the effective interest rate of the loan. If it is unlikely that the credit line will be drawn, then the fee is recognized as income on a time-proportionate basis over the period of the commitment.

***Commission income***

The bank receives commission income for a number of services provided to customers.

Commission income can be divided into the following categories:

- Commission income received as a result of providing services during a certain period.
- Income from the provision of transaction services.

Fees received for services rendered during a period are accrued over that period. These fees include fees and commissions from asset management, custody and other management and advisory services. Commissions on commitments to extend credit that are likely to be drawn down and other commissions on loans are carried forward to subsequent periods (together with any additional costs) and are recognised as an adjustment to the effective interest rate on the loans.

Revenue from providing services to third parties is recognized upon completion of the relevant transaction. The amount of remuneration or components of remuneration related to specific activities are recognized after verification of compliance with the relevant criteria.

### p) Income tax

Income tax is recognized as current and deferred tax. Current income tax is recognized in the amount calculated for the reporting period in accordance with tax legislation.

Deferred tax liability is the amount of income tax that will be paid in future periods on a taxable temporary difference. Deferred tax asset is the amount of income tax that will be recoverable in future periods on a deductible temporary difference. Deferred tax liabilities and assets are measured at the tax rates that will apply in the period in which the asset is realized or used or the liability is settled.

The Bank recognizes as income tax receivables the excess of the amount of income tax paid over the amount payable.

The Bank offsets receivables and current income tax liabilities if the liability is settled as a set-off against these receivables.

### q) Authorized capital and share capital

**Authorized capital** is the obligation paid by shareholders (unitholders) to contribute funds for subscription to shares (units), the amount of which is registered in accordance with the procedure established by current legislation. Authorized capital is reflected at its original (nominal) value.

Expenses directly related to the issue of new shares of the Bank, in accordance with the requirements of IFRS 32 *“Financial Instruments: Presentation”* , are accounted for as a deduction from equity to the extent that they are additional costs directly attributable to the equity transaction and which would otherwise have been avoided.

The excess of the fair value (placement price) of the amounts contributed to the capital over the nominal value of the issued shares is recorded in the Bank's capital as share premium (share premium).

### r) Foreign currency revaluation

Transactions in foreign currencies are recognized at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into hryvnia at the official exchange rate of the National Bank of Ukraine prevailing at the balance sheet date. Gains and losses arising from such translation are recognized in the statement of comprehensive income on a net basis as exchange rate differences in the period in which they arise.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated at the rate at which the fair value is determined. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate at the date the fair value was determined. If a gain or loss on a non-monetary item is recognized in other comprehensive income, any currency component of that gain or loss is recognized directly in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any currency component of that gain or loss is recognized in profit or loss.

### s) Offsetting of assets and liabilities

The Bank offsets a financial asset and a financial liability, presenting the net amount in the Statement of Financial Position, if and only if:

- has a legally enforceable right to set off recognized amounts;
- intends to settle the liability on a net basis or to sell the asset and settle the liability at the same time.

A right of set-off is a contractual or other legal right of a debtor to repay or otherwise remove all (or part of) an amount due to a creditor by applying that amount to an amount due from the creditor.

The simultaneous settlement of two financial instruments may occur, for example, through transactions through a clearing house in an organized financial market or an exchange without intermediaries. In such circumstances, the cash flows are effectively equivalent to a single net amount and are not subject to credit or liquidity risk.

In the reporting period, the bank did not perform any netting operations between individual items of assets and liabilities.

**t) Employee benefits and related deductions**

Calculations related to the remuneration of the Bank's employees and employees performing work under civil law contracts (making the specified payments, accrual of wages, withholding taxes and mandatory payments from accrued amounts, accrual of taxes and mandatory payments to the payroll fund) are carried out in accordance with current legislation and internal regulatory documents of the Bank. Accrual of basic and additional wages to the Bank's employees is carried out in accordance with the official salaries determined by the Bank's staffing table.

The Bank calculates and creates provisions for payments for unused vacations of the Bank's employees.

The Bank does not have any additional pension schemes, other than participation in the state pension system of Ukraine, which involves the calculation and payment of current employer contributions as a percentage of current total employee benefits. These expenses are recorded in the reporting period to which the relevant salary relates.

In addition, the Bank does not have any post-employment benefit programs or other significant compensation programs that would require additional accruals.

**u) Pension and other benefit obligations**

The Bank does not have any additional pension schemes, other than participation in the state pension system of Ukraine, which involves the calculation and payment of current employer contributions as a percentage of current total employee benefits. These expenses are recorded in the reporting period to which the relevant salary relates.

In addition, the Bank does not have any post-employment benefit programs or other significant compensation programs that would require additional accruals.

**v) Information by operating segments**

A segment is a distinguishable component of the Bank's business that is engaged in either providing services or products (a business segment) or providing services or products within a particular economic environment (a geographical segment) and that is subject to risks and returns that are different from those of other segments. The Bank presents reportable segments separately if the majority of the segment's revenue is generated from banking activities outside the segment and the segment's revenue is 10% or more of total revenue.

The Bank's main format for reporting segment information is business segments.

Most of the Bank's operations are concentrated in Ukraine.

The Bank recognizes the following reportable segments:

- services to corporate clients (corporate banking);;
- services to individuals (retail banking);
- services to banks (treasury activities);
- other operations.

The “other operations” segment is important for the Bank as a whole (provides the activities of other segments, etc.) and information about it is material.

The Bank recognizes as revenue of a reporting segment the revenue directly attributable to the segment and the corresponding part of the bank's revenue that can be attributed to the segment from external activities or from transactions between other segments within the same bank. The revenue of reporting segments is presented net of value added tax, excise duty, other duties and deductions from income. The revenue of reporting segments does not include income from extraordinary events and income from income tax. The Bank recognizes as expenses of a reporting segment the expenses related to the main activities of the segment that are directly attributable to it and the corresponding part of the expenses that can be reasonably attributed to the segment, including expenses from external activities and expenses related to transactions in other segments within the same bank.

However, if expenses at the Bank level are related to only one segment, the Bank recognizes such expenses as segment expenses (if they are related to the operating activities of the segment and can be directly attributed to the segment or reasonably allocated to it).

**w) Related party transactions**

The Bank recognizes a related party as a party that:

1) directly or indirectly controls or is under control of, or is under common control with, the Bank, or has an interest in the Bank that gives it the ability to exercise significant influence over the Bank;

2) is an associated company of the Bank;

3) is a joint venture in which the Bank is a controlling shareholder;

4) is a member of the Bank's senior management;

5) is a close relative of a person specified in 1) or 4);

6) is an economic entity that controls, jointly controls, or exercises significant influence over, or has a significant percentage of votes in such an economic entity, directly or indirectly, a person specified in 1)-5);

7) the entity is a post-employment benefit program for employees of the Bank or any entity that is a related party of the Bank (post-employment benefits: pensions, other types of retirement benefits, life insurance and post-employment medical care).

The Bank discloses information about related parties in accordance with the requirements of IAS 24 "Related Party Disclosures".

## 3.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE PRINCIPLES

**New standards, clarifications and amendments to existing standards**

The Bank has adopted IFRS 16 “Leases” for the first time. The nature and impact of the changes resulting from the application of this financial reporting standard are described below.

Certain other amendments to standards and interpretations that did not impact the Bank's financial statements were also applied for the first time in 2019. The Bank did not early adopt standards, interpretations or amendments that were issued but not yet effective.

***IFRS 16 “Leases”***

IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains the elements of a lease, SIC 15 Operating Leases - Incentives and SIC 27 Determining the Substance of Transactions That Have the Legal Form of a Lease. The standard establishes principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to present most leases on the balance sheet.

The accounting treatment for a lessor under IFRS 16 is largely unchanged from that under IAS 17. Lessors will continue to classify leases using the same classification principles as in IAS 17, distinguishing between two types of leases: operating and finance. Therefore, the application of IFRS 16 did not impact the accounting for leases in which the Bank is the lessor.

The Bank first applied IFRS 16 on 1 January 2019 using the full retrospective application method. When transitioning to the standard, the Bank decided to use a practical expedient that allows it not to re-analyze whether a contract as a whole or its individual components is a lease as of 1 January 2019. Instead, the Bank applied the standard at the date of initial application only to contracts that were previously identified as leases using IAS 17 and IFRIC 4. The Bank also decided to use the recognition exemption for leases with a lease term of 12 months or less at the commencement date and that do not contain a purchase option (short-term leases), as well as for leases in which the underlying asset is of low value (low-value leases).

Based on the above, as of January 1, 2019:

- Right-of-use assets in the amount of UAH 17,799 thousand were recognized and presented in the Statement of Financial Position.
- were recognized and presented in the Statement of Financial Position Lease liabilities in the amount of UAH 17,799 thousand.
- The application of IFRS 16 did not affect the Bank's retained earnings and did not have a significant impact on its regulatory capital.

Lease liabilities as of January 1, 2019 are reconciled to operating lease liabilities as of December 31, 2018 as follows:

| *thousand UAH* | |
|---|---|
| Operating lease commitments as of December 31, 2018 | 28,619 |
| Weighted average borrowing rate as of January 1, 2019 | 18% |
| Discounted operating lease liabilities as of January 1, 2019 | 20 554 |
| Minus: | |
| Short-term rental obligations | 2 390 |
| Liabilities related to leases of low-value assets | 365 |
| Lease liabilities as of January 1, 2019 | **17,799** |

***IFRIC 23 “Uncertainty over Income Tax Treatments”***

The Interpretation addresses the accounting for income taxes when there is uncertainty about tax interpretations that affects the application of IAS 12 Income Taxes. The Interpretation does not apply to taxes or levies that are outside the scope of IAS 12, and does not address the requirements for interest and penalties related to uncertain tax interpretations. In particular, the Interpretation clarifies the following issues:

- whether the entity considers uncertain tax treatments separately;

- the assumptions that the organization makes regarding the examination of tax treatments by tax authorities;
- how the organization determines taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates;
- how the organization considers changes in facts and circumstances.

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments, and uses an approach that allows it to predict with greater accuracy the outcome of the resolution of the uncertainty.

In applying the interpretation, the Bank analyzed whether it had any uncertain tax interpretations. The Bank concluded that it was probable that the tax authorities would accept the tax interpretations it applied. This interpretation did not impact the Bank's financial statements.

***Amendments to IFRS 9 - "Prepayment Terms with Potential Negative Compensation"***

Under IFRS 9, a debt instrument may be measured at fair value or at fair value through other comprehensive income provided that the contractual cash flows are "exclusively payments of principal and interest on the outstanding principal amount" (the "cash flow" criterion) and the instrument is held within an appropriate business model that permits such classification. The amendments to IFRS 9 clarify that a financial asset meets the "cash flow" criterion regardless of whether an event or circumstance gives rise to early termination of the contract and regardless of which party pays or receives reasonable compensation for early termination.

These amendments did not affect the Bank's financial statements.

***Amendments to IAS 19 - "Program Amendments, Curtailments or Settlements of Program Obligations"***

The amendments to IAS 19 address the accounting treatment when a plan amendment, curtailment or settlement occurs during the reporting period. The amendments clarify that if a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity shall determine the current period's service cost in respect of the remaining period after the plan amendment, curtailment or settlement, based on the actuarial assumptions used to remeasure the net defined benefit obligation (asset) reflecting the benefits offered under the plan and the plan assets after the event. The entity shall also determine the net amount of interest in respect of the remaining period after the plan is amended, curtailed or settled in full, using the net defined benefit plan liability (asset) reflecting the benefits offered under the plan and the plan assets after the event, and the discount rate used to remeasure that net defined benefit plan liability (asset).

These amendments did not affect the Bank's financial statements.

***Amendments to IAS 28 - "Long-term Investments in Associates and Joint Ventures"***

The amendments clarify that an entity shall apply IFRS 9 to long-term investments in an associate or joint venture that are not accounted for using the equity method but that, in substance, form part of the net investment in the associate or joint venture (long-term investments). This clarification is important because it implies that the expected credit loss model in IFRS 9 applies to such long-term investments.

The amendments also clarify that when applying IFRS 9, an entity does not take into account losses incurred by an associate or joint venture or impairment losses on net investments recognised as adjustments to the net investment in an associate or joint venture arising from the application of IAS 28 Investments in Associates and Joint Ventures.

These amendments did not affect the Bank's financial statements.

***Annual Improvements to IFRSs, 2015-2017 period.***

***IFRS 3 "Business Combinations"***

The amendments clarify that if an entity obtains control of a business that is a joint operation, it shall apply the requirements for a business combination in stages, including the remeasurement of previously recognized interests in the assets and liabilities of the joint operation at fair value. In this case, the acquirer shall remeasure all previously recognized interests in the joint operation.

These amendments did not affect the Bank's financial statements.

***IFRS 11 "Joint Ventures"***

A party that is a participant in a joint operation but does not have joint control may obtain joint control over a joint operation that is a business, as defined in IFRS 3. The amendments clarify that in such cases, previously recognized interests in that joint operation are not remeasured.

These amendments did not affect the Bank's financial statements.

***IAS 12 “Income Taxes”***

The amendments clarify that the tax consequences of dividends are more closely related to past transactions or events that generated the distributable profits than to distributions to owners. Therefore, an entity should recognize the tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity initially recognized those past transactions or events.

When an entity first applies these amendments, it shall apply them to the tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

These amendments did not affect the Bank's financial statements.

***IAS 23 “Borrowing Costs”***

The amendments clarify that an entity should include loans specifically obtained for the acquisition of a qualifying asset as general purpose loans when substantially all the work necessary to prepare the asset for its intended use or sale is complete.

An entity shall apply these amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies these amendments.

These amendments did not affect the Bank's financial statements.

## 3.4. ERROR FIX

The Bank determines the carrying value of investment property and property transferred to the Bank as a pledgee based on reports from an independent appraiser.

In May 2019, the Bank carefully reviewed the 2018 appraiser's reports and identified errors that had a material impact on the determination of the value of the relevant assets. The error was corrected by restatement of the relevant financial statement items.

**Impact on equity**

| *thousand UAH* | **December 31 2018** |
|---|---|
| Investment property | (25,509) |
| Other assets | (7,392) |
| **Total assets** | **(32,901)** |
| **Total liabilities** | **-** |
| **Net impact on equity** | **(32,901)** |

**Impact on the income statement**

| *thousand UAH* | **2018 year** |
|---|---|
| Net profit/(loss) from revaluation of investment property | (25,509) |
| Net gain/(loss) from impairment of other assets | (7,392) |
| **Net impact on profit for the year** | **(32,901)** |

**Impact on earnings (loss) per share**

| | **2018 year** |
|---|---|
| Net and adjusted profit/(loss) per common share (UAH) | (2.71 ) |

The changes had no impact on IDS or cash flows.

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

**Judgment**

In the process of applying accounting policies, the Bank's management made the following judgments, other than accounting estimates, that have the most significant effect on the amounts reflected in the financial statements:

***Classification of financial assets***

The Bank classifies all of its financial assets into one of three main categories: measured at amortized cost, at fair value through other comprehensive income (FVOCI), and at fair value through profit or loss (FVTPL).

**Uncertainty of estimates**

In applying accounting policies, the Bank's management used its judgments and made estimates in determining the amounts reflected in the financial statements. The most significant uses of judgments and estimates include:

***Business continuity***

The Bank's management has assessed its ability to continue as a going concern and is satisfied that the Bank has the resources to continue in operation for the foreseeable future. In addition, the management is not aware of any significant uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

***Fair value of financial instruments***

In cases where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be obtained through observations in active markets, it is determined using a set of valuation techniques, including the use of mathematical models. The inputs to the models include available market information; in cases where this is not possible, the application of some judgment is necessary to determine fair value.

***Provision for expected credit losses***

The measurement of impairment provisions under IFRS 9 for all categories of financial assets requires judgments, including estimates of the amounts and timing of future cash flows and the value of collateral when determining expected credit losses and assessing whether there has been a significant increase in credit risk. These estimates are determined by many factors, changes in which may result in the determination of provisions of different orders. The calculation of provisions for expected credit losses in the Bank is the result of the application of complex models with a certain number of specific judgments when selecting variable input data and assessing their interdependencies.

Elements of expected credit loss calculation models that involve accounting judgments and estimates are:

- the Bank's internal rating model;
- the Bank's qualitative and quantitative criteria for determining whether there has been a significant increase in credit risk and, accordingly, that provisions for financial assets are subject to assessment at the level of credit losses expected from default events over the entire life of the instrument;
- grouping of financial assets for the purpose of assessing provisions for expected credit losses on an aggregate basis;
- development of expected credit loss models, including definition of formulas and selection of input data;
- determining the interdependencies between macroeconomic scenarios and economic parameters, in particular the unemployment rate, the value of collateral, as well as determining the impact of scenarios on the indicators of the probability of default, debt at risk of default and the size of losses in the event of default;
- selection of forecast macroeconomic scenarios and their probability weighting coefficients, integration of economic parameters into the expected credit loss model.

According to the Bank's policy, the models are subject to regular review in the context of historical data on actual losses incurred and are subject to refinement if necessary.

***Deferred income tax asset***

A deferred income tax asset is recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred income tax asset that can be recognized, based on the probable timing and amount of future taxable profit, together with tax planning strategies.

## 5. STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET ENTERED INTO FORCE

The following are new standards, amendments and interpretations that have been issued but are not yet effective at the date of issue of the Bank's financial statements. The Bank intends to apply these standards, amendments and interpretations, if applicable, from their effective dates.

**IFRS 17 "Insurance Contracts"**

In May 2017, the IFRS Board issued IFRS 17 Insurance Contracts, a new comprehensive financial reporting standard for insurance contracts that addresses the recognition and measurement, presentation and disclosure of insurance contracts. When IFRS 17 becomes effective, it will replace IFRS 4 Insurance Contracts, which was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life and non-life insurance, direct insurance and reinsurance) regardless of the type of entity issuing them, as well as to certain hedges and financial instruments with discretionary participation features.

IFRS 17 is effective for annual periods beginning on or after 1 January 2021, and requires the presentation of comparative information. This standard is not applicable to the Bank's financial statements for the reporting period.

**Amendments to IFRS 3 - “Definition of a Business”**

In October 2018, the IFRS Board issued amendments to IFRS 3 Business Combinations, which changed the definition of a “business” and are intended to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business, eliminate the assessment of whether market participants are able to replace any missing element, add guidance to help entities assess whether the acquired process is significant, narrow the definitions of business and returns, and introduce an optional test for the presence of a fair value concentration. New illustrative examples have also been provided with the amendments.

As these amendments are applied prospectively to transactions or other events occurring on or after the date of initial application, these amendments will not have an impact on the Bank's financial statements at the date of transition.

**Amendments to IAS 1 and IAS 8 - “Determination of Materiality”**

In October 2018, the IFRS Board issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of materiality across standards and clarify some aspects of the definition. According to the new definition, “information is material if its omission, misstatement or concealment could reasonably be expected to influence the decisions of the primary users of general purpose financial statements taken on the basis of those financial statements that provide financial information about a specific reporting entity.”

The amendments to the definition of materiality are not expected to have a significant impact on the Bank's financial statements.

## 6. CASH AND CASH EQUIVALENTS

Table 6.1. Cash and cash equivalents

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Cash | 183,633 | 215,435 |
| Funds in the National Bank of Ukraine | 31,913 | 2,612 |
| Correspondent accounts, deposits and overnight loans at banks | 13,957 | 56,605 |
| Ukraine | 13,957 | 56,605 |
| Certificates of deposit issued by the National Bank of Ukraine | 150 192 | 231,330 |
| **Total cash and cash equivalents** | **379,695** | **505,982** |

Table 6.2. Non-cash financial transactions

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Accrued income on deposit certificates issued by the National Bank of Ukraine | 192 | 330 |

There are no restrictions on the use of funds.

As of December 31, 2019, the balances on correspondent accounts are neither past due nor impaired.

During 2019 and the previous year 2018, the Bank did not carry out investment and financial transactions without the use of cash and cash equivalents.

The data of Note 6 are specified in the “Statement of Financial Position”, “Statement of Cash Flows”.

As of December 31, 2019, the Bank complied with the requirements of the National Bank of Ukraine regarding mandatory reserves. Control over the formation of mandatory reserves is carried out monthly based on average data for the entire maintenance period.

The amount of required reserves according to the established standards (reserve base) for the maintenance period from 11.12.2019 to 10.01.2020 is 29,673 thousand UAH. The average balance on the correspondent account for the maintenance period from 11.12.2019 to 10.01.2020 was 33,572 thousand UAH.

## 7. CUSTOMER LOANS AND DEBT

Table 7.1. Loans and receivables from customers

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Loans and receivables from customers carried at amortized cost | 304 315 | 123,787 |
| Loan impairment allowance | (26,498) | (7,426) |
| **Total loans and advances to customers less provisions** | 277,817 | **116,361** |

Table 7.2. Loans and receivables from customers carried at amortized cost

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Loans granted to legal entities | 213,911 | 120,714 |
| Loans granted to individuals | 90 210 | 1,882 |
| Mortgage loans | 194 | 1,191 |
| Provision for loans to customers carried at amortized cost | (26,498) | (7,426) |
| **Total loans and advances to customers carried at amortized cost** | **277,817** | **116,361** |

Note 7 data disclosed in the “Statement of Financial Position”, “ Statement of Cash Flows ” and in Note 17.

Asset items are presented taking into account accrued and unearned interest income, which as of December 31, 2019 amounted to UAH 7,541 thousand and as of December 31, 2018 – UAH 1,868 thousand.

As of December 31, 2019, the concentration of loans issued by the Bank to the ten largest borrowers amounted to UAH 179,394 thousand (65% of the total loan portfolio). A provision of UAH 4,578 thousand was created for these loans. In 2018, the concentration of loans issued by the Bank to the ten largest borrowers amounted to UAH 87,804 thousand (75% of the total loan portfolio).

Table 7.3. Analysis of credit quality of loans and receivables of customers accounted for at amortized cost for 2019

| *thousand UAH* | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Loans and receivables from customers accounted for under the AC | 289 230 | 3,741 | 11,344 | 304 315 |
| Minimal credit risk | 289 230 | - | - | 289 230 |
| Average credit risk | - | 3,741 | - | 3,741 |
| High credit risk | - | - | 11,344 | 11,344 |
| Total gross carrying amount of loans and advances to customers accounted for under the AC | 289 230 | 3,741 | 11,344 | 304 315 |
| Provisions for impairment of loans and receivables from customers, which are accounted for under the AC | (13,780) | (3,071) | (9,647) | (26,498) |
| **Total loans and receivables of customers accounted for by the AC** | **275,450** | **670** | **1,697** | **277,817** |

Table 7.4. Analysis of credit quality of loans and receivables of customers accounted for at amortized cost for 2018

| *thousand UAH* | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Loans and receivables from customers carried at amortized cost | 122,563 | 1,224 | - | 123,787 |
| Minimal credit risk | 122,563 | - | - | 122,563 |
| Low credit risk | - | 1,224 | - | 1,224 |
| Total gross carrying amount of loans and advances to customers carried at amortized cost | 122,563 | 1,224 | - | 123,787 |
| Provisions for impairment of loans and advances to customers carried at amortized cost | (7,414) | (12) | - | (7,426) |
| **Total loans and advances to customers carried at amortized cost** | **115 149** | **1,212** | **-** | **116,361** |

Table 7.5. Structure of loans by type of economic activity

| *thousand UAH* | **December 31, 2019** | | **December 31, 2018** | |
|---|---|---|---|---|
| | sum | % | sum | % |
| Agriculture and related services | 2,232 | 1 | 4,052 | 3 |
| Manufacture of other non-metallic mineral products | 6,614 | 2 | 6,299 | 6 |
| Trade in motor vehicles, their repair | 82,096 | 27 | 32,021 | 26 |
| Wholesale trade, except of motor vehicles | 40,339 | 13 | 18,425 | 15 |
| Provision of information services | 3,010 | 1 | 1,419 | 1 |
| Provision of financial services, except insurance and pension provision | 30,197 | 10 | 51,493 | 42 |
| Food industry | - | - | 3,036 | 2 |
| Healthcare | 45,352 | 15 | - | - |
| Individuals | 90,404 | 30 | 3,073 | 2 |
| Others | 4,071 | 1 | 3,969 | 3 |
| **Total loans and receivables to customers without provisions** | **304 315** | **100%** | **123,787** | **100%** |

The Bank minimizes the risk of credit portfolio concentration (concentration of credit operations in a certain industry or group of interconnected industries or lending to certain categories of clients) through diversification of the credit portfolio, which consists in distributing loans among borrowers who differ from each other both in characteristics (capital size, form of ownership) and in terms of activity (industry of the economy, geographical region).

Table 7.6. Information on loans by type of collateral for 2019

| *thousand UAH* | **Loans granted to legal entities** | **Loans granted to individuals - entrepreneurs** | **Mortgage loans for individuals** | **Loans granted to individuals for current needs** | **Total** |
|---|---|---|---|---|---|
| Unsecured loans | 43,998 | - | - | 89,490 | **133,488** |
| Loans secured by: | 168,821 | 1,092 | 194 | 720 | **170,827** |
| *in cash* | *53* | - | - | - | ***53*** |
| *real estate* | *62,619* | *1,092* | *194* | *454* | ***64,359*** |
| *including residential use* | *995* | *1,092* | *194* | *214* | ***2,495*** |
| *other assets* | *106 149* | - | - | *266* | ***106,415*** |
| **Total loans and receivables to customers without provisions** | **212,819** | **1,092** | **194** | **90 210** | **304 315** |

Table 7.7. Information on loans by type of collateral for 2018

| *thousand UAH* | **Loans granted to legal entities** | **Loans granted to individuals - entrepreneurs** | **Mortgage loans for individuals** | **Loans granted to individuals for current needs** | **Total** |
|---|---|---|---|---|---|
| Unsecured loans | 26,088 | 5 | - | 1,531 | 27,624 |
| Loans secured by: | 93,435 | 1,186 | 1,191 | 351 | 96,163 |
| *in cash* | *4,801* | - | - | - | *4,801* |
| *real estate* | *13,672* | *1,186* | *1,191* | - | *16,049* |
| *including residential use* | *3,641* | *1,186* | *1,191* | - | *6,018* |
| *other assets* | *74,962* | - | - | *351* | *75,313* |
| **Total loans and receivables to customers without provisions** | **119,523** | **1,191** | **1,191** | **1,882** | **123,787** |

Table 7.8. Analysis of changes in provisions for impairment of loans and receivables from customers carried at amortized cost for 2019

| *thousand UAH* | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Impairment reserve as of the beginning of the period 31.12.2018 | (7,414) | (12) | - | (7,426) |
| Transition to stage 1 | (6,366) | - | - | (6,366) |
| Transition to stage 2 | - | (3,059) | - | (3,059) |
| Transition to stage 3 | - | 0 | (9,647) | (9,647) |
| Impairment reserve as of the end of the period 31.12.2019 | (13,780) | (3,071) | (9,647) | (26,498) |

Table 7.9. Analysis of changes in the gross carrying amount for impairment of loans and receivables to customers carried at amortized cost for 2019

| *thousand UAH* | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| **Gross carrying amount as of December 31, 2018** | **115 149** | **1,212** | **-** | **116,361** |
| Transition to stage 1 | - | - | - | - |
| Transition to stage 2 | - | - | - | - |
| Transition to stage 3 | - | - | 1,697 | 1,697 |
| Other changes (increase in trade payables carried at amortized cost) | 160,301 | (542) | - | 159,759 |
| **Gross carrying amount as of December 31, 2019** | **275,450** | **670** | **1,697** | **277,817** |

Table 7.10. Impact of collateral value on loan quality in 2019

| *thousand UAH* | **Carrying amount** | **Collateral value** | **Impact of collateral** |
|---|---|---|---|
| Loans granted to legal entities | 212,819 | 152,801 | 60,018 |
| Loans granted to individuals - entrepreneurs | 1,092 | 1,092 | - |
| Mortgage loans for individuals | 194 | 194 | - |
| Loans granted to individuals for current needs | 90 210 | 1,253 | 88,957 |
| **Total loans** | **304 315** | **155,340** | **148,975** |

Table 7.11. Impact of collateral value on loan quality in 2018

| *thousand UAH* | **Carrying amount** | **Collateral value** | **Impact of collateral** |
|---|---|---|---|
| Loans granted to legal entities | 119,523 | 68508 | 51,015 |
| Loans granted to individuals - entrepreneurs | 1,191 | 1173 | 18 |
| Mortgage loans for individuals | 1,191 | 1191 | - |
| Loans granted to individuals for current needs | 1,882 | 349 | 1,533 |
| **Total loans** | **123,787** | **71,221** | **52,566** |

**Methods of assessing pledged property**

When calculating the reserve, the bank uses the market (fair) value of collateral in the form of real estate, vehicles, based on the assessment of such property, carried out by an independent valuation entity. If, since the date of the last assessment, there have been significant changes in the operating conditions and physical condition of the property that is the subject of the pledge, and/or the market condition of similar property, the Bank conducts a revaluation of such property, but not less than once every twelve months in the case of pledge of real estate, equipment and vehicles and once every six months in the case of pledge of other property.

When determining the market (fair) value of the pledged property, the Bank sets the term for the sale of such property to no more than 360 calendar days.

During the reporting period, the Bank carried out foreclosure proceedings on mortgaged items, the total value of which is UAH 310,158 thousand.

The information is provided taking into account the assessment of the quality of collateral used to cover credit risk, in accordance with the requirements of the National Bank of Ukraine. The following types of collateral are taken into account as the cost of collateral:

- cash coverage – in full;
- passenger cars – with a 75% discount;
- movable property – with a 50% discount;
- residential real estate – with a 75% discount;
- non-residential real estate – with a 60% discount.

Collateral is accepted for settlement in an amount not exceeding the carrying amount of the loan under each contract covered by the relevant collateral.

## 8. INVESTMENTS IN SECURITIES

Table 8.1 Investments in securities

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Debt securities: | | |
| *Domestic government bonds refinanced by the NBU, which are accounted for at fair value through other comprehensive income* | **-** | *55,903* |
| Revaluation of debt securities refinanced by the NBU, which are accounted for at fair value through other comprehensive income | **-** | (41) |
| Unamortized premium/discount on debt securities refinanced by the NBU, which are accounted for at fair value through other comprehensive income | **-** | (204) |
| **Total securities less reserves** | **-** | **55,658** |

Table 8.2. Analysis of credit quality of debt securities for 2018

| *thousand UAH* | **Government bonds** | **Total** |
|---|---|---|
| Not past due and not impaired | | |
| *Government institutions and enterprises* | *55,658* | *55,658* |
| **Total debt securities less reserves** | **55,658** | **55,658** |

As of January 1, 2019, debt securities accounts amounted to UAH 55,658 thousand. were accounted for domestic government loan bonds refinanced by the National Bank of Ukraine, which are accounted for at fair value through other comprehensive income in the amount of 2,019 units, with a nominal value of 1,000 USD per bond. The fair value of the securities was determined based on the internal bank regulation, as the fair value of the relevant series of government bonds published on the National Bank's website on the relevant date. There was no impairment on these transactions.

## 9. INVESTMENT REAL ESTATE

Table 9.1. Investment property valued at fair value

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** listed |
|---|---|---|
| **Fair value of investment property at the beginning of the period** | **193,260** | **209 146** |
| Incoming | 310 158 | 5 136 |
| Elimination | (208,215) | (5,461) |
| Gains (losses) from revaluation to fair value | 13,174 | (15,561) |
| **Fair value of investment property at the end of the period** | **308,377** | **193,260** |

The fair value of investment property is determined based on the conclusions of independent valuation entities who have the appropriate professional qualifications and experience in valuing similar properties in Ukraine. The fair value of investment property as of December 31, 2019 belongs to Level II of the fair value hierarchy.

Table 9.2. Amounts recognized in the Statement of Profit or Loss and Other Comprehensive Income

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Rental income from investment property | 5,248 | 2,866 |

Table 9.3. Information on the minimum amounts of future lease payments under a non-cancellable operating lease, if the bank is the lessor

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Up to 1 year | 5,249 | 3,676 |
| From 1 to 5 years | 1,604 | **-** |
| **Total payments receivable under operating leases** | **6,853** | **3,676** |

## 10. FIXED ASSETS, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

Table 11.1 Fixed assets and intangible assets

*thousand UAH*

| | Buildings, structures and transmission devices | Machinery and equipment | Vehicles | Tools, appliances, inventory (furniture) | Right-of-use assets | Other non-current tangible assets | Incomplete capital investments in fixed assets and tangible assets | Intangible assets | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| **Carrying amount as of January 1, 2018** | **-** | **2 104** | **493** | **256** | **-** | **-** | **61** | **850** | **3,764** |
| Original cost | - | 2,424 | 616 | 315 | - | 670 | 61 | 850 | 4,936 |
| Depreciation at the beginning of the previous period | - | (320) | (123) | (59) | - | (670) | - | - | (1,172) |
| Incoming | 5,517 | 10,825 | - | 103 | - | 1,509 | 15,717 | 2,256 | 35,927 |
| Commissioned | (5,517) | - | - | - | - | - | (15,393) | - | (20,910) |
| Depreciation deductions | (112) | (701) | (123) | (70) | - | (1,047) | - | (416) | (2,469) |
| Other changes | 112 | - | - | - | - | - | - | - | 112 |
| **Carrying amount as of December 31, 2018** | **-** | **12,228** | **370** | **289** | **-** | **462** | **385** | **2,690** | **16,424** |
| Original (revalued) cost | - | 13,249 | 616 | 418 | - | 2,174 | 385 | 3 106 | 19,948 |
| Depreciation at the end of the previous period (at the beginning of the reporting period) | - | (1,021) | (246) | (129) | - | (1,712) | - | (416) | (3,524) |
| Incoming | - | 2,665 | 252 | 184 | 17,799 | 567 | 9,168 | 1,875 | 32510 |
| Other transfers (put into operation) | - | - | - | - | - | - | (6,242) | - | (6,242) |
| Depreciation deductions | - | (2,590) | (145) | (93) | (5,551) | (943) | - | (1,479) | (10,801) |
| Other changes | - | - | - | - | (274) | - | - | - | (274) |
| **Carrying amount as of December 31, 2019** | **-** | **12,303** | **477** | **380** | **11,974** | **86** | **3,311** | **3,086** | **31,617** |
| Original (revalued) cost | - | 15,914 | 868 | 602 | 17,799 | 2,741 | 3,311 | 4981 | 46,216 |
| Depreciation at the end of the reporting period | - | (3611) | (391) | (222) | (5,825) | (2,655) | - | (1,895) | (14,599) |

There are no fixed assets on the bank's balance sheet for which restrictions on ownership, use and disposal are provided for by the legislation of Ukraine.

There are no fixed assets pledged as collateral. There are no fixed assets that are temporarily not in use (conservation, reconstruction, etc.).

There are no fixed assets withdrawn from operation for sale. As of December 31, 2018, the original cost of fully depreciated fixed assets was UAH 171 thousand. and as of December 31, 2019 - UAH 175 thousand. There are no intangible assets with restrictions on ownership rights on the bank's balance sheet. Intangible assets were not created during the reporting period.

There were no increases or decreases in fixed assets and intangible assets during the reporting period and the previous period arising from revaluations, as well as from impairment losses recognized or reversed directly in equity.

## 11. OTHER ASSETS

Table 11.1. Other assets

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** listed |
|---|---|---|
| **Financial assets:** | **17,776** | **9,374** |
| Securities receivables | - | 2,408 |
| Accrued income from settlement and cash services | 48 | 33 |
| Accrued operating lease income | 2,333 | 958 |
| Accounts receivable transferred from PJSC "OMEGA BANK" | - | 575 |
| Accounts receivable for payment of debt under the guarantee | 1,190 | 905 |
| Assets under the forward contract on domestic government bonds | - | 1,776 |
| Receivables from payment card transactions | 9,508 | 942 |
| Restricted funds | 3,524 | 1,508 |
| Other financial assets | 1,173 | 269 |
| *Reserve for other financial assets* | *(3,854)* | *(3,175)* |
| **Total other financial assets less reserves** | **13,922** | **6,199** |
| **Other assets** | **68,645** | **55,947** |
| Property transferred to the bank as a mortgagee | 17,900 | 14,300 |
| Deferred expenses | 9,799 | 3,844 |
| Prepayment for services | 12,979 | 5 101 |
| Accounts receivable from asset acquisition | 779 | 5,905 |
| Banking metals at the bank branch | 11,639 | 4,802 |
| Receivables for taxes and mandatory payments, except for income tax | - | 2 |
| Other receivables | 732 | 1 106 |
| Other non-current assets | 14,817 | 20,887 |
| *Reserve for other assets* | *(9,631)* | *(9,141)* |
| **Total other assets less reserves** | **72,936** | **53,005** |

During the reporting and previous periods, the Bank did not have any concluded agreements on the provision of assets under financial leasing (rent), under which the Bank is the lessor.

Pledged property (non-current assets) to which the Bank has acquired ownership for the purpose of sale is valued at the lower of the two estimates: book value or fair value less costs to sell (10%).

The data in Note 11 are included in the " Statement of Financial Position " and in Note 17.

Table 11.2. Analysis of changes in the provision for impairment of other assets for 2019

| *thousand UAH* | **Financial assets** | **Other assets** | **Total** |
|---|---|---|---|
| **December 31, 2018** | **(3,175)** | **(9,141)** | **(12,316)** |
| (Increase)/decrease reserve | (679) | (490) | (1,169) |
| **December 31, 2019** | **(3,854)** | **(9,631)** | **(13,485)** |

Table 11.3. Analysis of changes in the provision for impairment of other assets for 2018

| *thousand UAH* | **Financial assets** | **Other assets** | **Total** |
|---|---|---|---|
| **December 31, 2017** | **(666)** | **(5,169)** | **(5,835)** |
| (Increase)/decrease reserve | (2,511) | (3,972) | (6,483) |
| Write-off | 2 | - | 2 |
| **December 31, 2018** | **(3,175)** | **(9,141)** | **(12,316)** |

Table 11.4. Analysis of the credit quality of financial assets

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Not past due and not impaired debt | 13,032 | 8,210 |
| *small companies* | - | *6,682* |
| *individuals* | *9,508* | *20* |
| *large companies* | *3,524* | *1,508* |
| Debt impaired on an individual basis with delayed payment | 4,744 | 1,164 |
| *up to 31 days* | *1,009* | *69* |
| *from 32 to 92 days* | *484* | *221* |
| *from 93 to 183 days* | *2,991* | *614* |
| *more than 365(366) days* | *260* | *260* |
| **Total financial assets before deduction of reserve** | **17,776** | **9,374** |
| Provision for other financial assets | (3,854) | (3,175) |
| **Total other financial assets less reserve** | **13,922** | **6,199** |

## 12. CUSTOMER FUNDS

Table 12.1. Client funds

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| State and public organizations: | 1,731 | 5,730 |
| *current accounts* | *1,731* | *5,730* |
| Other legal entities: | 455,644 | 329,038 |
| *current accounts* | *390 174* | *285 261* |
| *term funds* | *65,470* | *43,777* |
| Individuals: | 310 105 | 397,227 |
| *current accounts* | *43,679* | *156,813* |
| *term funds* | *266,426* | *240,414* |
| **Total customer funds** | **767,480** | **731,995** |

Client funds, recorded as of the end of the day on December 31, 2019, on balance sheet account 2602 "Funds in settlements of business entities", in the amount of UAH 7,744 thousand. were transferred to cash collateral (coverage) under the guarantees provided by the bank.

As of December 31, 2019, funds attracted from the Bank's ten largest clients in the amount of UAH 261,628 thousand constituted 34% of the total amount of client funds (as of December 31, 2018: UAH 309,863 thousand (42%)).

The data of Note 12 are included in the " Statement of Financial Position " and in Note 17.

Table 12.2. Distribution of customer funds by type of economic activity

| *thousand UAH* | **December 31, 2019** | | **December 31, 2018** | |
|---|---|---|---|---|
| | **sum** | **%** | **sum** | **%** |
| Production and distribution of electricity, gas and water | 3,743 | - | 1,758 | - |
| Trade, repair of automobiles, household goods and personal items | 65,529 | 9 | 85 109 | 12 |
| Individuals | 310 106 | 40 | 397,227 | 54 |
| Real estate transactions, leasing, engineering and service provision | 24,325 | 3 | 36,456 | 5 |
| Agriculture, hunting, forestry | 4,931 | 1 | 3,923 | 1 |
| Construction | 182 282 | 24 | 60,314 | 8 |
| Financial and insurance activities | 83,490 | 11 | 85,358 | 12 |
| Mining industry | 19,842 | 3 | 6,824 | 1 |
| Production and repair of machinery and equipment | 15,901 | 2 | 16,905 | 2 |
| Food production, provision of meals and beverages | 10,558 | 1 | 18,310 | 2 |
| Other | 46,773 | 6 | 19,811 | 3 |
| **Total customer funds** | **767,480** | **100** | **731,995** | **100** |

During 2019 and the previous year, 2018, the Bank carried out operations to attract customer funds exclusively at market rates.

## 13. RESERVES FOR LIABILITIES

Table 13.1. Changes in provisions for liabilities for 2019

| *thousand UAH* | **2019** |
|---|---|
| **Balance at the beginning of the period** | **462** |
| Formation and/or increase of reserve | (250) |
| Impact of translation into reporting currency | **-** |
| **Balance at the end of the period** | **212** |

The Bank applies the same risk management procedures to lending commitments as to credit transactions reflected on the balance sheet. The maximum potential credit risk on lending commitments is equal to the total amount of commitments. Taking into account the availability of collateral and the fact that such commitments (except for guarantees) are revocable, the Bank's management believes that the potential credit risk and potential liquidity risk when carrying out the specified transactions are virtually absent. The reserve in the reporting and previous periods was formed as collateral for guarantees.

The data in Note 13 are included in the Statement of Financial Position and in Note 17.

## 14. OTHER OBLIGATIONS

Table 14.1. Other liabilities

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Commission for providing guarantees | 12,523 | 11,158 |
| Other payables from transactions with bank clients | 47,941 | 7,031 |
| Bank customers' funds in inactive accounts | 3,419 | 5,091 |
| Accounts payable for transactions with banks | 662 | - |
| Deferred income | 394 | 300 |
| Accounts payable for services | 372 | 1,112 |
| Accounts payable for settlements with bank employees | 2,678 | 2,191 |
| Accounts payable for taxes and mandatory payments, except for income tax | 1,317 | 944 |
| Accounts payable for fees to the Fund guaranteeing deposits of individuals | 550 | 546 |
| Lease obligations | 12,642 | - |
| Others | 212 | 100 |
| **Total** | **82,710** | **28,473** |

14 data disclosed in the “ Statement of Financial Position ” and in Note 17.

## 15. AUTHORIZED CAPITAL AND SHARE DIFFERENCES (SHARE PROFIT)

Table 15.1 Authorized capital and share premium (share income)

| *thousand UAH* | Number of shares outstanding (thousands of shares) | Simple promotions | Total |
|---|---|---|---|
| **Balance as of December 31, 2017** | **12,152** | **300,039** | **300,039** |
| Issuance of new shares (units) | **-** | **-** | **-** |
| **Balance as of December 31, 2018** | **12,152** | **300,039** | **300,039** |
| Issuance of new shares (units) | **-** | **-** | **-** |
| **Balance as of December 31, 2019** | **12,152** | **300,039** | **300,039** |

There are no shares announced for issue in the reporting year 2019.

The nominal value of one share as of the end of the day on December 31, 2019 is 24.69 hryvnias.

The bank did not issue preferred shares, and no dividends were paid.

There are no restrictions on share ownership at the end of the reporting year 2019.

Ordinary registered shares of the Bank grant their owners the rights provided for by the current legislation of Ukraine, including: to participate in the management of the Bank, namely the right to vote when resolving issues at the General Meeting of Shareholders of the Bank on the principle of "one voting share - one vote"; to participate in the distribution of the Bank's profit and receive its share (dividends); to receive, in the event of liquidation of the Bank, part of its property or the value of part of its property; to receive information about the Bank's business activities; in the event of the issuance of additional shares through private placement, to exercise the preemptive right to purchase ordinary shares placed by the Bank in proportion to the share of ordinary shares owned by them (the shareholders) in the authorized capital of the Bank; to sell or otherwise alienate the shares owned by them without the consent of other shareholders and the Bank.

The data of Note 15 are included in the “ Statement of Financial Position ” and “ Statement of Changes in Equity (Statement of Equity) ”.

## 16. MOVEMENTS IN REVALUATION RESERVES (COMPONENTS OF OTHER COMPREHENSIVE INCOME)

Table 16.1. Movement in revaluation reserves (components of other comprehensive income)

| *thousand UAH* | **2019** | **2018** |
|---|---|---|
| **Balance at the beginning of the year** | **(41)** | **-** |
| Revaluation of financial assets carried at fair value through other comprehensive income | 41 | (41) |
| *changes in revaluation to fair value* | *(49)* | *(66)* |
| *income (expenses) from sales reclassified in the reporting period to profit or loss* | *90* | *25* |
| **Balance at the end of the year** | **-** | **(41)** |

## 17. ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY TERM

Table 17.1. Analysis of assets and liabilities by maturity

| *thousand UAH* | **December 31, 2019** | | | **December 31, 2018** listed | | |
|---|---|---|---|---|---|---|
| | **less than 12 months** | **more than 12 months** | **total** | **less than 12 months** | **more than 12 months** | **total** |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 379,695 | - | 379,695 | 505,982 | - | 505,982 |
| Loans and customer debt | 254,398 | 23,419 | 277,817 | 113,308 | 3,053 | 116,361 |
| Investments in securities | - | - | - | 55,658 | - | 55,658 |
| Investment property | - | 308,377 | 308,377 | - | 193,260 | 193,260 |
| Current income tax receivable | 182 | - | 182 | - | - | - |
| Fixed assets and intangible assets | - | 31,617 | 31,617 | - | 16,424 | 16,424 |
| Other assets | 72,936 | - | 72,936 | 53,005 | - | 53,005 |
| **Total assets** | **707 211** | **363,413** | **1,070,624** | **727,953** | **212,737** | **940 690** |
| **OBLIGATION** | | | | | | |
| Client funds | 703,252 | 64,228 | 767,480 | 679,964 | 52,031 | 731,995 |
| Provisions for liabilities | 206 | 6 | 212 | 358 | 104 | 462 |
| Other obligations | 70,197 | 12,513 | 82,710 | 24,332 | 4 141 | 28,473 |
| **Total liabilities** | **773,655** | **76,747** | **850 402** | **704 654** | **56,276** | **760 930** |

## 18. INTEREST INCOME AND EXPENSES

Table 18.1. Interest income and expenses

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| **Interest income:** | | |
| Loans and customer debt | 58,459 | 17,078 |
| Bank loans and debt | 8,065 | 12,391 |
| Investments in securities | 185 | 829 |
| Correspondent accounts in other banks | 98 | 43 |
| NBU certificates of deposit, which are recorded under the AS | 19,048 | 12,567 |
| **Total interest income** | **85 855** | **42,908** |
| **Interest expenses:** | | |
| Bank funds | (2,285) | (1,633) |
| Term funds of legal entities | (3,894) | (2,461) |
| Term funds of individuals | (34,910) | (15,784) |
| Current accounts | (12,953) | (6,300) |
| Interest expense on lease liability | (2,417) | - |
| **Total interest expense** | **(56,459)** | **(26,178)** |
| **Net interest income (expenses)** | **29,396** | **16,730** |

The data of Note 18 are included in the “ Statement of Profit or Loss and Other Comprehensive Income (Statement of Financial Results) ” and in Note 24.

## 19. COMMISSION INCOME AND EXPENSES

Table 19.1. Commission income and expenses

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| **Commission income** | | |
| Settlement and cash transactions | 42,268 | 24 111 |
| Customer credit service | 24 | 39 |
| Foreign exchange market operations for clients | 3,428 | 2,334 |
| Guarantees provided | 14,849 | 24,381 |
| Others | 36 | 551 |
| **Total commission income** | **60 605** | **51,416** |
| **Commission costs** | | |
| Settlement and cash transactions | (7,917) | (4,966) |
| Securities transactions for clients | (1) | (30) |
| Commission costs on foreign exchange transactions market and the banking metals market | - | (163) |
| **Total commission expenses** | **(7,918)** | **(5,159)** |
| **Net commission income/expenses** | **52,687** | **46,257** |

Note data 19 disclosed in the “Statement of profit or loss and other comprehensive income (Statement of financial performance)” and in note 24.

## 20. OTHER OPERATING INCOME

Table 20.1. Other operating income

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Fines, penalties received by the bank | 15,070 | 64 |
| Income from operating leasing (rent) | 5,248 | 3,316 |
| Exercise of mortgagee's rights | - | 11,651 |
| Income received from loan repayments | - | 1,443 |
| Income from satisfaction of mortgagee's claims | 82,663 | - |
| Income from derecognition of financial liabilities | 16,281 | 8,982 |
| Compensation for utility costs for rented premises | 531 | 477 |
| Others | 4,857 | 303 |
| **Total operating income** | **124,650** | **26,236** |

The data of Note 20 are included in the "Statement of Profit or Loss and Other Comprehensive Income (Statement of Financial Results)" and in Note 24 .

## 21. ADMINISTRATIVE AND OTHER OPERATING COSTS

Table 21.1. Administrative and other operating expenses

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Marketing and advertising expenses | (16,709) | (1,726) |
| Costs associated with customer acquisition | (33,004) | (22,330) |
| Expenses for maintenance of fixed assets and intangible assets, telecommunication and other operational services | (33,026) | (15,426) |
| Operating lease (rent) expenses | (5,892) | (9,380) |
| Payment of other taxes and fees, except for income tax | (5,539) | (3,119) |
| Expenses for information and consulting services received and financial consulting services | (44,106) | (4,530) |
| Security costs | (1,202) | (1,015) |
| Impairment of non-current assets held for sale and property transferred to the bank as a pledgee | - | (1,079) |
| Costs for collecting valuables | (1,437) | (739) |
| Audit costs | (904) | (493) |
| Payment card support | (1,922) | (2013) |
| Staff education and training costs | (8,092) | - |
| Impairment of assets held for sale and assets in disposal groups | (9,087) | - |
| Others | (7,437) | (3,545) |
| **Total administrative and other operating expenses** | **(168,357)** | **(65,395)** |

The data of Note 21 are disclosed in the “Statement of Profit or Loss and Other Comprehensive Income (Statement of Financial Results)” and in Note 24.

## 22. INCOME TAX

The Bank records income tax on the basis of tax accounting data in accordance with the requirements of the Tax Code of Ukraine, which is based on accounting data maintained in accordance with IFRS requirements.

The income tax rate applied to the calculation of item indicators was based on the current tax rate of 18% in 2018 and 2019.

The Bank's financial statements are affected by permanent temporary differences due to the fact that certain income and expenses are not included in income and expenses for tax purposes.

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are mainly related to different methods of recognizing income and expenses, as well as to the carrying amounts of certain assets.

Table 22.3. Tax consequences associated with the recognition of deferred tax assets and deferred tax liabilities for 2018 have undergone changes due to the submission in May 2019 of the Supplement to the Income Tax Return for 2018. The amount of losses from previous years has been changed from UAH 21 million to UAH 95 million.

The table "Profit tax expenses" was not submitted due to the absence of current tax expenses and income/expenses related to deferred tax in the reporting and previous reporting periods.

In June-August 2019, the Main Department of the State Fiscal Service in Kyiv conducted a documentary scheduled on-site inspection of JSC "RWS BANK" on compliance with tax legislation for the period from 01.01.2016 to 31.03.2019. The total amount of penalties imposed on the bank amounted to 44.4 thousand UAH. with income of 164,244 thousand UAH., i.e. 0.2%. which indicates a high level of tax accounting organization.

Table 22.1. Reconciliation of accounting profit (loss) and taxable profit (loss)

| *thousand UAH* | **2019 year** | **2018 year** |
|---|---|---|
| **Profit before tax** | **(40,481)** | **887** |
| Theoretical tax deductions at the applicable tax rate | 7,286 | (160) |
| **Adjustment of accounting profit (loss)** | | |
| Expenses that are not included in the amount of expenses for the purpose of calculating taxable profit, but are recognized in accounting (amount of accrued depreciation, use of reserve) | (15) | (142) |
| Expenses that are included in the amount of expenses for the purpose of calculating taxable profit, but are not recognized in accounting (losses of previous years) | (17,161) | (17,501) |
| Income that is subject to income tax but is not recognized (does not belong) to accounting profit (loss) (shareholder's material assistance) | 8,640 | – |
| Changes in deferred tax assets not reflected in the statement of financial position | **(8,536)** | **(17,643)** |
| **Income tax expenses** | **–** | **–** |

Table 22.2. Tax consequences associated with the recognition of deferred tax assets and deferred tax liabilities for 2019

| *thousand UAH* | **December 31, 2018** | **Charged to profit and loss accounts** | **December 31, 2019** |
|---|---|---|---|
| **Tax effect of temporary differences that reduce the taxable base** | | | |
| Loan impairment allowance | 132 | (69) | 63 |
| Tax losses before carryforward | 17,501 | (340) | 17,161 |
| Fixed assets and intangible assets | 10 | (58) | (48) |
| shareholder financial assistance | - | (8,640) | (8,640) |
| **Deferred tax asset, gross amount** | **17,643** | **(9107)** | **8,536** |
| Deferred tax assets are not reflected in the statement of financial position | (17,643) | 9 107 | (8,536) |
| **Deferred tax asset** | – | – | – |

Table 22.3. Tax consequences associated with the recognition of deferred tax assets and deferred tax liabilities for 2018

| *thousand UAH* | **December 31, 2017** | **Charged to profit and loss accounts** | **December 31, 2018** |
|---|---|---|---|
| **Tax effect of temporary differences that reduce the taxable base** | | | |
| Loan impairment allowance | 205 | (73) | 132 |
| Tax losses before carryforward | 4,941 | 12,560 | 17,501 |
| Fixed assets and intangible assets | 56 | (46) | 10 |
| **Deferred tax asset, gross amount** | **5,202** | **12,441** | **17,643** |
| Deferred tax assets are not reflected in the statement of financial position | (5,202) | (12,441) | (17,643) |
| **Deferred tax asset** | – | – | - |

## 23. PROFIT (LOSS) PER COMMON SHARE

Table 23.1. Net and adjusted earnings/(loss) per common share

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** listed |
|---|---|---|
| Profit/(loss) cumulative total since the beginning of the year | (7 5 79 ) | (32,014) |
| Profit/(loss) attributable to owners of the bank's common shares | (7 5 79 ) | (32,014) |
| Average annual number of common shares outstanding (thousands of shares) | 12,152 | 12,152 |
| **Net and adjusted profit/(loss) per common share (UAH)** | **(0.62)** | **(2.64)** |

Note data 23 stated in the “Statement of profit or loss and other comprehensive income (Statement of financial results)”.

The amount of earnings/(loss) per share was calculated by dividing the net income/(loss) attributable to the shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. The Bank does not have shares that could result in a decrease in earnings per share. Thus, the adjusted net income/(loss) per share is equal to the earnings per share attributable to shareholders of ordinary shares.

The net profit/(loss) indicator does not differ from the adjusted net profit/(loss) indicator.

Table 23.2. Calculation of profit/(loss) attributable to owners of the bank's common shares

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Profit/(loss) for the period attributable to owners of the bank | (7 5 79 ) | (32,014) |
| Retained earnings/(loss) for the period | (7 5 79 ) | (32,014) |
| Retained earnings/(loss) for the period attributable to ordinary shareholders based on the terms of the shares | (7 5 79 ) | (32,014) |
| **Profit/(loss) for the period attributable to ordinary shareholders** | **(7 5 79 )** | **(32,014)** |

## 24. OPERATING SEGMENTS

Operating segments are components of a business entity that engage in commercial activities from which the entity may earn income and incur expenses, whose operating results are regularly reviewed by the chief operating decision maker, and for which financial information is available.

A segment is a distinguishable component of the Bank's business that is engaged in either providing services or products (business segment), or providing services or products within a specific economic environment (geographic segment), and is exposed to risks and returns.

The Bank's main format for reporting segment information is business segments.

The Bank recognizes the following reportable segments: corporate banking, retail banking, treasury.

Corporate banking − represents tools for managing accounts (current, deposit), providing loans, overdrafts and other types of financing, trade financial instruments, structured financing, foreign currency and banknote transactions.

Unallocated items also include the amounts of expenses that are not included in segment expenses: income tax expenses, general administrative expenses, and other expenses that arise at the Bank level and relate to the Bank as a whole.

Retail banking − represents banking services for individuals, current, savings and deposit accounts for individuals, credit and debit cards, mortgages and loans for current needs.

Treasury activities **-** conducting operations on the credit and foreign exchange markets, securities transactions (both on behalf of clients and for their own account), relationships with professional participants in the financial market **-** banks, insurance companies, financial intermediaries in the capital markets.

The Bank recognizes as revenue of a reporting segment the revenue directly attributable to the segment and the relevant part of the bank's revenue that can be attributed to the segment from external activities or from transactions between other segments within the same bank. Revenues of reporting segments are presented net of value added tax, excise duty, other duties and deductions from income. Revenues of reporting segments do not include income from extraordinary events and income from income tax.

The Bank recognizes as expenses of a reporting segment expenses related to the main activities of the segment that are directly attributable to it and the appropriate portion of expenses that can be reasonably attributed to the segment, including expenses from external activities and expenses related to operations of other segments within the same bank.

Indicators of dissimilar segments are included in the unallocated items "Unallocated amounts", which are used to reconcile the relevant indicators of the performance of the reporting segments and the Bank as a whole.

Table 24.1. Revenues, expenses and results of reporting segments for 2019

| *thousand UAH* | **Corporate business** | **Retail business** | **Treasury** | **Other segments and operations** | **Total** |
|---|---|---|---|---|---|
| Interest income | 31,940 | 26,519 | 27,396 | - | **85 855** |
| Commission income | 28,271 | 26,008 | 6,326 | - | **60 605** |
| Other operating income | 16,281 | 15,537 | - | 92,832 | **124,650** |
| **Total segment revenues** | **76,492** | **68,064** | **33,722** | **92,832** | **271 110** |
| Interest expenses | (16,386) | (35,371) | (2,285) | (2,417) | **(56,459)** |
| Commission costs | (1) | (283) | (7,634) | - | **(7,918)** |
| Employee benefits expenses | (23,558) | (14,135) | (2,356) | (7,066) | **(47,115)** |
| Depreciation and amortization expenses | - | - | - | (10,801) | **(10,801)** |
| Other administrative and operating expenses | (84,178) | (50,507) | (8,418) | (25,254) | **(168,357)** |
| **Total segment costs** | **(124 123)** | **(100,296)** | **(20,693)** | **(45,538)** | **(290,650)** |
| Net profit/(loss) from FI transactions accounted for under the CIF | - | - | (2,303) | - | **(2,303)** |
| Net profit/(loss) from FI transactions accounted for under the SVISD | - | - | 5 4 | - | **5 4** |
| Net profit/(loss) from foreign currency transactions | 3,100 | 7,971 | (2,851) | - | **8,220** |
| Net profit/(loss) from revaluation of investment property | - | - | - | 13,174 | **13,174** |
| Net profit/(loss) from foreign currency revaluation | - | - | 5,987 | - | **5,987** |
| Net gain/(loss) from impairment of financial assets | (449) | (20,781) | - | - | **(21,230)** |
| Net gain/(loss) from impairment of other assets | - | - | - | 7,807 | **7,807** |
| Net loss/(gain) from increase/(decrease) in provisions for liabilities | 250 | - | - | - | **250** |
| **Segment result** | **(44,730)** | **(45,042)** | **13 91 6** | **68,275** | **(7 5 79 )** |

The components of line 3 "Other operating income" in the amount of UAH 124,650 thousand are disclosed in Note 20.

The components of line 8 "Other administrative and operating expenses" in the amount of UAH 168,357 thousand are disclosed in Note 21.

Table 24.2. Revenues, expenses and results of reporting segments for 2018

| *thousand UAH* | **Corporate business** | **Retail business** | **Treasury** | **Other segments and operations** | **Total** |
|---|---|---|---|---|---|
| Interest income | 16,606 | 473 | 13,263 | 12,566 | **42,908** |
| Commission income | 30,916 | 9326 | 11,174 | - | **51,416** |
| Other operating income | 20,018 | 491 | 4,038 | 1,689 | **26,236** |
| **Total segment revenues** | **67,540** | **10,290** | **28,475** | **14,255** | **120,560** |
| Interest expenses | (8,592) | (15,953) | (1,633) | - | **(26,178)** |
| Commission costs | - | - | (5,159) | - | **(5,159)** |
| Employee benefits expenses | (26,432) | (15,859) | (2,643) | (7,929) | **(52,863)** |
| Depreciation and amortization expenses | - | - | - | (2,469) | **(2,469)** |
| Other administrative and operating expenses | (32,698) | (19,618) | (3,270) | (9,809) | **(65,395)** |
| **Total segment costs** | **(67,722)** | **(51,430)** | **(12,705)** | **(20,207)** | **(152,064)** |
| Net profit/(loss) from FI transactions accounted for under the CIF | - | - | 4038 | - | **4,038** |
| Net profit/(loss) from FI transactions accounted for under the SVISD | - | - | 5,179 | - | **5,179** |
| Net profit/(loss) from foreign currency transactions | 4,886 | 8,027 | 7,005 | - | **19,918** |
| Net profit/(loss) from revaluation of investment property | - | - | - | (15,561) | **(15,561)** |
| Net profit/(loss) from foreign currency revaluation | - | - | 2 120 | - | **2 120** |
| Net gain/(loss) from impairment of financial assets | (3,489) | (76) | - | - | **(3,565)** |
| Net gain/(loss) from impairment of other assets | - | - | - | (12,570) | **(12,570)** |
| Net loss/(gain) from increase/(decrease) in provisions for liabilities | (69) | - | - | - | **(69)** |
| **Segment result** | **1,146** | **(33,189)** | **34 112** | **(34,083)** | **(32,014)** |

The components of line 3 "Other operating income" in the amount of UAH 26,236 thousand are disclosed in Note 20.

The components of line 8 "Other administrative and operating expenses" in the amount of UAH 65,395 thousand are disclosed in Note 21.

Table 24.3. Assets and liabilities of reporting segments for 2019

| *thousand UAH* | Corporate business | Retail business | Treasury | Other segments and operations | Total |
|---|---|---|---|---|---|
| **Segment assets** | | | | | |
| Segment assets | 208,788 | 69,307 | 389,255 | - | **667,350** |
| Total segment assets | 208,788 | 69,307 | 389,255 | - | **667,350** |
| Undistributed assets | - | - | - | 403,274 | **403,274** |
| **Total assets** | **208,788** | **69,307** | **389,255** | **403,274** | **1,070,624** |
| **Segment liabilities** | | | | | |
| Segment liabilities | 485,580 | 327,764 | 7,743 | - | **821,087** |
| Total segment liabilities | 485,580 | 327,764 | 7,743 | - | **821,087** |
| Unallocated liabilities | - | - | - | 29,315 | **29,315** |
| **Total liabilities** | **485,580** | **327,764** | **7,743** | **29,315** | **850 402** |

Data of line 3 "Undistributed assets" in the amount of 403,274 thousand UAH. consist of:

- 308,377 thousand UAH - investment property;
- UAH 31,617 thousand - fixed assets and intangible assets;
- 63,280 thousand UAH - other assets.

The data of line 7 "Unallocated liabilities" in the amount of UAH 82,924 thousand consist of:

- 51,531 thousand UAH – accounts payable for business operations, taxes, deferred income and other liabilities;
- UAH 31,393 thousand – other liabilities.

Table 24.4. Assets and liabilities of reporting segments for 2018

| *thousand UAH* | Corporate business | Retail business | Treasury | Other segments and operations | Total |
|---|---|---|---|---|---|
| **Segment assets** | | | | | |
| Segment assets | 113 140 | 2,777 | 564,358 | - | **680 275** |
| Total segment assets | 113 140 | 2,777 | 564,358 | - | **680 275** |
| Undistributed assets | - | - | - | 260,415 | **260,415** |
| **Total assets** | **113 140** | **2,777** | **564,358** | **260,415** | **940 690** |
| **Segment liabilities** | | | | | |
| Segment liabilities | 351,753 | 397,961 | 591 | - | **750 305** |
| Total segment liabilities | 351,753 | 397,961 | 591 | - | **750 305** |
| Unallocated liabilities | - | - | - | 10,625 | **10,625** |
| **Total liabilities** | **351,753** | **397,961** | **591** | **10,625** | **760 930** |

Data of line 3 "Undistributed assets" in the amount of 260,415 thousand UAH consist of:

- 193,260 thousand UAH - investment property;
- UAH 16,183 thousand - fixed assets and intangible assets;
- UAH 50,972 thousand - other assets.

The data of line 7 "Unallocated liabilities" in the amount of UAH 10,625 thousand consist of:

- 9509 thousand UAH – accounts payable for business operations, taxes, deferred income and other liabilities;
- UAH 1,116 thousand – other liabilities.

The Bank does not submit "Information on Geographic Regions" because it carries out its business activities only in Ukraine.

## 25. FINANCIAL RISK MANAGEMENT

Risk management is important in banking and is an essential element of operations. The main risks that the Bank may be exposed to in its activities include credit risk, liquidity risk, market risk, and operational and technological risk, legal, strategic and reputational risks.

The structure of the risk management system in JSC "RWS BANK" consists of three lines of defense, the first line of defense is the business units and support units, the second line of defense is the risk management and compliance control units, the third line is the Supervisory Board of the bank and the audit unit. Permanent committees: Credit Committee; Asset and Liability Management Committee; Tariff Committee. The overall risk management strategy in the Bank is determined by the Supervisory Board.

The Credit Committee's activities are aimed at forming a loan portfolio with minimal credit risk, i.e., a minimal level of overdue debt. To this end, the Bank:

- sets lending limits, concentration limits;
- assesses the quality of assets and makes decisions on the formation of reserves to cover possible losses from their depreciation;
- supports the implementation of risk standards established by the National Bank of Ukraine (standard for the maximum amount of credit risk per counterparty, standard for the maximum amount of credit risk for transactions with persons related to the bank, standard for large credit risks).

To reduce credit risk, the committee constantly assesses the creditworthiness of the Bank's counterparties; identifies problem assets in a timely manner; controls the determination of the amount of credit risk and the calculation of provisions for asset impairment.

The Asset and Liability Management Committee assesses and manages liquidity and market risks, both for individual transactions and for banking activities at the level of asset and liability portfolios as a whole. Market risk management includes the management of interest rate risk, currency risk and liquidity risk.

The Committee reviews the cost of liabilities and the profitability of assets on a monthly basis and makes decisions on the interest margin policy. It considers the issue of matching the maturity of assets and liabilities and provides recommendations to the relevant divisions of the Bank on eliminating discrepancies between the maturities of liabilities and asset placement that arise.

In terms of liquidity risk management and cash flows, it calculates prospective liquidity; assesses the liquidity situation and makes decisions on liquidity management within the framework of delegated powers and internal regulatory procedures; takes preventive measures to minimize and ensure the management of liquidity risk arising in the current work of the Bank and/or related to changes in the market situation.

The Tariff Committee regularly analyzes the ratio of the cost of services and the market competitiveness of current tariffs. In this regard, in order to implement a unified tariff policy of the Bank, the Committee:

- reviews the tariff system, makes changes and recommends them for approval;
- considers and approves tariffs for new products/services;
- controls the implementation of the Bank's tariff policy by structural divisions.

Operational risk management in the Bank is carried out by the Risk Management Department, which is engaged in the development of policies on credit, market and operational risks, submitting them for approval by the Bank's committees; identifies and assesses risks (by specific agreements and in general at the portfolio level); organizes the Bank's risk control and monitoring system; assesses the operational risks of all business processes, develops measures to prevent risks and measures that minimize the risks taken by the Bank. Representatives of the Risk Management Department are members of the Credit Committee, the Assets and Liabilities Management Committee. At meetings of the relevant committees, representatives of the Risk Management Department have one vote.

The Risk Management Department carries out expert verification of solvency and other quantitative and qualitative characteristics of borrowers when issuing loans, including collateral, monitors, identifies and promptly assesses risks related to these loans, develops and maintains the Bank's borrower assessment systems, identifies, monitors, assesses and optimizes liquidity risk, interest rate risk, market and currency risks assumed by the Bank in its current activities. In addition, this unit is entrusted with the functions of analyzing, managing, monitoring and controlling credit risks of interbank transactions and the functions of monitoring and controlling risks of violating economic standards, limits and special requirements of the National Bank of Ukraine.

The Risk Management Department is subordinate to the Supervisory Board of the Bank.

**Credit risk**

The Bank is exposed to credit risk, which is the risk that counterparties will not meet their obligations on time and in full. The Bank structures credit risk levels by approving credit limits for the amount of risk acceptable for one borrower or group of borrowers. Such risks are under constant control and analyzed in accordance with the established procedure. Limits for the level of credit risk per borrower are regularly approved by the Supervisory Board. Credit risk is managed by regularly analyzing the ability of borrowers and potential borrowers to repay interest and principal on loans, as well as by changing the relevant credit limits if necessary. In addition, credit risk management involves obtaining liquid collateral.

The analysis of loan impairment includes determining whether payments of principal or interest on a loan are more than 90 days past due (for legal entities and individually significant loans to individuals) and 90 days (for individuals not included in the individually significant segment), whether there are any known difficulties with regard to the counterparties' cash flows, a decrease in the credit rating or a violation of the original terms of the relevant agreement. The Bank carries out an analysis of impairment in two directions: the creation of a provision for impairment of individual loans and a provision for impairment of loans on a collective basis.

As of December 31, 2019, the maximum amount of credit risk was UAH 56,897.0 thousand (December 31, 2018: UAH 31,317 thousand)

**Market risk**

Market risks arise from open positions in interest rates and currency instruments that are affected by general and specific market changes. Market risk is the risk that changes in market conditions, such as interest rates, securities quotes, exchange rates and credit spreads (not related to changes in the creditworthiness of the debtor/creditor), will affect the Bank's income or the value of financial instruments held by it.

In order to limit losses, the Bank manages market risk by periodically assessing potential losses that may arise from adverse changes in market conditions, and by setting and adhering to appropriate limits.

The Bank, within the framework of market risk, also considers price risk regarding the decrease in the value of securities and collateral (mortgage), etc.

Overall responsibility for controlling market risk is assigned to the Asset and Liability Management Committee, which manages market risk by establishing reasonable restrictions (limits, standards, interest rates).

**Currency risk**

Currency risk arises when actual or forecast assets in a foreign currency are greater or less than liabilities in the same currency.

Currency risk management includes the following elements: using all possible means to avoid a risk that leads to significant losses, controlling the risk and minimizing the amount of probable losses if it cannot be avoided completely, and insuring currency risk if it cannot be avoided.

The Bank sets limits and constantly monitors currency positions in accordance with the requirements of the regulatory legal acts of the National Bank of Ukraine.

Table 25.1. Currency risk analysis

| *thousand UAH* | **December 31, 2019** | | | **December 31, 2018** | | |
|---|---|---|---|---|---|---|
| | **monetary assets** | **monetary obligations** | **net position** | **monetary assets** | **monetary obligations** | **net position** |
| US dollars | 108,969 | (97,209) | 11,760 | 126,933 | (71,817) | 55 116 |
| Euro | 45,811 | (48,590) | (2,779) | 27,421 | (28,442) | (1,021) |
| Pounds Sterling | 37 | (5) | 32 | 68 | (21) | 47 |
| Others | 13,058 | (13,129) | (71) | 10,223 | (9,951) | 272 |
| Total | 167,875 | (158,933) | 8,942 | 164,645 | (110,231) | 54,414 |

Table 25.2. Change in profit or loss and equity as a result of possible changes in the official exchange rate of the hryvnia to foreign currencies, set at the reporting date, provided that all other variables remain fixed

The calculation is made for cash balances in currencies other than the functional currency.

| *thousand UAH* | **December 31, 2019** | | **December 31, 2018** | |
|---|---|---|---|---|
| | **impact on profit/(loss)** | **impact on equity** | **impact on profit/(loss)** | **impact on equity** |
| US dollar strengthens by 53% | 23,520 | 23,520 | 29,212 | 29,212 |
| US dollar weakens by 13% | (2,569) | (2,569) | (7,165) | (7,165) |
| Euro strengthens by 53% | (955) | (955) | (541) | (541) |
| Euro weakens by 15% | 111 | 111 | 153 | 153 |
| 53% strengthening of the pound sterling | 8 | 8 | 25 | 25 |
| 15% weakening of the pound sterling | (1) | (1) | (7) | (7) |
| Strengthening of other currencies by 15% | 24 | 24 | 41 | 41 |
| Weakening of other currencies by 15% | (33) | (33) | (41) | (41) |

**Interest rate risk**

Interest rate risk arises from the possibility of changes in the value of financial instruments or future cash flows of financial instruments due to changes in interest rates. Interest rate risk is assessed by the extent to which changes in market interest rates affect the interest margin 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 as a result of changes in interest rates. In order to manage interest rate risk, the Bank sets limits (restrictions) on the interest rate spread (margin), monitors the interest rate yield on assets and interest rates on liabilities and adjusts the prices of banking products.

Table 25.3. General analysis of interest rate risk

For assets and liabilities with a fixed interest rate, maturity is determined based on the period from the balance sheet date to the contractual maturity date, and for assets and liabilities with a variable interest rate, maturity is determined based on the earliest interest rate reset date or maturity date.

| *thousand UAH* | **On demand and less than 1 month.** | **From 1 to 6 months.** | **From 6 to 12 months.** | **More than a year** | **Total** |
|---|---|---|---|---|---|
| **December 31, 2019** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Total financial assets | 411,160 | 122,399 | 114,456 | 23,419 | **671,434** |
| Total financial liabilities | 536,908 | 43,557 | 213,581 | 37,979 | **832,025** |
| Net interest rate gap at the end of the previous period | (125,748) | 78,842 | (99,125) | (14,560) | **(160,591)** |
| **December 31, 2018** | | | | | |
| Total financial assets | 287,935 | 57,344 | 81,989 | 14,876 | **442 144** |
| Total financial liabilities | 516,341 | 27,863 | 135,760 | 70,664 | **750,628** |
| Net interest rate gap at the end of the previous period | (228,406) | 29,481 | (53,771) | (55,788) | **(308,484)** |

The Bank does not have financial instruments with variable interest rates , the change in the value of which would affect the Bank's financial result or capital.

Table 25.4. Monitoring interest rates on financial instruments

| % | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| | **hryvnia** | **US dollars** | **euro** | **hryvnia** | **US dollars** | **euro** |
| **Assets** | | | | | | |
| Cash and cash equivalents | 17.56 | - | - | 16.35 | - | - |
| Loans and customer debt | 22.31 | 10.7 | 10 | 23.43 | 9.67 | 9 |
| Debt securities in the bank's portfolio for sale | - | - | - | - | 18 | - |
| **Obligation** | | | | | | |
| Bank funds | 15.10 | - | - | - | - | - |
| Client funds: | | | | - | - | - |
| current accounts | 0.10 | | | 0.10 | - | - |
| term funds | 15.10 | 4.69 | 4.55 | 15.63 | 5.04 | 5.11 |

Table 25.5. Analysis of geographical concentration of financial assets and liabilities for 2019

| *thousand UAH* | **Ukraine** | **OECD** | **Other countries** | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 379,695 | - | - | 379,695 |
| Loans and customer debt | 277,817 | - | - | 277,817 |
| Other financial assets | 13,922 | - | - | 13,922 |
| Total financial assets | 671,434 | - | - | 671,434 |
| **Obligation** | | | | |
| Client funds | 760,073 | 6,703 | 704 | 767,480 |
| Other financial liabilities | 63,688 | 210 | 647 | 64,545 |
| Provisions for liabilities | 212 | - | - | 212 |
| Total financial liabilities | 823,973 | 6,913 | 1,351 | 832,237 |
| Net balance sheet position by financial instruments | (152,539) | (6,913) | (1,351) | (160,803) |
| Credit obligations | 500 484 | - | - | 500 484 |

Table 25.6. Analysis of geographical concentration of financial assets and liabilities for 2018

| *thousand UAH* | **Ukraine** | **OECD** | **Other countries** | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 505,982 | - | - | 505,982 |
| Funds in other banks | 1,508 | - | - | 1,508 |
| Loans and customer debt | 116,361 | - | - | 116,361 |
| Securities in the bank's portfolio for sale | 55,658 | - | - | 55,658 |
| Other financial assets | 4,691 | - | - | 4,691 |
| Total financial assets | 684,200 | - | - | 684,200 |
| **Obligation** | | | | |
| Client funds | 730,319 | 608 | 1,068 | 731,995 |
| Other financial liabilities | 22,456 | 210 | 614 | 23,280 |
| Provisions for liabilities | 462 | - | - | 462 |
| Total financial liabilities | 753,237 | 818 | 1,682 | 755 737 |
| Net balance sheet position by financial instruments | (69,037) | (818) | (1,682) | (71,537) |
| Credit obligations | 429,152 | - | - | 429,152 |

Assets, liabilities and credit-related obligations were classified based on the country in which the counterparty is located. Cash on hand was classified according to the country of their physical location.

**Liquidity risk**

This risk arises in the general financing of activities and in the management of positions. It includes both the risk of being unable to finance assets in a timely manner and at appropriate rates, and the risk of being unable to liquidate an asset at an acceptable price and in a timely manner.

The Bank has access to various sources of funding. Funds are raised through the use of various instruments, including contributions from participants to the authorized fund. This diversifies funding sources, reduces dependence on a single source of funding and, as a rule, reduces the cost of resources involved. The Bank tries to maintain a balance between continuity of funding and its diversity by using obligations with different payment periods.

The Bank uses economic and administrative tools to manage liquidity risk.

The Bank continuously assesses liquidity risk by identifying and monitoring changes in funding required to achieve business objectives defined within the overall strategy.

In addition, as part of the liquidity risk management strategy, the Bank maintains a portfolio of liquid assets and adheres to the gaps between borrowed and placed funds by maturity established by the National Bank of Ukraine.

The Bank has assets and liabilities denominated in several foreign currencies and is exposed to fluctuations in foreign exchange rates on its financial position and cash flows.

Table 25.7. Analysis of financial liabilities by maturity for 2019

| *thousand UAH* | **On demand and less than 1 month.** | **From 1 to 3 months.** | **From 3 to 12 months.** | **From 12 months to 5 years** | **Total** |
|---|---|---|---|---|---|
| Client funds: | 477,509 | 43,164 | 212,579 | 34,228 | 767,480 |
| *Individual funds* | *122,794* | *18,066* | *145 201* | *24,470* | *310,531* |
| *Funds of legal entities* | *354,715* | *25,098* | *67,378* | *9,758* | *456,949* |
| Other financial liabilities | 59,399 | 393 | 1,002 | 3,751 | 64,545 |
| Financial guarantees | 88,261 | 69,151 | 56,852 | 274,031 | 488,295 |
| Other credit obligations | 37,470 | - | - | - | 37,470 |
| Total potential future payments on financial liabilities | 662,639 | 112,708 | 270,433 | 312,010 | 1,357,790 |

Table 25.8. Analysis of financial liabilities by maturity for 2018

| *thousand UAH* | **On demand and less than 1 month.** | **From 1 to 3 months.** | **From 3 to 12 months.** | **From 12 months to 5 years** | **Total** |
|---|---|---|---|---|---|
| Client funds: | 441,029 | 26,356 | 212,579 | 52,031 | 731,995 |
| *Individual funds* | *151,411* | *15 105* | *199,349* | *25,267* | *391 132* |
| *Funds of legal entities* | *289,618* | *11,251* | *13,230* | *26,764* | *340,863* |
| Other financial liabilities | 20,603 | 184 | 1,004 | 1,489 | 23,280 |
| Financial guarantees | 77,336 | 18,573 | 144,002 | 167,365 | 407,276 |
| Other credit obligations | 21,876 | - | - | - | 21,876 |
| Total potential future payments on financial liabilities | 560,844 | 45,113 | 357,585 | 220,885 | 1,184,427 |

Table 25.9. Analysis of financial assets and liabilities by maturity based on expected maturities for 2019

| *thousand UAH* | **On demand and less than 1 month.** | **From 1 to 3 months.** | **From 3 to 12 months.** | **From 12 months to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 379,695 | - | - | - | - | 379,695 |
| Loans and customer debt | 31,464 | 122,397 | 100,537 | 23,419 | - | 277,817 |
| Other financial assets | 1 | 2 | 13,919 | - | - | 13,922 |
| Total financial assets | 411,160 | 122,399 | 114,456 | 23,419 | - | 671,434 |
| **Obligation** | | | | | | |
| Client funds | 477,509 | 43,164 | 212,579 | 34,228 | - | 767,480 |
| Other financial liabilities | 59,399 | 393 | 1,002 | 3,751 | - | 64,545 |
| Total financial liabilities | 536,908 | 43,557 | 213,581 | 37,979 | - | 832,025 |
| Net liquidity gap at the end of the day December 31, 2019 | (125,748) | 78,842 | (99,125) | (14,560) | - | (160,591) |
| Aggregate liquidity gap at the end of the day December 31, 2019 | (125,748) | (46,906) | (146,031) | (160,591) | (160,591) | |

Table 25.10. Analysis of financial assets and liabilities by maturity based on expected maturities for 2018

| *thousand UAH* | **On demand and less than 1 month.** | **From 1 to 3 months.** | **From 3 to 12 months.** | **From 12 months to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 505,982 | - | - | - | - | 505,982 |
| Loans and customer debt | 16,854 | 57,968 | 38,486 | 3,053 | - | 116,361 |
| Investments in securities | - | 55,658 | - | - | - | 55,658 |
| Other financial assets | 9 | - | 6,190 | - | - | 6,199 |
| Total financial assets | 522,845 | 113,626 | 44,676 | 3,053 | - | 684,200 |
| **Obligation** | | | | | | |
| Client funds | 441,029 | 26,356 | 212,579 | 52,031 | - | 731,995 |
| Other financial liabilities | 20,603 | 184 | 1,004 | 1,489 | - | 23,280 |
| Total financial liabilities | 461,632 | 26,540 | 213,583 | 53,520 | - | 755 275 |
| Net liquidity gap at the end of the day December 31, 2018 | 61,213 | 87,086 | (168,907) | (50,467) | - | (71,075) |
| Aggregate liquidity gap at the end of the day December 31, 2018 | 61,213 | 148,299 | (20,608) | (71,075) | (71,075) | |

**Concentration of other risks**

***Operational and technological risk*** – is the risk of direct or indirect losses as a result of incorrectly designed business processes, ineffective internal control procedures, technological failures, unauthorized personnel actions, or external influence.

The main method of managing operational risk is to create an internal control system. The Bank regularly audits operational procedures along with assessing operational risks, and develops internal recommendations for their reduction. Operational risk assessment is always carried out when analyzing new products, internal banking regulations, processes, and operational, payment, and settlement procedures.

The Bank implements a system of clear delegation of authority, distribution of incompatible responsibilities, distribution of authority of individual structural divisions and employees of the Bank when performing all banking operations with limited access to the operating system.

Key operational risk management measures: monitoring operations at the unit level, limiting physical access of personnel to data on electronic and paper media, ensuring verification and double-checking procedures, ensuring compliance of the Bank's activities with internal procedures and regulations, as well as the requirements of legislation and regulatory authorities.

***Reputational risk*** − an existing or potential risk to income and capital arising from a negative perception of the image of a financial institution by customers, counterparties, founders or supervisory authorities. This affects the Bank's ability to establish new relationships with counterparties, provide new services or maintain relationships with existing customers.

The Bank has established a procedure for the participation of management bodies and heads of structural units in reputation risk management.

***Strategic risk*** – is an existing or possible negative impact on the Bank's activities, which is a consequence of making incorrect management, strategic decisions, imperfect implementation of such decisions or lack of reaction to changes in external market factors. Strategic risk is associated with errors in strategic management, primarily with the possibility of incorrect formulation of the Bank's goals, inadequate resource provision for their implementation and incorrect approach to risk management in banking activities in general. In order to minimize strategic risk, the Bank uses the following main methods:

- records in the Bank's internal documents, including the Bank's Charter, the division of powers of management bodies to make decisions;
- controls the mandatory implementation of decisions adopted by the Bank's supreme body by subordinate units and employees of the Bank;
- standardizes basic banking operations;
- establishes an internal procedure for agreeing on changes to internal documents and procedures related to decision-making;
- carries out an analysis of the impact of strategic risk factors (both in aggregate and in terms of their classification) on the Bank's performance indicators as a whole;
- monitors changes in Ukrainian legislation and current regulations in order to identify and prevent strategic risk on an ongoing basis;
- monitors the Banking services market in order to identify likely new areas of the Bank's activity and set new strategic objectives;
- monitors resources, in particular financial, material and technical and human resources for the implementation of the Bank's strategic objectives;
- stimulates the Bank's employees depending on the impact of their activities on the level of strategic risk;
- ensures continuous professional development of the Bank's employees in order to identify and prevent strategic risk;
- ensures constant access for the maximum number of Bank employees to up-to-date information on legislation and internal Bank documents.

***Legal risk*** – is an existing or potential risk to cash flows and capital that arises due to non-repayment of loans granted, violation or non-compliance with the requirements of laws, regulations, agreements, accepted practices and ethical norms, as well as due to the possibility of ambiguous interpretation of established laws and regulations.

In order to effectively manage and prevent legal risk, the Bank has developed an operational system for communicating changes to the Bank's regulatory documents (regulations, rules, procedures) to management and employees. Preliminary legal expertise of internal bank regulatory documents and the introduction of new banking products is mandatory.

To minimize legal risks when carrying out such banking operations, standard forms of contracts and other standardized documentation have been developed and applied. To prevent the occurrence of legal cases on banking operations, methodical and consulting work is carried out with clients. The level of legal awareness of employees and management is increased through systematic training and education.

## 26. CAPITAL MANAGEMENT

The main objective of the bank capital management process is to attract and maintain a sufficient amount of capital in order to obtain confidence that the Bank will function on a going concern basis to expand its activities and create protection against risks. The Bank's management, when managing capital, adheres to the requirements established for regulatory capital by the National Bank of Ukraine. In the process of analysis, it uses methods for determining capital adequacy in accordance with the requirements of the National Bank of Ukraine.

As of 31.12.2019, the Bank's regulatory capital amounted to 419,236 thousand UAH, which is sufficient to meet all licensing requirements as of the reporting date. The regulatory capital adequacy ratio as of the reporting date was 68.00% with a regulatory value of at least 10%. During the reporting period, the Bank never violated the established regulatory capital adequacy ratios.

The table below shows the structure of regulatory capital as of December 31, 2019 and for 2018, which was calculated in accordance with the requirements of the National Bank of Ukraine and according to reporting data, on the basis of which control over the size of the Bank's regulatory capital is carried out.

Table 26.1. Regulatory capital structure

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| **Fixed assets** | 209,618 | 206,859 |
| Actual paid-up registered authorized capital | 300,039 | 300,039 |
| General reserves and reserve funds established in accordance with the laws of Ukraine | 9,445 | 9,400 |
| Reduction of fixed capital, including: | (99,866) | (102,580) |
| *intangible assets less depreciation* | *(3,085)* | *(2,556)* |
| *capital investment in intangible assets* | - | - |
| *losses from previous years* | *(96,781)* | *(97,624)* |
| *estimated loss for the current year (Rpr/s)* | - | *(2,400)* |
| **Additional capital** | 209,618 | - |
| Estimated profit for the current year (Ppr/p) | 235,548 | - |
| **Total regulatory capital** | 419,236 | 206,859 |

## 27. POTENTIAL LIABILITIES OF THE BANK

**Hearing cases in court**

The presence of lawsuits in court regarding the provision of financial services by the Bank and the results of their consideration:

- The lawsuit to recover the tender offer security of UAH 330,000 is under consideration in the appellate court.
- A lawsuit to declare a clause of the Guarantee Agreement invalid. The case is pending in the appellate court.
- Claim for recovery of security for the performance of the contract in the amount of UAH 413,000. The case is under consideration in the cassation instance.
- A lawsuit to recover the tender offer security of UAH 86,000. The case is under consideration in the first instance.
- A lawsuit to recover the tender offer security of UAH 255,000. The case is under consideration in the first instance.

The bank's management considers the risk of losses to the bank due to these lawsuits to be unlikely, as it has experience in resolving similar legal cases in favor of the Bank.

**Potential tax liabilities**

Currently, Ukraine has a number of laws and regulations in force regarding various taxes and fees levied by both state and local authorities. The taxes that are applied include income tax, value added tax, payroll tax, and other taxes and fees. The laws that regulate these taxes change frequently, and their provisions are often unclear or not developed. There is also a lack of judicial precedents on these issues. There are different points of view regarding the interpretation of legal norms among state ministries and organizations (for example, the tax administration and its inspectorates), which causes general uncertainty. The correctness of tax declarations, as well as other issues of compliance with the law, are subject to verification and study by a number of regulatory bodies, which are legally authorized to impose fines and penalties in significant amounts. The listed factors determine the presence of tax risks in Ukraine that are much greater than those that exist in countries with more developed tax systems.

Management believes that the Bank's activities are carried out in full compliance with the applicable legislation governing its activities and that the Bank has accrued all applicable taxes. In cases where there is uncertainty regarding the amounts of taxes payable, accruals are made based on the Bank's management's estimates based on the analysis of information available to it.

**Capital investment commitments**

The Bank has no contractual obligations related to the reconstruction of buildings, the acquisition of fixed assets and intangible assets.

**Operating lease obligations (rent)**

Table 27.1. Future minimum lease payments under a non-cancellable operating lease agreement of the lessee bank

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Up to 1 year | 1,903 | 7,755 |
| From 1 to 5 years | 355 | 3,162 |
| **Total** | **2,258** | **10,917** |

**Compliance with special requirements**

The Bank did not enter into agreements to obtain loan funds on special terms.

**Lending commitments**

The main purpose of these instruments is to provide funds to meet the financial needs of customers. Guarantees and standby letters of credit, which are irrevocable guarantees that the Bank will make payments in favor of third parties in the event of a customer's default, have the same credit risk as loans.

Documentary and commodity letters of credit, which are written obligations of the Bank on behalf of its clients, authorizing third parties to demand payment from the Bank in specified amounts in accordance with specific conditions, are secured by the consignments of goods to which they relate or by cash deposits, therefore, have a lower level of risk than loans.

Commitments to extend credit represent unused amounts intended for lending in the form of loans, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is exposed to potential losses in the total amount of unused commitments in the event of full disbursement of the unused amount of such credits to customers. However, the potential amount of losses is less than the total amount of unused commitments, as the fulfillment of most commitments to extend credit depends on customers' compliance with certain credit standards.

The Bank monitors the maturity of its lending commitments as longer-term commitments are generally characterized by higher credit risk than short-term commitments. Outstanding lending commitments were as follows:

Table 27.2. Structure of lending commitments

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Guarantees issued | 461,013 | 407,276 |
| Lending commitments provided | 12,642 | 9,821 |
| Unused credit lines | 26,829 | 12,055 |
| Reserve for issued guarantees | (212) | (462) |
| **Total lending-related liabilities, less provision** | **500 272** | **428,690** |

The total amount of credit-related obligations under the contract does not necessarily represent the amount of cash that will be required to be paid in the future, as many of these obligations may be unclaimed or terminated before their term expires.

Table 27.3. Lending commitments by currency

| *thousand UAH* | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| US dollar | 27,478 | 49,029 |
| Euro | 6,243 | 7,541 |
| Hryvnia | 466,551 | 372 120 |
| **Total** | **500 272** | **428,690** |

**Assets pledged as collateral and assets subject to restrictions on ownership, use** As of December 31, 2019, the Bank had assets with restricted use with the following carrying amount:

- guarantee deposits for settlements with the international payment system Mastercard in the amount of UAH 132 thousand.
- guarantee deposits for settlements with the international payment system Welsend in the amount of UAH 400 thousand.

There are no other assets subject to restrictions on their ownership, use and disposal.

## 28. FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged or a liability settled in an arm's length transaction between knowledgeable, willing parties. Fair value for financial assets that are actively quoted in an active market is the quoted price in an active market. If the market for a financial instrument is not active, or if there is no observable price information in the market or if it is impossible to find similar valuation objects, the Bank uses a valuation technique and assumptions for each class of financial assets or financial liabilities to determine the estimated fair value.

If the market for a financial instrument is not active, the Bank establishes fair value using the following methods:

- a valuation method based on the application of recent market transactions between knowledgeable, willing and independent parties;
- method of reference to the current fair value of another identical instrument (similar in currency, term, interest rate type, cash flow structure, credit risk, collateral and other characteristics);
- discounted cash flow analysis method, etc.

Financial instruments recognized at fair value are, for disclosure purposes, classified into three fair value hierarchies based on their observability as follows:

- Level 1 – valuations are based on observable prices in active markets that exist and are regularly available in an active market.
- Level 2 – Estimates are based on information for which all significant data are observable, either directly or indirectly. Typically, one or more observable prices for current transactions in markets that are not considered active are used.
- Level 3 – estimates are based on unobservable information that is significant to the overall fair value estimate.

Table 28.1. Analysis of financial instruments carried at amortized cost

| *thousand UAH* | **December 31, 2019** | | **December 31, 2018** | |
|---|---|---|---|---|
| | **Fair value** | **Carrying amount** | **Fair value** | **Carrying amount** |
| **Financial assets** | | | | |
| Cash and cash equivalents | 379,695 | 379,695 | 505,982 | 505,982 |
| *cash* | *183,633* | *183,633* | *215,435* | *215,435* |
| *funds in the National Bank of Ukraine (except for required reserves)* | *31,913* | *31,913* | *2,612* | *2,612* |
| *correspondent accounts, deposits and overnight loans in banks* | *13,957* | *13,957* | *56,605* | *56,605* |
| *Certificates of deposit issued by the National Bank of Ukraine* | *150 192* | *150 192* | *231,330* | *231,330* |
| Loans and customer debt: | 277,817 | 277,817 | 116,361 | 116,361 |
| *loans to legal entities* | *207,418* | *207,418* | *112,397* | *112,397* |
| *loans to individuals and entrepreneurs* | *1,092* | *1,092* | *1187* | *1,187* |
| *loans to individuals* | *69,113* | *69,113* | *1586* | *1,586* |
| *mortgage loans for individuals* | *194* | *194* | *1,191* | *1,191* |
| Other financial assets | 13,922 | 13,922 | 6,199 | 6,199 |
| **Total financial assets accounted for under the AS** | **671,434** | **671,434** | **628,542** | **628,542** |
| **Financial obligations** | | | | |
| Client funds: | 767,480 | 767,480 | 731,995 | 731,995 |
| legal entities | 457,375 | 457,375 | 334,768 | 334,768 |
| individuals | 310 105 | 310 105 | 397,227 | 397,227 |
| Other financial obligations: | 77,187 | 77,187 | 23,280 | 23,280 |
| Other payables from transactions with bank clients | 47,941 | 47,941 | 7,031 | 7,031 |
| Commission for providing guarantees | 12,523 | 12,523 | 11,158 | 11,158 |
| Bank customers' funds in inactive accounts | 3,419 | 3,419 | 5,091 | 5,091 |
| Accounts payable on transactions with banks | 662 | 662 | - | - |
| Lease obligations | 12,642 | 12,642 | - | - |
| **Total financial liabilities accounted for under the AC** | **844,667** | **844,667** | **755 275** | **755 275** |

Table 28.2. Analysis of financial instruments by fair value measurement levels for 2019

| *thousand UAH* | **Fair value under different valuation models** | | | **Total fair value** | **Total book value** |
|---|---|---|---|---|---|
| | **Level I** | **Level II** | **Level III** | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 379,695 | - | - | 379,695 | 379,695 |
| *cash* | *183,633* | - | - | *183,633* | *183,633* |
| *funds in the National Bank of Ukraine (except for required reserves)* | *31,913* | - | - | *31,913* | *31,913* |
| *correspondent accounts, deposits and overnight loans in banks* | *13,957* | - | - | *13,957* | *13,957* |
| *Certificates of deposit issued by the National Bank of Ukraine* | *150 192* | - | - | *150 192* | *150 192* |
| Loans and customer debt: | - | - | 277,817 | 277,817 | 277,817 |
| *loans to legal entities* | - | - | *207,418* | *207,418* | *207,418* |
| *loans to individuals and entrepreneurs* | - | - | *1,092* | *1,092* | *1,092* |
| *loans to individuals* | - | - | *69,113* | *69,113* | *69,113* |
| *mortgage loans to individuals* | - | - | *194* | *194* | *194* |
| Other financial assets | - | - | 13,922 | 13,922 | 13,922 |
| **Total financial assets accounted for under the AS** | | | **671,434** | **671,434** | **671,434** |
| **Financial obligations** | | | | | |
| Client funds: | - | - | 767,480 | 767,480 | 767,480 |
| *legal entities* | - | - | *457,375* | *457,375* | *457,375* |
| *individuals* | - | - | *310 105* | *310 105* | *310 105* |
| Other financial obligations: | - | - | 77,187 | 77,187 | 77,187 |
| *Other payables from transactions with bank clients* | - | - | *47,941* | *47,941* | *47,941* |
| *Commission for providing guarantees* | - | - | *12,523* | *12,523* | *12,523* |
| *Bank customers' funds in inactive accounts* | - | - | *3,419* | *3,419* | *3,419* |
| *Accounts payable on transactions with banks* | - | - | *662* | *662* | *662* |
| *Lease obligations* | - | - | *12,642* | *12,642* | *12,642* |
| **Total financial liabilities accounted for under the AC** | - | - | **844,667** | **844,667** | **844,667** |

Table 28.3. Analysis of financial instruments by fair value measurement levels for 2018

| *thousand UAH* | **Fair value under different valuation models** | | | **Total fair value** | **Total book value** |
|---|---|---|---|---|---|
| | **Level I** | **Level II** | **Level III** | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 505,982 | - | - | 505,982 | 505,982 |
| *cash* | *215,435* | - | - | *215,435* | *215,435* |
| *funds in the National Bank of Ukraine (except for required reserves)* | *2,612* | - | - | *2,612* | *2,612* |
| *correspondent accounts, deposits and overnight loans in banks* | *56,605* | - | - | *56,605* | *56,605* |
| *Certificates of deposit issued by the National Bank of Ukraine* | *231,330* | - | - | *231,330* | *231,330* |
| Loans and customer debt: | - | - | 116,391 | 116,391 | 116,391 |
| *loans to legal entities* | - | - | *112,397* | *112,397* | *112,397* |
| *loans to individuals and entrepreneurs* | - | - | *1,187* | *1,187* | *1,187* |
| *loans to individuals* | - | - | *1,586* | *1,586* | *1,586* |
| *mortgage loans to individuals* | - | - | *1,191* | *1,191* | *1,191* |
| Other financial assets | - | - | 6,199 | 6,199 | 6,199 |
| **Total financial assets accounted for under the AS** | | | **628,572** | **628,572** | **628,572** |
| **Financial obligations** | | | | | |
| Client funds: | - | - | 731,995 | 731,995 | 731,995 |
| *legal entities* | - | - | *334,768* | *334,768* | *334,768* |
| *individuals* | - | - | *397,227* | *397,227* | *397,227* |
| Other financial obligations: | - | - | 23,280 | 23,280 | 23,280 |
| *Other payables from transactions with bank clients* | - | - | *7,031* | *7,031* | *7,031* |
| *Commission for providing guarantees* | - | - | *11,158* | *11,158* | *11,158* |
| *Bank customers' funds in inactive accounts* | - | - | *5,091* | *5,091* | *5,091* |
| **Total financial liabilities accounted for under the AC** | **-** | **-** | **755 275** | **755 275** | **755 275** |

## 29. RELATED PARTY TRANSACTIONS

According to IAS 24 " *Related Party Disclosures* ", related parties are considered parties if one of them has the ability to control or significantly influence the operating and financial decisions of the other party.

The Bank recognizes persons related to the Bank in accordance with the requirements of Article 52 of the Law of Ukraine "On Banks and Banking Activities".

Table 30.1. Balances on transactions with related parties as of December 31, 2019

| *thousand UAH* | **Largest participants (bank shareholders)** | **Management staff** | **Other related parties** |
|---|---|---|---|
| Client funds | 68 | 600 | 11 115 |
| Loans and customer debt | - | 150 | - |
| Loan impairment allowance | - | (23) | - |
| Other obligations | - | 2,639 | 11 |

Table 30.2. Income and expenses from related party transactions for 2019

| *thousand UAH* | **Largest participants (bank shareholders)** | **Management staff** | **Other related parties** |
|---|---|---|---|
| Interest income | 5 | 102 | 65 |
| Commission income | 49 | 83 | 53 |
| Foreign currency revaluation | (371) | (176) | (4,280) |
| Other operating income | - | 5 | 5 |
| Interest expenses | 8 | 96 | 143 |
| Impairment loss on financial assets | 62 | 25 | 17 |
| Employee benefits expenses | - | 12,092 | - |
| Other administrative and operating expenses | - | (10) | (1,775) |

Table 30.3. Balances on transactions with related parties as of December 31, 2018

| *thousand UAH* | **Largest participants (bank shareholders)** | **Management staff** | **Other related parties** |
|---|---|---|---|
| Client funds | 32 | 1,389 | 5,273 |
| Loans and customer debt | 153 | 281 | 127 |
| Loan impairment allowance | (65) | (60) | (27) |
| Other assets | 5 | - | - |
| Other obligations | - | 733 | 3 |

Table 30.4. Income and expenses from related party transactions for 2018

| *thousand UAH* | **Largest participants (bank shareholders)** | **Management staff** | **Other related parties** |
|---|---|---|---|
| Interest income | 40 | 51 | 17 |
| Commission income | 21 | 8 | 69 |
| Foreign currency revaluation | 898 | 114 | (160) |
| Other operating income | 2 | 2 | 4 |
| Interest expenses | 1 | 41 | 7 |
| Impairment loss on financial assets | (65) | (62) | (27) |
| Employee benefits expenses | - | 22,665 | - |
| Other administrative and operating expenses | - | - | (2,216) |

Table 30.5. Payments to key management personnel

| *thousand UAH* | **2019 year** | | **2018 year** | |
|---|---|---|---|---|
| | **Costs** | **Accrued liability** | **Costs** | **Accrued liability** |
| Current employee benefits | 11,898 | 2,596 | 22,665 | 733 |
| Severance payments | 194 | 43 | - | - |

## 30. EVENTS AFTER THE BALANCE SHEET DATE

Developments surrounding the COVID-19 virus since the beginning of 2020 indicate that the global economic growth is expected to be negatively impacted in the first half of 2020 due to the spread of the disease and the disruption of economic activity. This could impact our ability to generate revenues and negatively impact our loan portfolios through negative rating migration, higher than expected loan losses and potential asset write-downs. The ongoing COVID-19 pandemic and its potential impact on the economy could impact our ability to achieve our financial objectives. While it is too early for us to predict the impact of the expanding pandemic on our business or our financial objectives, as well as government responses, the negative impact could be material due to a prolonged local, regional or global economic downturn.

# INDEPENDENT AUDITOR'S REPORT