



BANK  
"CLEARING HOUSE"

***IFRS Financial statements  
and Management report  
with Independent auditor's report  
for the year ended 31 December 2019***

# ***Contents***

***IFRS Financial statements***

***Management report***

***Independent auditor's report***

**PUBLIC JOINT STOCK COMPANY  
“BANK “CLEARING HOUSE”**

**2019 Annual Financial Statements**  
*translation from Ukrainian original*

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## Statement of financial position (Balance Sheet) as at December 31, 2019

		in thousands of UAH	
Item	Note	31.12.2019	31.12.2018
<b>ASSETS</b>			
Cash and cash equivalents	5	192 098	237 275
Loans and due from banks	6	12 387	-
Loans and advances to customers	7	701 310	632 632
Investment securities	8	696 537	625 446
Investment property	9	376 990	469 109
Current income tax receivables		11 073	11 073
Deferred tax assets	22	53 271	22 236
Fixed and intangible assets	10	107 345	98 100
Other assets	11	30 960	45 226
<b>Total assets</b>		<b>2 181 971</b>	<b>2 141 097</b>
<b>LIABILITIES</b>			
Amounts due to customers	12	1 599 901	1 565 134
Provisions for liabilities	13	522	27
Other liabilities	14	20 417	50 322
<b>Total liabilities</b>		<b>1 620 840</b>	<b>1 615 483</b>
<b>EQUITY</b>			
Share capital	15	510 393	510 393
Financial assistance from shareholders		190 000	190 000
Retained earnings/(accumulated loss)		(203 427)	(238 168)
Revaluation reserves	16	64 165	63 389
<b>Total equity</b>		<b>561 131</b>	<b>525 614</b>
<b>Total liabilities and equity</b>		<b>2 181 971</b>	<b>2 141 097</b>

Approved for issue and signed on 22.06.2020

Chair of the Management Board

V. O. Andreievska

Chief Accountant

O. O. Markina



**Statement of profit and loss and other comprehensive income  
(statement of financial performance)  
for the year ended 31 December 2019**

*in thousands of UAH*

<b>Item</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
Interest income	18	204 662	198 308
Interest expense	18	(86 488)	(93 780)
<b>Net interest income</b>		<b>118 174</b>	<b>104 528</b>
Commission income	19	65 955	59 821
Commission expense	19	(10 666)	(9 241)
Net income (loss) from transactions with debt financial instruments measured at fair value through profit or loss		(1 277)	(206)
Net income (loss) from transactions with debt financial instruments measured at fair value through other comprehensive income		768	166
Gains less losses from foreign currency transactions		10 287	8 520
Gains less losses (losses less gains) from foreign currency revaluation		(1 396)	532
Net income (loss) from revaluation of investment property		(3 277)	(304)
Net income (loss) from impairment of financial assets		(54 665)	117 227
Net (increase)/decrease of provisions for liabilities		(495)	(18)
Other operating income	20	10 446	11 877
Labour remuneration expenses	21.1	(72 941)	(56 924)
Depreciation and amortization	21.2	(7 545)	(5 294)
Administrative and other operating expenses	21.3	(49 831)	(43 880)
Profit before tax		3 537	186 804
Income tax expenses	22	31 204	(471)
<b>Profit for the year</b>		<b>34 741</b>	<b>186 333</b>
<b>OTHER COMPREHENSIVE INCOME:</b>			
<b>OTHER COMPREHENSIVE INCOME NOT TO BE RECLASSIFIED TO PROFIT OR LOSS</b>			
Revaluation of fixed and intangible assets	16	-	18 262
Income tax, related to other comprehensive income items, not to be reclassified to profit or loss		-	(3 287)
Other comprehensive income not to be reclassified to profit or loss after taxes		-	14 975
<b>ITEMS TO BE RECLASSIFIED TO PROFIT OR LOSS</b>			
Revaluation of debt financial instruments		945	(620)
Net change of fair value	16	945	(620)
Income tax, related to other comprehensive income to be reclassified to profit or loss	22	(169)	111
Other comprehensive income to be reclassified into profit or loss after taxes of the year		776	(509)
Other comprehensive income after taxes		776	14 466
<b>Total comprehensive income for the year</b>		<b>35 517</b>	<b>200 799</b>
Income (loss), attributable to:			
Bank owners		34 741	186 333
Total comprehensive income, attributable to:			
owners of the Bank		35 517	200 799
Net earnings per share from continuing operations, UAH:			
Net earnings per share, UAH	23	721,17	3 868,00
Net earnings per share, attributable to owners of the Bank			
Net and diluted earnings per ordinary share for the year, UAH	23	721,17	3 868,00

Approved for issue and signed on 22.06.2020:

Chair of the Management Board

V. O. Andreievskia

Chief Accountant

O. O. Markina



**Statement of changes in equity  
(statement of equity)  
for the year ended 31 December 2019**

*in thousands of UAH*

Line	Item	Notes	Share capital	Financial assistance from shareholders	Revaluation reserve	Retained earnings/(accumulated loss)	Total equity
1	<b>Closing balance as at 31.12.17</b>	15	<b>510 393</b>	<b>190 000</b>	<b>48 923</b>	<b>(422 097)</b>	<b>327 219</b>
2	Effect of application of IFRS 9					(2 404)	(2 404)
3	<b>Opening balance as at 01.01.2018, taking into account effect of application of IFRS 9</b>	15	<b>510 393</b>	<b>190 000</b>	<b>48 923</b>	<b>(424 501)</b>	<b>324 815</b>
4	Total comprehensive income				14 466	186 333	200 799
4.1	Profit for the year 2018					186 333	186 333
4.2	Other comprehensive income	16			14 466	-	14 466
5	<b>Closing balance as at 31.12.18</b>	15	<b>510 393</b>	<b>190 000</b>	<b>63 389</b>	<b>(238 168)</b>	<b>525 614</b>
6	Total comprehensive income				776	34 741	35 517
6.1	Profit for the year 2019					34 741	34 741
6.2	Other comprehensive income	16			776	-	776
7	<b>Closing balance as at 31.12.19</b>	15	<b>510 393</b>	<b>190 000</b>	<b>64 165</b>	<b>(203 427)</b>	<b>561 131</b>

Approved for issue and signed on 22.06.2020

Chair of the Management Board

Chief Accountant



V. O. Andreievskaya

O. O. Markina

## Statement of cash flows (indirect method) for the year 2019

		in thousands of UAH	
Item	Note	2019	2018
<b>OPERATING CASH FLOWS</b>			
Profit/(loss) before tax		3 537	186 804
Adjustments			
Depreciation and amortization	21.2	7 545	5 294
Net increase/(decrease) of allowances for expected credit losses of financial assets		55 161	(117 209)
Amortization of discount / (premium)		(14)	3 196
Results of transactions with other financial instruments measured at fair value through other comprehensive income		(768)	(166)
Results of transactions with other financial instruments measured at fair value through profit or loss		1 277	206
Result of trading in foreign currencies		(10 287)	(8 520)
(Accrued income)		(13 336)	84 874
Accrued expenses		(386)	(22 415)
Net loss/(earnings) from investing activities		(1 328)	(597)
Other non-cash flows		37 577	3 190
<b>Net cash income/(loss) from operating activities before changes in operating assets and liabilities</b>		<b>78 978</b>	<b>134 657</b>
Changes in operating assets and liabilities			
Net (increase)/decrease of loans and due from other banks		(30 211)	491
Net (increase)/decrease of loans and advances to customers		(133 901)	(13 680)
Net (increase)/decrease of other financial assets		15 569	7 150
Net (increase)/decrease of other assets		(680)	(2 602)
Net increase/(decrease) of due to banks			
Net increase/(decrease) of amounts due to customers		35 316	(197 731)
Net increase/(decrease) of debt securities in issue			-
Net increase/(decrease) of provisions for liabilities		(21)	18
Net increase/(decrease) of other financial liabilities		345	50 362
Net increase/(decrease) of other liabilities		1 486	1 394
<b>Net cash received from/(used in) operating activities before income tax expense</b>		<b>(33 119)</b>	<b>(19 941)</b>
Income tax paid		-	-
<b>Net cash received from/(used in) operating activities</b>		<b>(33 119)</b>	<b>(19 941)</b>
<b>INVESTMENT CASH FLOWS</b>			
Purchase of securities		(704 294)	(220 627)
Proceeds from sales of investment securities		725 414	159 344
Proceeds from sale of investment property		53 000	25 750
Acquisition of fixed assets	10	(8 582)	(5 062)
Proceeds from sale of fixed assets		876	201
Purchase of intangible assets	10	(2 398)	(2 827)
<b>Net cash received from/(used in) investing activities</b>		<b>64 016</b>	<b>(43 221)</b>

Item	Note	2019	2018
<b>FINANCING CASH FLOWS</b>			
Liabilities under lease contracts		(1 741)	-
<b>Net cash received from/ (used in) financing activities</b>		<b>(1 741)</b>	<b>-</b>
<hr/>			
Effect of official exchange rate fluctuations on cash and equivalent		(13 070)	5 680
<hr/>			
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>16 086</b>	<b>(57 482)</b>
Cash and cash equivalents – opening balance	5	744 258	801 740
Cash and cash equivalents – closing balance	5	760 344	744 258

Approved for issue and signed on 22.06.2020

Chair of the Management Board

V. O. Andreievskia

Chief Accountant

O. O. Markina



**Note 1. Background information**

These financial statements of Public Joint-Stock Company "Bank CLEARING HOUSE" (hereinafter – the Bank) were prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2019.

The financial statements were prepared in the Ukrainian currency, in thousands of Ukrainian hryvnias.

The full name of the Bank is Public Joint-Stock Company "Bank CLEARING HOUSE", and the official abbreviated name is JSCB CLEARING HOUSE.

Registered address and the place of business of the Bank: Borysohlibska Street, building 5, letter A, Kyiv, 04070, Ukraine.

The Bank was incorporated and is domiciled in Ukraine.

The Bank is a public open joint stock company.

The Bank operates under the License to provide banking services No 171 of 13 October 2011 issued by the National Bank of Ukraine under para 3, Art. 47 of the Law of Ukraine On Banks and Banking Activities. The services representing foreign currency transactions are provided under the general Permit to exercise foreign currency transactions No 171 of 13 October 2011 issued by the National Bank of Ukraine.

The Bank has the following licenses issued by the National Securities and Stock Market Commission to perform professional (depository) operations in the stock market:

- series AE No 263457 as of 01.10.2013 – depository activities of a depository institution;
- series AE No 263458 as of 01.10.2013 – activities of a custodian of mutual funds;
- series AE No 263459 as of 01.10.2013 – activities of a custodian of pension fund assets.

The Bank has the following licenses issued by the National Securities and Stock Market Commission to perform professional activities in the stock market (trading securities):

- series AE No 185076 from 19.10.2012 – dealer activities;
- series AE No 185077 from 19.10.2012 – brokerage activities.

A strategic objective of the Bank is to be a versatile and dynamic bank, to strengthen its position, to join the leaders in the financial market of Ukraine, and to increase the market value of the Bank.

The Bank is a member of the Deposit Guarantee Fund (registration No 149 as of 8 November 2012) and operates under the Law of Ukraine On Individuals Deposits Guarantee Fund No 4452-VI as of 23.02.2012.

The ultimate owners of material interests in the Bank are:

Lovochkina Iuliia Volodymyrivna who owns in total 60,3453% of shares in the Bank in total, including direct ownership of 0% and indirect ownership of 60.3453%;

Resolution No 154 of 23.03.2016 of the Committee of the National Bank of Ukraine On Banking Supervision and Regulation, Payment System Oversight on the consent to the acquisition of a qualifying shareholding in the Bank.

Fursin Ivan Hennadiiovych who owns in total 42.6042% of shares in the Bank, including direct ownership of 10.7654% and indirect ownership of 31.8388%;

Resolution No 153 of 23.03.2016 of the Committee of the National Bank of Ukraine On Banking Supervision and Regulation, Payment System Oversight on the consent to the acquisition of a qualifying shareholding in the Bank.

The Bank is a member of the Independent Banks' Association of Ukraine, the Association of Taxpayers of Ukraine, the Professional Association of the Participants of Capital Market and Derivatives, and the Ukrainian Stock Traders (the self-regulatory organization of professional securities market participants).

The Bank effectively integrated into the international information and payment systems as a member of SWIFT international payment system and of REUTERS international dealing system, and an associate member of VISA international payment system.

Financial position of the Bank is confirmed by external auditor – PKF UKRAINE LLC.

As at 31 December 2019, the Bank has 5 branches.

## **Note 2. Operating environment of the Bank**

The Bank operates in Ukraine, where economic environment is open and considered as market one with certain elements, characteristic for transitional economies. Ukrainian economy highly depends on world prices on raw materials and low liquidity on capital markets. In such situation, banking operations in Ukraine are characterized by increased risks, which are not typical for developed markets.

In case of Ukraine, its external position and fiscal stability significantly improved within the last few years; still, the risk are high, taking into account delay of external financing, in particular, by IMF, internal political cycle and high sensitivity to changes in external environment.

A strong economic crisis in 2014 - 2015 caused a liquidity crisis in the banking system. Additional administrative and regulatory restrictions on bank and client operations were implemented in banking legislation, including restrictions on foreign currency and cash transactions.

The economic situation started to stabilize as of second half of 2016.

In 2019, GDP grew by 3,3% (in 2018, GDP grew by 3,3%), mostly due to absence of significant shocks, as Ukrainian economy continued to restore.

Great input into economic growth was increase of consumers' demand, caused by increase of salaries and pensions and improvement consuming appetites, as well as high investment growth rate. It caused growth of trade, transport and service sectors. Recurrent record-breaking grain and oil-seed harvest was an important driver of increase of GDP and export.

During the year, industrial indices were quite low due to unfavourable effect of international current price situation, decrease of price competitiveness, strengthening of actual effective exchange rate and fast climate warming (industrial production index in 2019 was negative, being '-0,5%' compared to similar 2018 period). At the same time, economic growth in 2019 increased demand for labour, thus decreasing unemployment and increasing employment rate.

In 2019, currency market demonstrated UAH strengthening due to excessive offer of foreign currencies for a quite extended period. Major sources of currency inflows were traditional export-oriented industries, portfolio investments and significant currency cash offer. In 2019, UAH strengthened by 5,7% against USD and 10,6% against EUR, compared to average ratios of previous year.

Consistent monetary policies of National Bank of Ukraine, combined with reasonable fiscal policies of the government, created an environment with low and stable inflation. E.g., consumers' inflation in 2019 went down to 4.1% (2018 inflation was 9.8%). Inflation index for first 5 months of 2020 was 1.8%.

Due to rapid improvement of macroeconomic situation in the country, National Bank of Ukraine continued to relax its monetary policies, reducing reference rate down to annual 13.5% by the end of 2019. At the same time, in June 2020, the rate went down to 6%. Decrease of key rate and prospects of further decrease resulted in decrease of profitability of Internal State Loan Bonds and majority of UAH rates for banks' customers.

As of June 20, 2019, National Bank of Ukraine (NBU) continued to reduce currency control limitations to improve business in Ukraine, liquidating mandatory sale of currency revenues and removing limits on repatriation of dividends as of July 2019.

Net income of the banks for 12 months of 2019 reached UAH 59,6 billion, while in 2018 net income was only UAH 16,5 billion. In 2020, banking sector continues to be profitable.

Retail credits and payment-processing servicing of clients continue to be major drivers of profitability of banking system. In 2018, demand for credit resources by corporate segment is increasing with simultaneous increase of cost of crediting and toughening of requirements regarding assessment of solvency of borrowers.

Changes of economic environment in 2019 resulted in changes of sovereign credit rating of Ukraine and increase of international reserves of Ukraine (USD 25.4 billion as at June 1, 2020).

In June 2020, Moody's Investors Service rating agency increased rating of long-term issuer and priority unsecured liabilities of Ukraine from Caa1 to B3 with long-term 'stable' forecast.

At the same time, in April 2020, Fitch international rating agency ('B' rating) confirmed sovereign credit rating of Ukraine at 'B' level and decreased its forecast from 'positive' to 'stable'.

Level of microeconomic uncertainty in Ukraine in 2019 continues to be high due to high national debt payable in 2019 - 2020, requiring mobilization of significant internal and external financing in the situation, when developing countries face problems with sources of financing.

Further prospects for development depend on the efficiency of reforms, implemented in Ukraine, efficient cooperation with IMF economic policies of Ukrainian government and positive changes in legal, tax and political areas.

In early 2020, COVID-19 coronavirus started to spread through the world, causing pandemics. The countries had to introduce drastic measures to stop the spread, resulting in significant operating problems for many businesses and materially affecting world financial markets. COVID-19 may materially affect many businesses in different industries. Moreover, the level of effect is undeterminable. Materiality of COVID-19 effect on operations of the Bank greatly depends on length and spread of effect of the virus on international and Ukrainian economies.

As a result of the presence of above factors, Ukrainian banks aim, first of all, to stabilize their capitalization and profitability, ensure liquidity and solvency, improve quality of assets in order to comply with the standards, set by NBU.

### **Note 3. Basis of preparation of the financial statements and summary of accounting policies**

The basic principles of accounting policies that were used in the preparation of these financial statements are presented below. These principles were applied consistently with regard to all periods represented in the financial statements, unless stated otherwise.

#### **3.1. Consolidated financial statements**

As the Bank is not a parent in any group of companies, the consolidated financial statements are not prepared.

#### **3.2. Basis of preparation**

For the purposes of accounting and preparation of the financial statements, the assets and the liabilities of the Bank are measured and carried at the cost of their acquisition or creation (at historical cost or at fair value).

When **the historical cost model** is used, assets are recognized in the amount of consideration paid. Liabilities are recorded in the amount of funds required to settle or transfer the liability.

When **the fair value model** is used, the assets are measured at the amount that would be paid to acquire the asset or settle the liability at the measurement date.

#### **3.3. Initial recognition of financial instruments**

**Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly arm-length transaction between market participants at the measurement date. Fair value is measured in accordance with the requirements of IFRS 13 *Fair Value Measurement*.

**Historical cost** – at the moment of initial recognition of a financial instrument, the Bank discloses income or loss equal to the difference between fair value of a financial asset or financial liability and contract price in correspondence with discount/premium accounts, if the interest rate for the instrument higher or lower than market one. Difference between fair value of a financial asset or financial liability and contract price for transactions with the shareholders of the Bank is posted in the equity at class 5 accounts *Bank Capital* of the Chart of Accounts and included by parts into retained earnings (accumulated loss) during the period, when it is held, or in full at the moment of its disposal.

**Transaction costs** are incremental costs directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is the cost that would have been avoided if the transaction had not taken

place. Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and stock exchanges, taxes and dues, and other expenses. Transaction costs do not include debt premiums or discounts, or administrative costs.

**Amortized cost of a financial asset or a financial liability** is the amount at initial recognition net of cash received or paid [principal, interest gain (loss) or other payments related to initiation of a financial asset or financial liability] adjusted for an accrued amortization, calculated using the effective interest rate method, - the difference between the initially recognized amount and the instrument redemption amount, and, in the case of financial assets, adjusted for estimated credit loss allowances.

**The effective interest rate method** is a method of measuring the amortized cost of a financial asset or financial liability (or a group of financial assets or financial liabilities) and allocation of interest income or expenses over the relevant period.

**The effective interest rate** is the rate of discounting of future cash inflows and outflows over the expected life of a financial instrument to its net book value or amortized cost of a financial liability. The Bank calculates effective interest rate based on estimated future cash flows taking into account all terms of a contract for financial asset, net of estimated credit losses.

### 3.4. Impairment of financial assets

**Impaired financial assets** are the financial assets, having objective evidence of loss, or characterized by one or several events negatively affecting future cash flows, related to this asset. Impairment of a financial asset is confirmed by the following events:

- Significant financial difficulties of an issuer or borrower;
- Violation of the terms of the contract, e.g., default or late payment;
- Bank's concession to the borrower for economic or contractual terms, related to financial difficulties of the borrower, which were not considered earlier by the bank;
- High probability of a borrower's bankruptcy or financial reorganization;
- Absence of active market for financial asset resulting from financial difficulties;
- Acquisition or creation of a financial asset with significant discount, reflecting credit losses incurred.

The Bank takes into account total effect of several events, if it is not possible to identify a single event, causing impairment of a financial asset.

After initial recognition the Bank measures debt financial asset, based on the business model and characteristics of cash flows, provided for by the contract, at:

- 1) amortized cost;
- 2) fair value with disclosure of revaluation in other comprehensive income;
- 3) fair value with disclosure of revaluation through profit/loss.

The Bank selects business model at the level of groups of financial assets, managed together for achievement of certain business goal, rather than at the level of a separate asset.

### 3.5. Derecognition of financial instruments

The Bank derecognizes initial financial asset and recognizes a new financial asset, if reviewed or modified cash flows under the contract cause termination of recognition of initial financial asset. The Bank recognizes new financial asset as at the date of modification, taking into account transaction cost, related to creation of new financial asset (except for new asset, disclosed at fair value with recognition of revaluation through profit/loss) and assesses estimated credit loss during 12-month period.

The Bank recognizes cumulative changes in estimated credit loss (ECL) during the life on a financial instrument, if new financial asset, which is impaired at the initial recognition, is created as a result of modification.

As at each reporting date, the bank recognizes the results of changes in ECL during the life of a financial asset, which is impaired at the initial recognition (including positive changes), through profit/loss as costs/income for establishment/derecognition of estimated loss allowances. Income through derecognition of loss allowances is recognized even if it is higher than earlier loss allowances for the same financial asset.

As at the date of derecognition, the bank recognizes income or expenses from derecognition, equal to difference between carrying value of initial financial asset and fair value of the new financial asset.

As at the reporting date and as at the date of derecognition (repayment, cession of right of claim, sale, write-off at the expense of loss allowances), as well as at the date of changes of terms (modification) of financial instrument, the bank accrues interest income, amortization of premium/discount, fair value revaluation, and analyses changes in ECL for establishment/derecognition of estimated loss allowances.

### **3.6. Cash and equivalent**

Cash and cash equivalents are assets that can be converted into cash at a short notice and which are subject to insignificant risk of changes of value. Cash and cash equivalents include cash in hand, cash balances with the NBU with unrestricted use, and cash balances with other banks. Cash and cash equivalents are carried at amortized cost.

Mandatory reserves with the National Bank of Ukraine are the amounts deposited to a separate account with the National Bank of Ukraine, that are not intended to be used by the Bank in its daily operations. Accordingly, they are not included in cash and cash equivalents for the purposes of the statement of cash flows.

**Due from other banks.** Amounts due from other banks are recorded when the Bank provides counterparty banks with cash to be repaid on a fixed date, and the Bank has no intention to trade in receivables incurred. These receivables are not related to derivative financial instruments and do not have quoted market prices.

Amounts due from other banks are carried at amortized cost.

For the purposes of the statement of cash flows, cash and cash equivalents also include deposit certificates.

### **3.7. Transactions with investments measured at fair value through profit or loss**

Transactions with investments measured at fair value through profit or loss are recorded as at the settlement date.

The available-for-sale portfolio includes securities and other financial investments purchased for the purpose of resale in the near future to benefit from short-term fluctuations of prices or dealers' margins as well as financial investments classified at initial recognition into a portfolio of collectively managed financial instruments where there is evidence of short-term gain actually earned.

Securities are revalued when their fair value changes. Revaluation is recognized in the accounting records at the balance sheet date.

Discounts or premiums of debt securities in the portfolio of financial investments, valued at fair value through profit or loss, are not amortized.

At initial recognition, the Bank records financial investments at fair value through profit or loss net of transaction costs. The costs of purchase transactions in the case of these financial investments are expensed as incurred.

If the decision to reclassify financial investment, recorded at fair value through profit or loss, into financial investments, valued at fair value through other comprehensive income, is made, the bank continues to record the financial investment at its fair value. As at the date of reclassification, the bank sets the effective interest rate based on the fair value of the financial asset and recognizes estimated loss allowances for ECL (if reclassified financial asset is not impaired).

If the decision to reclassify financial investment, recorded at fair value through other comprehensive income, into financial investments, valued at fair value through profit or loss, is made, the bank continues to record the financial investment at its fair value. Accumulated profit or loss, recognized earlier through other comprehensive income, are reclassified from equity to profit or loss as adjustment reclassified.

Securities, recognized as financial investments at fair value through profit or loss, are recorded at their fair value through profit or loss and disclosed at balance sheet account groups 140, 300 and 301. Analytic accounting of securities at the balance sheet account groups 140, 300 and 301 is based on issuers and issues.

Securities, recognized as financial investments at fair value through profit or loss, are to be revalued in case of change of their fair value. The results of revaluation are recorded at analytic accounts of class 6 as difference between their fair value and carrying value in correspondence to revaluation accounts as at the balance sheet date.

The Bank recognizes interest income on debt securities measured at fair value through profit or loss separately in accordance with the coupon rate set for these securities. The Bank earns dividend income on variable income securities.

The Bank accrues interest income of securities and financial investments at fair value through profit or loss in its available-for-sale portfolio at the revaluation date at least once a month.

If financial investments, recorded at fair value through profit/loss, are sold, profit or loss (difference between selling cost and carrying value) is disclosed at respective analytic class 6 account.

Securities in respect of which a sale agreement with a specified sale price exists are not revalued between the transaction date and the settlement date.

### **3.8. Loans and advances to customers**

Financial instrument is an agreement, generating a financial asset for one business entity and financial liability or equity instrument for other business entity at the same time.

Accounting of transactions with financial instruments is based on the economic essence of the transactions, using balance sheet and off-balance sheet accounts of the Chart of accounts for Ukrainian banks (with changes and amendments), approved by Decree of the Board of NBU № 89 of September 11, 2017 (hereinafter – the Chart).

The bank discloses sale of assets and services with deferred payment in accordance with their economic essence at the credit accounts under the Chart.

The bank may use transit accounts, receivable and payable accounts during transactions with financial instruments in accordance with its accounting software, based on future disclosure at respective accounts for specific financial instrument.

Postings of transactions with financial instruments use accounts, grouped in accordance with their purpose (in accordance with the Annex to the above NBU rules).

The bank discloses costs of transaction and other payments, directly related to recognition of financial instrument, at discount/premium accounts for this financial instrument (except for financial instruments measured at fair value through profit/loss).

In accordance with its internal rules, the bank discloses ECL at separate analytic discount/premium account, if they are not disclosed at the loss allowance account.

The bank classifies and measures financial assets, based on business model, used to manage the assets, and characteristics of cash flows to be generated under the agreement.

The bank recognizes interest income under debt financial instruments (accrued interest, amortization of discount/premium), using effective interest rate at the date of purchase up to the date of derecognition (sale, cession of right of claim, repayment, write-off at the expense of loss allowance), reclassification.

The Bank recognizes interest income under financial assets, recorded at the amortized cost, using effective interest rate for gross carrying value except for:

1) purchased or impaired financial assets created. Effective interest rate, adjusted by credit risk, regarding depreciated cost of the financial instrument, is used for such financial assets as of the date of initial recognition;

2) financial instruments, which were not purchased or impaired financial assets created, turned into impaired financial assets. For such financial assets, the bank uses effective interest rate for amortized cost of financial assets in subsequent reporting periods.

The bank recognizes interest income at effective interest rate for gross carrying value of the financial assets, starting from the next date of interest accrual, if, as a result of some events, the impaired financial asset restores and is not impaired any more.

The bank derecognizes financial asset or group of financial assets (hereinafter – financial asset), if:

1) term of rights to cash flows, generated by the financial asset, as set by the agreement, terminates;

- 2) transfer of financial asset complies with criteria of derecognition in accordance with p. 15 of section I of the Rules;
- 3) the asset is written off at the expense of loss allowance.

The bank transfers financial asset, if one of the terms is met:

- 1) the bank transfers right to cash flows, generated by the asset, as set by the agreement;
- 2) the bank keeps the right to cash flows, generated by the asset, as set by the agreement on transfer, but undertakes to pay cash flows to one or several recipients under the agreement, complying with the following terms:

the bank is not liable to pay to end buyers until the respective amounts are received from initial asset;

terms of agreement do not allow the bank to sell or use the initial financial asset as collateral, except for transfer to end recipients as surety for payment of cash flows;

the bank has an obligation to transfer any cash flows, received on the instruction of end recipients, without any significant delay. Besides, the bank does not have a right to reinvest these cash flows except for investments in cash or cash equivalents (as set by IAS 7 *Statement of Cash Flows*) within the short term of repayment from the date of collection to the date of transfer to end recipients. Interest, generated by such investments, is transferred to end recipients.

The Bank assesses the range of all risks and benefits of ownership of an asset during transfer of financial asset, taking into account the following:

- 1) the bank derecognizes financial asset and recognizes rights and liabilities, created or preserved during the transfer, separately as asset or liability, if it transfers predominantly all risks and benefits of ownership of an asset;
- 2) the bank continues to recognize financial asset, if it keeps predominantly all risks and benefits of ownership of an asset;
- 3) the bank determines whether it keeps control over financial asset, if it does not transfer or keeps predominantly all risks and benefits of ownership of an asset.

The bank does not have control over transferred asset, if the party, to which the asset is transferred, has a real possibility to sell it to a third party, may sell unilaterally without a need to set additional limitations to the transfer.

The bank derecognizes the asset and recognizes rights and liabilities, generated by or kept during transition, as asset or liability, if it does not control the financial asset. The bank continues to recognize transferred financial assets within the limits of continuing participation in it, if it keeps the control over the financial asset.

The Bank recognizes difference between carrying value of a financial asset, calculated as at the date of derecognition, and compensation received (including value of new asset received net of liability accepted), as profit or loss from derecognition.

The bank discloses change of terms of agreement or modification of the financial asset, resulting in revaluation of respective cash flows, as:

- 1) derecognition of initial financial asset and recognition of new financial asset at its fair value; or
- 2) continuation of recognition of initial financial asset with the new terms.

The bank recalculates gross carrying amount of financial asset and recognizes profit or loss from modification, if term of agreement is reviewed by the concord of the parties, or if there is any other modification, which does not result in derecognition of initial financial asset.

The bank recalculates new carrying amount as current value of reviewed or modified cash flows, set by the agreement, discounted at initial effective interest rate (or initial effective interest rate, adjusted by credit risk

for purchased or impaired created financial assets). The bank includes cost of transaction into carrying amount of modified financial asset and amortizes it during the life of the asset.

The bank recognizes difference between gross carrying amount under initial or modified terms as profit or loss through modification.

### **3.9. Financial investments, measured at fair value through other comprehensive income**

Financial investments, measured at fair value through other comprehensive income, include debt securities, shares and other financial instruments held for sale, and which are not classified as financial investments, measured at fair value through profit/loss, or financial investments, measured at amortized cost.

Financial investments, recognized at fair value through other comprehensive income, include:

- Debt securities, which bank does not intend to and/or is not able to keep until the date of their retirement;
- Debt securities, which the bank is ready to sell because of the change of market interest rates or risks, liquidity needs, existence and profitability of alternative investments, sources or terms of financing, or change of currency risks;
- Shares and other financial investments, which the bank is ready to sell because of change of risks, liquidity needs, existence and profitability of alternative investments.

Financial investments disclosed at fair value through other comprehensive income, must be revalued. All financial investments, disclosed at fair value through other comprehensive income, have to be tested for impairment as at the balance sheet date.

Cost of transactions, related to purchase of debt securities, measured at fair value through other comprehensive income, is posted at accounts for discount (premium) at the moment of initial recognition of these securities.

Financial investments, disclosed at fair value through other comprehensive income, are posted at the balance sheet accounts of groups 141, 143, 310 and 311 of the Chart. Analytic accounting of securities, posted at the balance sheet accounts of groups 141, 143, 310 and 311, is based on issuers and issues.

Financial investments, disclosed at fair value through other comprehensive income, are to be revalued. The result of revaluation is disclosed in equity (analytic account 5102) as at the balance sheet date as the difference between fair value of a security and carrying value as at the date of revaluation.

For debt securities, disclosed at fair value through other comprehensive income, the bank recognizes interest income, including interest income as amortization of discount (premium), using the effective interest rate. The Bank earns dividend income on variable income securities.

The bank uses effective interest rate method, taking into account the requirements set by rules and regulations of NBU for accounting of income and expenses.

The bank recognizes interest income under financial investments, disclosed at fair value through other comprehensive income, as at the date of revaluation and as at the balance sheet date, but not less than one per month.

If financial investments are impaired, interest income is recognized based on amortized interest rate, used to discount future cash flows during last measurement of losses through impairment.

If terms of issue of securities sets gradual or partial repayment of their nominal value, accrual of interest and calculation of effective interest rate for such securities is based on decrease of this nominal value.

### **3.10. Sale and repurchase agreements**

A sale and repurchase agreement are a two-part securities transaction, in which one general agreement is entered into between market participants on the sale (purchase) of securities for a specified period with a commitment to resell (repurchase) at a specific time or at the request of one party at a predetermined price. A sale and repurchase agreement transaction is, by its economic substance, a credit transaction with securities used as collateral.

Securities issued (received) as collateral are accounted on off-balance sheet accounts 9510 *Underlying collateral* or off-balance sheet account group 950 *Pledge received*.

The difference between the sale (purchase) price and resale (sale) price is interest income (expense). Accrued income is recorded on accounts 6002, 6022, 6015.

Accrued expense is recorded at accounts 7002, 7015, 7021.

The Bank reclassifies securities sold under repo transactions, whereby the buyer has the right to sell or pledge them, from the trade portfolio or available-for-sale portfolio to receivables under repo transactions carried at fair value through profit or loss.

Securities purchased under repo agreement with a resale option in the case of their sale to a third party are recorded by the purchaser at fair value as a liability to return the securities on accounts payable under repo transactions carried at fair value through profit or loss.

Revaluation to fair value of securities recorded as repo transactions receivables and payables and the result of the sale to a third party are recorded at account 6223.

### **3.11. Financial investments measured at amortized cost**

This category includes fixed income or definable income debt securities with fixed term of repayment. Debt securities, measured at amortized cost are the financial investments, recognized at amortized cost, if the bank intends and can hold them until maturity to generate interest income.

The bank should not initially recognize securities as financial investments, measured at amortized cost, if:

- It intends to hold securities for indefinite period;
- It is ready to sell them in case of change of market interest rates, risks, need for liquidity;
- Terms of issue of sight debt securities provide for interest payments during indefinite period of time (i.e. there is no fixed term of repayment);
- Issuer has a right to pay off securities by the amount much less than their depreciated cost;
- There are no financial resources to finance securities until their pay off;
- There are legal or other limitations, which may prevent bank from its intentions to keep securities until pay off.

Securities, for which issuer provides for pre-term pay off, may be recognized as financial investments, disclosed at amortized cost, if the Bank intends and can hold them until pay off.

Purchased debt securities are disclosed based on the following components: nominal value, discount or premium, interest accumulated as at the date of purchase. Cost of transactions, entered into for purchase of debt securities, is included into cost of purchase and disclosed at the accounts of discount (premium).

After initial recognition debt securities are disclosed at amortized cost as at the balance sheet date.

The bank recognizes income and amortizes discount (premium) under debt securities not less than once per month using effective interest rate method.

Debt securities in the bank portfolio are to be reviewed for impairment up to the payoff time.

Financial investments, disclosed at amortized cost, are recorded at balance sheet account groups 142, 144 and 321 of the Chart. Analytic accounting of securities of account groups 142, 144 and 321 is based on issuers and issues.

For financial investments, disclosed at amortized cost, the bank recognizes interest income, including depreciation of discount (premium), using accrual principle and effective interest rate method.

The Bank recognizes interest income for debt securities in an amount, equal to product of amortized cost and initial effective interest rate for respective security, including impaired securities.

As at the balance sheet date, debt securities, disclosed at amortized cost, are reviewed for possible impairment based on analysis of estimated cash flows.

Impairment of debt securities, recorded at amortized cost, is disclosed by charging of loss allowance amounting to excess of carrying value of securities over current value of estimated future cash flows, discounted using initial effective interest rate (i.e. effective interest rate, calculated at initial recognition).

Debt securities, not paid off by issuer at the term, set by issuer, are recorded at analytical balance sheet accounts for securities.

### **3.12. Investments into associated companies**

There are no investments into associated companies.

### **3.13. Investment property**

Investment property includes land, buildings or parts of buildings or land and buildings owned by the Bank or received by the Bank under financial lease to earn rentals or for capital appreciation or both rather than for the provision of services or for administrative purposes.

A property can be divided into parts, which are used for different purposes: one part is used to earn rentals or for capital appreciation, and the other part is intended for the use in the course of the Bank's operations or for administrative purposes. If these parts can be sold separately, the part which is used to earn rental or for capital appreciation will be carried as investment property of the Bank. Where these parts cannot be sold separately, a property is recognized as investment property if not more than 15% of the total area of the property are used by the Bank in the course of its operations or for administrative purposes.

As at the year end, the Bank discloses 10 objects as investment property that are leased out. These objects are carried at fair value. In 2019, the Bank disclosed changes in fair value of investment property, as its carrying value differs from fair value, established by independent experts as at the balance sheet date.

### **3.14. Goodwill**

There is no goodwill.

### **3.15. Fixed assets**

The cost of items classified as fixed assets should exceed UAH 6,000. The low-value noncurrent assets include tangible assets with useful life over one year and the cost equal to, or less, than UAH 6,000.

If the useful life of a tangible asset is less than one year, it is expensed in the current period regardless of its cost.

Fixed assets are depreciated on a straight-line basis over their useful lives set by the Bank at their initial recognition and stated in the statement of commissioning.

Useful lives of fixed assets are determined by a special commission created by an order of the Bank management and stated in the Statement of acceptance (in-house transfer) of property and equipment when an asset is commissioned.

Useful lives (in months) are as follows:

- buildings and facilities - 600;
- vehicles – 60-84;
- telephone equipment – 24-60;
- equipment (furniture) – 48-180;
- office equipment – 24-60;
- computer equipment – 24-60;
- domestic appliances – 36-120;
- other fixed assets – 24-144.

Useful lives of fixed assets were not reviewed in 2019.

Fixed assets purchased by the Bank are recognized and carried at cost, which includes all costs of acquisition, delivery, installation and commissioning.

### **3.16. Intangible assets**

Acquired intangible assets are recognized if future economic benefits resulting from its use are expected to flow to the Bank and its value can be measured reliably.

Intangible assets are recognized and measured at cost, which includes all costs of acquisition, delivery and commissioning.

After the initial recognition, intangible assets are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are carried on an item-by-item basis.

Amortization is charged using the straight-line method based on the initial cost and useful lives of intangible assets. Useful lives of intangible assets are established by the Bank management for each item.

Intangible assets are amortized on a monthly basis. Amortization begins on the first day of the month following the reporting period in which the asset was available for use, and ceases on the first day of the month following the month where intangible assets were derecognized.

Software amortization rates are 11.22-50%.

When estimating useful lives of the intangible assets the Bank takes into consideration technical specifications, current trends in technology, and programs of technical improvement and maintenance of assets.

The Bank did not revalue intangible assets in 2019.

The Bank did not revise amortization rates, useful lives, or historical cost of intangible assets in 2019.

### **3.17. Lease when the Bank is a Lessor and/or Lessee**

#### **3.17.1. Assets leased out under operating lease**

Assets transferred by the Bank under operating lease remain on its balance sheet and are carried on a separate analytical account stating that the assets were leased. During the life of the lease, the Bank depreciates non-current assets leased and accrues lease payments.

#### **3.17.2 Assets, received under operating lease**

If a term of a lease agreement is less than one year (short-term agreement), or basis value of an asset transferred under the lease is less than USD 5000 equivalent as at the day of entering into agreement, the Bank does not recognize the right-of-use asset and lease liability. Lease payments are recognized as expenses on the straight-line basis during the lease term and posted at expense accounts.

In other cases, the Bank recognizes the right-of-use asset at initial cost and lease liabilities as of the day of lease commencement.

Initial cost of the asset includes:

- Initial cost of liabilities under lease agreement;
- Lease payments made at commencement or before commencement of the lease;
- Initial direct costs incurred;
- Estimated costs to be incurred at disposal of the asset.

Initial cost of liability is set as current value of lease payments, not made yet. Lease payments are discounted during the lease term using either interest rate, set by the agreement, or interest rate used to attract funds of individuals for longer than one-year period, used by the Bank as at the date of recognition of lease agreement. Subsequent valuation of the right-of-use asset is based on the initial cost model; as a result, value of the asset is measured:

- Deducting accumulated depreciation and accumulated impairment losses;
- Taking into account adjusted revaluation of liability under lease agreement.

Depreciation is charged as of the date of commencement of lease agreement until earliest of date of termination of useful life of right-of-use asset or date of termination of lease agreement.

Subsequent measurement of liability under lease agreement includes:

- Increase of carrying amount to disclose interest under lease agreement;
- Decrease of carrying amount to disclose lease payments made;
- Revaluation of carrying amount to disclose revaluation, modification of lease or review of fixed lease payments.

The Bank must remeasure lease liabilities, discounting reviewed lease payments using reviewed discount rate,

in any of the following cases:

- Change of lease term. The Bank must review lease payments based on reviewed lease term
- Change of terms of acquisition of underlying asset. The Bank must review lease payments to reflect changes in amounts payable under purchase option.

The Bank recognizes reviewed discount rate as allowable interest rate under lease for the remaining lease term, if this rate can be easily determined, or interest rate used to attract funds of individuals for longer than one-year period, used by the Bank as at the date of revaluation.

The Bank also remeasures lease liability in the following situations:

- Change of amounts expected to be paid under residual value guarantees;
- Change of future lease payments due to change of index or rate, used to determine these payments.

The Bank determines reviewed lease payments for the remaining lease term, using interest rate as at the date of commencement of lease.

### **3.18. Financial lease**

There are no financial leases where the Bank is a lessor and/or lessee.

### **3.19. Non-current assets held for sale and disposal groups**

Non-current assets held for sale are non-current assets held for sale and their carrying amount would be recovered principally through sale transactions rather than through their continuing use. Non-current assets held for sale are posted on account 3408.

As at the end of 2019, the bank has no non-current assets held for sale.

### **3.20. Discontinued operations**

Bank did not discontinue any operations.

### **3.21. Derivatives**

Derivative financial instruments including foreign currency contracts and currency swaps are carried at fair value. All derivatives are carried as assets when their fair value is positive or as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in profit or loss for the year. The Bank does not use hedge accounting.

### **3.22. Borrowings**

Borrowings are initially recognized at cost that represents the proceeds net of transaction costs. Subsequently borrowings are carried at amortized cost and any difference between net proceeds and the redemption value is recognized in profit or loss and other comprehensive income over the life of borrowings using effective interest rate.

Borrowings at rates different from the market rates are restated at fair value at the time of their receipt. Fair value represents future interest payments and repayment of the principal discounted at market interest rates applicable to similar borrowings.

Any difference between the fair value and the nominal value of borrowings at the time of their receipt is shown in profit or loss and other comprehensive income as income in case liabilities arise at rates lower than market rates or as losses when liabilities are incurred at rates exceeding market rates. Subsequently the carrying amount of borrowings is adjusted for the amortization of revenues (losses) at the time of their receipt and related costs are included in interest expense in profit or loss and other comprehensive income using the effective interest rate method.

### 3.23 Provisions for liabilities

Provisions are non-financial liabilities of uncertain timing 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 the settlement of which is expected to result in an outflow from the Bank of resources embodying economic benefits, and amount of this obligation can be measured reliably.

### 3.24. Income taxes

These financial statements show taxation in accordance with legal norms, using tax rates and legal requirements that were effective or substantively enacted at the end of the reporting period. Income tax expenses or credits include current tax and deferred tax and are recognized in profit or loss for the year, unless they are to be recognized in other comprehensive income or directly in equity since they relate to transactions recorded in the reporting or in a different period in other comprehensive income or directly in equity.

**Current tax** is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for the current and prior periods.

Under current law, basic income tax rate was **18% in 2018 and 2019**.

The difference between financial accounting profits and profits determined in accordance with current tax legislation result from different methods used to determine profits in financial and tax accounting.

As at the end of the day December 31, 2019, the Bank did not have investments in subsidiaries and associates.

During the reporting period, the Bank did not discontinue any operations and, therefore, there is no tax expense or income attributable to profit or loss from discontinued operations.

### 3.25. Share capital and share premium

Ordinary shares are designated as equity. Accumulated costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

The Bank may declare and pay dividends only in accordance with Ukrainian laws and regulations.

Dividends on ordinary shares are shown as a distribution of retained earnings in the period they were declared.

### 3.26. Treasury shares

The Bank did not have treasury shares in the reporting period.

### 3.27. Recognition of income and expenses

Interest income and expenses on all debt instruments are carried on accrual basis using the effective interest rate method. This method includes into interest income and expenses and allocates over the whole life of an instrument all commissions paid or received by the parties to the contract being an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Commissions representing an integral part of the effective interest rate include commissions received or paid in respect to the creation or acquisition of a financial asset or the issue of a financial liability (e.g. fees for solvency assessment, assessment and recording of guarantees or collateral, negotiating the terms of an instrument and transaction documents processing). Market interest rate loan origination commissions received by the Bank are an integral part of the effective interest rate if it is probable that the Bank will enter into a specific loan agreement and will not plan to sell the loan shortly after its origination. The Bank does not carry credit-related commitments as financial liabilities carried at fair value through profit or loss.

If recoverability of loans or other debt instruments becomes doubtful, their value is reduced to the present value of expected cash flows, and interest income is recorded thereafter on the basis of the effective interest rate of this instrument used to measure an impairment loss.

All other fees, commissions and other proceeds and expenses are generally recorded on accrual basis depending on the stage of completion of a specific transaction defined as a proportion of services actually provided in the total services to be provided.

### 3.28. Foreign currency revaluation

The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The functional and presentation currency of the Bank's financial statements is the national currency of Ukraine, the Ukrainian hryvnia.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the National Bank of Ukraine at the end of the respective reporting period. Gains and losses from exchange differences resulting from transaction settlements and translation of monetary assets and liabilities into the functional currency at the official exchange rates of the National Bank of Ukraine at the end of the year are recorded as profit or loss for the year (as gains less losses from trading in foreign currency and gains less losses from foreign currency revaluation, respectively). Non-monetary items measured at cost are not translated at year-end exchange rates. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value is determined. Effects of exchange rate changes on non-monetary items measured at fair value are recorded in gains or losses from changes in fair value.

Performance and financial position of the Bank are translated into the presentation currency as follows:

- (i) assets and liabilities presented in the statement of financial position are translated using exchange rates as at the end of the respective reporting period;
- (ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction);
- (iii) components of equity are translated at historical exchange rates; and
- (iv) all exchange differences arising are recognized as components of other comprehensive income.

As at December 31, 2019, the principal rates of exchange used for translating foreign currency balances were as follows:

Currency	Currency code	2019	2018
USD 100	840	23,6862	27,688264
EUR 100	978	26,4220	31,714138
GBP 100	826	31,0206	35,131366
RUB 10	643	0,38160	0,39827
BYN 10	933	11,2577	12,81983

### 3.29. Offsetting assets and liabilities

Offsetting of financial assets and liabilities with subsequent presentation of their net amount in the statement of financial position is allowed only if there is a legal right to offset recognized amounts and there is an intention to settle on the net basis, or to simultaneously realize the asset and settle the liability.

### 3.30. Information by operating segments

A segment is a separate component of the Bank's business, which supplies services or products (a business segment) or provides services or delivers products within a particular economic environment that is exposed to risks and earns returns that are different from other segments.

A segment should be presented separately if a major portion of its income is generated from banking operations outside the segment, and at the same time, its performance indicators meet the following criterion: revenue of the segment is 10% or more of the total income (including banking activity within the segment).

In preparing this Note and taking the criterion into account, the Bank has established the following reporting segments:

- services to corporate customers;

- services to individuals;
- centralized treasury transactions and unallotted items.

Segment assets and liabilities comprise operating assets and liabilities most of which are presented in the statement of financial position; however, they exclude certain items, e.g. cash and taxation.

Inter-segmental transactions are performed free of charge.

Information by geographical segments are not presented, as the Bank does not operate outside Ukraine.

### **3.31. Effect of changes in accounting policies, accounting estimates and adjustment of significant errors**

IFRS 16 *Leases*, effective as of January 1, 2019, introduced significant changes to accounting of lease transactions for lessees. As a result, changes were introduced into the Accounting policies of the Bank. These changes are described in p. 3.17 of Note 3 *Basis of preparation of the financial statements and summary of accounting policies* and Note 4 *New and revised standards*.

### **3.32. Major accounting estimates and judgments applied**

Preparation of financial statements requires that management make judgements, estimates, and assumptions that affect the application of accounting policies, amounts of assets and liabilities, earnings and expenses recognized in the financial statements and the disclosure of contingent assets and liabilities. Judgements are being improved continuously and are based on the previous experience of the Bank's employees and on other factors, including forecasting future events deemed reasonable based on existing circumstances.

Professional judgements that have the most significant effect on amounts recognized in the financial statements and estimates that can result in significant adjustments to the carrying amounts of assets and liabilities in subsequent periods include:

#### **Going concern**

Management has considered available information on the Bank's operations and determined that there is no information, which would indicate that the Bank might cease its operations. Therefore, Bank prepared these financial statements based on the going concern assumption.

#### **Initial recognition of financial assets and liabilities**

Financial assets and liabilities are initially recognized at fair value. After that, the bank measures debt financial instrument based on business model and characteristics of cash flows, set by the agreement, through:

- 1) depreciated cost;
- 2) fair value through other comprehensive income;
- 3) fair value through profit or loss.

The Bank selects business model for groups of financial assets, managed as a whole to reach certain business goal, rather than a separate asset.

The bank regularly reviews the business model, used to manage financial assets in order to generate cash flows. As at the date of review of a business model, the bank takes into account all objective factors, available as at the date:

- 1) efficiency of business model, profitability of financial assets, held within this business model, information received by leading management;
- 2) risks, influencing business model efficiency, including profitability of financial assets, held within this business model, as well as method of risk management;
- 3) indices used to define mechanism of remuneration for managers.

The bank measures and discloses debt financial asset at amortized cost, if both criteria are met:

- 1) financial asset is held within the business model, aimed at holding of financial assets to receive cash flows, set by agreement;

2) financial asset agreement provides for fixed-dates receipt of cash flows, which are solely payments of principal and interest on non-repaid part of principal.

#### **Impairment of loans and advances to customers**

The bank recognizes loss allowances for ECL under debt financial assets, measured at amortized cost, and debt financial assets, recorded at fair value, recognizing revaluation through other comprehensive income.

The bank recognizes provision for financial asset at the first stage of impairment (ECL for 12 months) not later than the nearest reporting date after initial recognition of financial asset. The nearest reporting date regarding charging of loss allowances for ECL under financial instruments is the last day of a month, when financial instrument was recognized.

As at the next reporting date after initial recognition, the bank assesses the level of increase of ECL for financial instrument as of the date of initial recognition.

The bank continues to recognize loss allowances for financial asset at the first stage of impairment, if as at the reporting date level of risk for financial asset did not significantly increase as of the date of initial recognition of an asset, or financial asset has low credit risk as at the reporting date.

The bank recognizes loss allowance for financial asset at the second stage of impairment (ECL during the full life of financial asset), if, as at the reporting date, the risk level significantly increased as of the day of initial recognition.

The bank recognizes loss allowance for financial asset at the third stage of impairment (ECL during the full life of financial asset), if, as at the reporting date, there is objective evidence of impairment of an asset.

The bank does not recognize loss allowance for purchased or created impaired financial assets as at the date of initial recognition. Initial ECL for such financial asset are included into effective interest rate, adjusted by credit risk.

Transition of such asset from third stage of impairment to second or first stage is not possible.

When assessing impairment of financial assets, value of financial assets with non-collectability risk may be decreased by loss allowances, increased by liquidity coefficient and decreased by cost of sales; time, needed for sale of collateral, is also taken into account.

When assessing impairment of financial asset, value of collateral, accepted as pledge, is taken into account, if all of the following principles are met:

- principle of unobstructed collection;
- principle of fair value;
- principle of existence.

Principle of fair value provides for bank evaluation of a collateral at the level, which is not higher than market (fair) value and makes it possible to sell it to a third party. The bank revalues collateral on regular basis, set for each individual type of collateral.

#### **Valuation of fixed assets (land and buildings)**

Land and buildings owned by the Bank are classified as property and equipment and investment property and carried at fair value. For the purposes of fair valuation of its property, the Bank management engages independent appraisers. Properties are fair valued on the basis of the market comparisons method that takes into account the prices of the latest transactions with similar properties, and the income approach. Fair valuation of buildings requires judgements and assumptions with respect to the comparability of properties and other factors.

#### **Note 4. New and revised standards**

Accounting policies applied are consistent with accounting policies as used in the previous financial year, except for new adopted standards, effective from January 1, 2019.

The Bank applied IFRS 16 *Leases* for the first time. Nature and effect of changes, resulting from application of this international financial reporting standard are described below.

The Bank applied some clarifications or amendments in 2019 for the first time; still, they did not affect the financial statements of the Bank.

The Bank did not use earlier application of any other standards, clarifications or amendments, adopted but not effective yet.

#### **NEW STANDARDS AND INTERPRETATIONS MANDATORY FOR THE BANK AS OF JANUARY 1, 2019**

##### ***IFRS 16 Leases***

As of January 1, 2019, IFRS 16 *Leases*, issued in January 2016, came into force, replacing existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Standard provides for two cases when a lessee does not have to recognize a lease - lease of low-value assets and short-term lease (no longer than 12 months). ). At the commencement of the lease, a lessee recognizes liabilities under lease payments (lease liabilities) and an asset, representing the right to use the basic asset during lease term (asset as a right of use). Lessee will be obliged to recognize depreciation of the right-of-use asset and interests on the lease liability separately.

In addition, Lessee will have to reassess lease obligations due to certain event (such as a change in the terms of the lease, changes in variable lease payments depending on an index or rate, used to calculate such payments).

As for lessor accounting, IFRS 16 has mostly retained the accounting requirements that had been earlier stipulated by IAS 17. The lessors will continue to classify the lease using the same classification principles as in IAS 17.

The Bank started to apply IFRS 16 "Leases" from January 2019. The implementation process of the requirements of the standard is presented as follows:

- The requirements of the standard apply to contracts that were previously identified as lease contracts in accordance with IAS 17 *Leases*;
- Modified retrospective approach without recalculation of comparative information is used;
- Simplification of practical nature to contract, where lease term is over within 12 months as of the date of initial application and lease on which the underlying asset has low value ( USD 5000 equivalent at exchange rate as at the date of the contract);
- The asset for lease and lease liability in respect of intangible asset leases will not be recognized.

As to the lease contracts, previously recognized as operating lease contracts under IAS 17, as at January 1, 2019, the Bank:

- Recognized lease liabilities in an amount of current value of lease payments, payable until termination of lease terms under respective agreements, discounted by additional borrowing rates, determined as at the date of first application of IFRS 16;
- Recognized right-of-use assets in an amount of lease liabilities, increased by previous lease payments and decreased by accrued expenses under lease payments to be paid, as disclosed in the Statement of financial position directly before first application of the standard, under respective lease contracts.

When determining lease terms, the Bank takes into account lease-contract term and periods, covered by the right of the Bank to extend the lease, if it reasonably believes that it would use the option. Taking into account strategies of Bank development, absence of intentions to close active offices and assurance that terms of lease contracts (which are close to their termination) would be extended, the Bank determined respective lease terms and terms of repayment of lease liabilities.

Weighted average additional borrowing rate, used to determine lease liabilities, recognized in the Statement of financial position as at the date of first application of IFRS 16 was 14,5%.

Below is explanation of differences between liabilities under operating lease contracts, were they disclosed in accordance with IAS 17 as at December 31, 2018, discounted using discount rate as at the date of first application of IFRS 16, and liabilities under lease contracts recognized in the Statement of financial position as at January 1, 2019:

	Liabilities under lease contracts
Liabilities under operating lease contracts as at December 31, 2018	1 211
Derecognition of lease contracts where underlying asset is of low value	(38)
Effect of discounting as at January 1, 2019	(101)
Liabilities discounted at discount rate as at January 1, 2019	1 072
Options to extend or terminate lease pre-term where there is a reasonable assurance to use them	1 859
Liabilities under lease contracts recognized as at January 1, 2019	2 931
Recognized right-of use asset as at January 1, 2019	2 931

As at the date of first application, the Bank recognized in its Statement of financial position:

- As a component of *Fixed and Intangible Assets* item – right-of-use assets in an amount of UAH 2 931 thousand;
- As a component of *Other liabilities* item – lease liabilities in an amount of UAH 2 931 thousand, measuring them at current value of non-paid lease payments, discounted by rate of borrowing from individuals for longer than one year.

Effect of application of IFRS 16 on the Bank is not significant.

Reconciliation of carrying amount under IAS 17 and balances disclosed under IFRS 16 as at January 1, 2019:

Item of Statement of financial position	Note	Before transition to IFRS 16 (31.12.2018)	Revaluation	After transition to IFRS 16 (01.01.2019)
<b>Assets</b>				
Fixed and intangible assets	10	98 100	2 931	101 031
Including right-of-use assets		-	2 931	2 931
Other liabilities	14	50 322	2 931	53 253
Including lease liabilities		-	2 931	2 931

Information on amount of lease liabilities and terms of repayment as at December 31, 2019, is presented in the Note *Other Liabilities*.

#### ***Amendment to IFRS 9 Prepayment right with negative compensation***

The narrow-scope amendment allows Bank to measure particular prepayable financial assets with negative compensation at amortized cost or at fair value through other comprehensive income if a specified condition is met.

This amendment is expected to have no effect on the financial statement of the Bank.

Amendments to **IAS 19 Employee Benefits** and **IAS 28 Long-term Interests in Associates and Joint Ventures** had no effect on the financial statements of the Bank.

#### **IFRIC 23 Uncertainty over Income Tax Treatments**

The interpretation specifies how an entity should reflect the effects of uncertainties in accounting for income taxes. IFRIC 23 had no effect on the financial statements of the Bank.

### **Annual Improvements 2015-2017 Cycle**

These improvements include:

#### *IFRS 3 Business Combinations*

Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business.

#### *IFRS 11 Joint Arrangements*

Clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

#### *IAS 12 Income Taxes*

Clarification that all income tax consequences of dividends should be recognized in profit or loss, regardless how the tax arises.

#### *IAS 23 Borrowing Costs*

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

These improvements had no effect on the financial statements of the Bank.

### **NEW STANDARDS AND INTERPRETATION THAT WILL BE MANDATORY FOR THE BANK IN THE FUTURE**

The following new standards and interpretations were issued that will be mandatory for the Bank in the reporting periods **starting on or after 1 January 2020 or at a later date**.

The Bank did not apply these standards before the date of mandatory application.

#### ***Conceptual Framework for Financial Reporting***

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

The Conceptual Framework is accompanied by a *Basis for Conclusions*. The Board has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 *Business Combinations* and for those applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The revised Conceptual Framework is effective immediately for the IASB and the IFRS Interpretations Committee. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

The amendment will not have a significant impact on financial statements of the Bank.

***IAS 1 Presentation of financial statements and IAS 8 Accounting principles (policy), changes in estimates and correction of errors***

The IASB has published a new definition of 'material'. Amendments to IAS 1 and IAS 8 clarify the definition and increase consistency across standards. It is effective for annual periods beginning on or after 1 January 2020.

These amendments will not have a significant impact on financial statements of the Bank.

***Amendment to IFRS 3 Business Combinations***

As a result of the amendments to IFRS 3, the definition of a "business" has been modified. The definition has been narrowed down and is likely to result in more acquisitions being classified as a purchase of assets.

It is effective for annual periods beginning on or after 1 January 2020.

This amendment is expected to have no effect on the financial statement of the Bank.

***IFRS 17 Insurance contracts***

IFRS 17 creates one accounting model for all insurance contracts.

IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts.

The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims.

Insurance contracts are required to be measured based only on the obligations created by the contracts.

An entity will be required to recognize profits as an insurance service is delivered, rather than on receipt of premiums.

This standard replaces IFRS 4 - Insurance contracts. The standard is effective for annual periods beginning on or after 1 January 2021, with early application permitted.

The standard is not applicable to the Bank.

***Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The effective date of this amendment has been deferred indefinitely until further notice.

**Note 5. Cash and cash equivalents**

Table 5.1. Cash and equivalent

		UAH thousand	
Line	Item	31.12.2019	31.12.2018
1	Cash in hand	66 770	44 923
2	Amounts with the National Bank of Ukraine (except for mandatory reserves)	41 136	22 282
3	Correspondent accounts, overnight loans and deposits with other banks:	85 438	212 053

3.1	of Ukraine	14 750	81 894
3.2	of other countries	70 688	130 159
4	Total cash	193 344	279 258
5	Allowances for expected credit losses	(1 246)	(41 983)
6	<b>Total cash and cash equivalents</b>	<b>192 098</b>	<b>237 275</b>

Information of Note 5 and Table 5.1, Line 6 is used for the purposes of the statement of financial position (the balance sheet).

Table 5.2 Changes in allowances for expected credit losses for cash and cash equivalents

Line	Item	UAH thousand			
		Stage 1	Stage 2	Stage 3	Total
<b>1</b>	<b>Allowances for expected credit losses as at 01.01.2018</b>	<b>(2 414)</b>	-	-	<b>(2 414)</b>
2	(Increase)/decrease of the allowances during the period	(4 624)	-	(34 851)	(39 475)
3	Recognition of profit/loss from changes at allowances accounts	55	-	(149)	(94)
<b>4</b>	<b>Allowances for expected credit losses as at 31.12.2018</b>	<b>(6 983)</b>	-	<b>(35 000)</b>	<b>(41 983)</b>
5	(Increase)/decrease of the allowances during the period	5 737		35 000	40 737
<b>6</b>	<b>Allowances for expected credit losses as at 31.12.2019</b>	<b>(1 246)</b>	-	-	<b>(1 246)</b>

Table 5.3 Analysis of credit quality of cash and cash equivalents as at 31.12.2019

Line	Item	UAH thousand			
		Cash in hand	Amounts with the NBU	Correspondent accounts	Total
1	Cash and cash equivalents at first stage of impairment	66 770	41 136	85 438	193 344
1.1	Cash and cash equivalents without delayed payment	66 770	41 136	85 438	193 344
2	Total cash and cash equivalents	66 770	41 136	85 438	193 344
3	Allowances for expected credit losses of cash and cash equivalents	-	-	(1 246)	(1 246)
<b>4</b>	<b>Total cash and cash equivalents less allowances for expected credit losses</b>	<b>66 770</b>	<b>41 136</b>	<b>84 192</b>	<b>192 098</b>

Table 5.4 Analysis of credit quality of cash and cash equivalents as at 31.12.2018

Line	Item	UAH thousand			
		Cash	Cash in NBU	Cash at correspondent accounts	Total
1	Cash and cash equivalents at first stage of impairment	44 923	22 282	177 053	244 258
1.1	Cash and cash equivalents without delayed payment	44 923	22 282	177 053	244 258

2	Cash and cash equivalents at third stage of impairment	-	-	35 000	35 000
2.1	Cash and cash equivalents without delayed payment	-	-	35 000	35 000
3	Total cash and cash equivalents	44 923	22 282	212 053	279 258
4	Allowances for expected credit losses of cash and cash equivalents	-	-	(41 983)	(41 983)
5	<b>Total cash and cash equivalents less allowances for expected credit losses</b>	<b>44 923</b>	<b>22 282</b>	<b>170 070</b>	<b>237 275</b>

Table 5.5 Cash and cash equivalents for the purposes of the statement of cash flows

Line	Item	31.12.2019	UAH thousand 31.12.2018
1	Cash in hand	66 770	44 923
2	Amounts with the National Bank of Ukraine (except for mandatory reserves)	41 136	22 282
3	Correspondent accounts, overnight loans and deposits with other banks	85 438	212 053
4	Deposit certificates of NBU	567 000	465 000
5	<b>Total cash and cash equivalents</b>	<b>760 344</b>	<b>744 258</b>

#### Note 6. Loans and due from banks

Table 6.1 Loans and due from banks

Line	Item	31.12.2019	UAH thousand 31.12.2018
1	Loans and due from banks at amortized cost	12 387	-
2	Loans and due from banks at fair value through other comprehensive income	-	-
3	Loans and due from banks at fair value through profit/loss	-	-
4	<b>Total loans and due from banks less allowances for expected credit losses</b>	<b>12 387</b>	<b>-</b>

Information of Note 6 and Table 6.1, Line 4 is used for the purposes of the statement of financial position (the balance sheet).

Table 6.2 Loans and due from banks measured at amortized cost

Line	Item	31.12.2019	UAH thousand 31.12.2018
1	Deposits in other banks	13 213	-
1.1	Short-term	-	-
1.2	Long-term	13 213	-
2	Allowances for expected credit losses for deposits in other banks	(826)	-
3	Loans to other banks	17 000	-
3.1	Short-term	-	-
3.2	Long-term	17 000	-

4	Allowances for expected credit losses for loans to other banks	(17 000)	-
5	<b>Total loans and due from other banks measured at amortized cost</b>	<b>12 387</b>	<b>-</b>

Information of Note 6 and Table 6.2, Line 5 is used for the purposes of the statement of financial position (the balance sheet).

Table 6.3 Change of allowances for expected credit losses of loans and due from banks, measured at amortized cost, in 2019

Line	Changes in allowances for expected credit losses	Stage 1	Stage 2	Stage 3	UAH thousand Total
1	<b>Balance as at 01.01.2019.</b>	-	-	-	-
2	(Increase)/decrease of allowances for expected credit losses during the period	(826)	-	(17 000)	(17 826)
3	<b>Balance as at 31.12.2019</b>	<b>(826)</b>	<b>-</b>	<b>(17 000)</b>	<b>(17 826)</b>

Table 6.4. Credit quality of deposits in other banks as at 31.12.2019

Line	Item	Stage 1	UAH thousand Total
1	Deposits in other banks:	13 213	13 213
1.1	Minimal credit risk	13 213	13 213
2	Total gross carrying amount of deposits in other banks	13 213	13 213
3	Allowances for expected credit losses for deposits in other banks	(826)	(826)
4	<b>Total deposits in other banks less allowances for expected credit losses</b>	<b>12 387</b>	<b>12 387</b>

Table 6.5. Credit quality of loans to banks as at 31.12.2019 UAH thousand

Line	Item	Stage 3	Total
1	Loans to other banks:	17 000	17 000
1.1	Defaulted assets	17 000	17 000
2	Total gross carrying amount of loans to other banks	17 000	17 000
3	Allowances for expected credit losses for loans to other banks	(17 000)	(17 000)
4	<b>Total loans less allowances for expected credit losses</b>	<b>-</b>	<b>-</b>

## Note 7. Loans and advances to customers

Table 7.1 Loans and advances to customers

Line	Item	31.12.2019	UAH thousand 31.12.2018
1	Loans and advances to customers measured at amortized cost	701 310	632 632
2	<b>Total loans and advances to customers less allowances for expected credit losses</b>	<b>701 310</b>	<b>632 632</b>

Information of Note 7 and Table 7.1, Line 2 is used for the purposes of the statement of financial position (the balance sheet).

Table 7.2 Loans and advances to customers measured at amortized cost

Line	Item	UAH thousand	
		31.12.2019	31.12.2018
1	Corporate loans	1 085 288	947 889
2	Mortgage loans to individuals	12 109	13 246
3	Consumer loans to individuals	57 346	46 231
4	Allowances for expected credit losses	(453 433)	(374 734)
<b>5</b>	<b>Total loans less allowances for expected credit losses</b>	<b>701 310</b>	<b>632 632</b>

Information of Note 7 and Table 7.2, Line 5 is used for the purposes of the statement of financial position (the balance sheet).

Table 7.3 Analysis of changes in allowances for expected credit losses of loans and advances to customers in 2019

Line	Changes	UAH thousand			
		Stage 1	Stage 2	Stage 3	Total
<b>1</b>	<b>Balance as at 01.01.2019</b>	<b>(16 496)</b>	<b>(3 476)</b>	<b>(354 762)</b>	<b>(374 734)</b>
2	(Increase)/decrease of allowances for expected credit losses during the period	(6 681)	(5 509)	(64 232)	(76 422)
3	Recognition of profit/loss through allowances for expected credit losses accounts	-	-	(1 168)	(1 168)
4	Write-off of bad debts	-	-	5	5
5	Adjustment of interest income measured at amortized cost	-	-	693	693
6	Transfer to stage 2	18	(18)	-	18
7	Exchange rate differences	(315)	(199)	(1 329)	(1 843)
<b>8</b>	<b>Balance as at 31.12.2019</b>	<b>(23 474)</b>	<b>(9 166)</b>	<b>(420 793)</b>	<b>(453 433)</b>

Table 7.4 Analysis of changes in allowances for expected credit losses of loans and advances to customers in 2018

Line	Changes	UAH thousand			
		Stage 1	Stage 2	Stage 3	Total
<b>1</b>	<b>Balance as at 01.01.2018</b>	<b>(745)</b>	<b>(4 153)</b>	<b>(544 451)</b>	<b>(549 349)</b>
2	Changes from application of IFRS 9		(2 351)	(90)	(2 441)
3	(Increase)/decrease of allowances for expected credit losses during the period	(15 788)	2 054	171 717	157 983
4	Recognition of profit/loss through allowances for expected credit losses accounts	-	-	(693)	(693)
5	Write-off of bad debts	-	-	19 865	19 865
6	Transfer to stage 2	-	1 084	(1 084)	-
7	Transfer to stage 3	-	(107)	107	-
8	Exchange rate differences	37	(3)	(133)	(99)
<b>9</b>	<b>Balance as at 31.12.2018</b>	<b>(16 496)</b>	<b>(3 476)</b>	<b>(354 762)</b>	<b>(374 734)</b>

Table 7.5 Analysis of changes in gross carrying amount of loans and advances to customers, measured at amortized cost, in 2019

		UAH thousand			
Line	Changes	Stage 1	Stage 2	Stage 3	Total
1	Opening gross carrying amount	358 672	188 247	460 447	1 007 366
2	Acquired/initiated financial assets and other changes	204 621	235 534	26 154	466 309
3	Derecognized or paid-back financial assets (except for written-off)	(168 767)	(104 000)	(9 397)	(282 164)
4	Transfer to stage 2	(55 977)	55 977	-	-
5	Write-off of financial assets	-	-	(5)	(5)
6	Exchange rate differences	(6 617)	(27 572)	(2 574)	(36 763)
7	Closing gross carrying amount	331 933	348 186	474 624	1 154 743

Table 7.6 Analysis of changes in gross carrying amount of loans and advances to customers, measured at amortized cost, in 2018

		UAH thousand			
Line	Changes	Stage 1	Stage 2	Stage 3	Total
1	Opening gross carrying amount	2 205	322 339	771 401	1 095 945
2	Acquired/initiated financial assets and other changes	357 216	128 867	10 336	496 419
3	Derecognized or paid-back financial assets (except for written-off)	-	(248 699)	(314 357)	(563 056)
4	Write-off of financial assets	-	-	(19 865)	(19 865)
5	Transfer to stage 2	-	2 024	(2 024)	-
6	Transfer to stage 3	-	(15 889)	15 889	-
7	Exchange rate differences	(748)	(395)	(934)	(2 077)
8	Closing gross carrying amount	358 673	188 247	460 446	1 007 366

Table 7.7 Loan portfolio structure by economic sectors

№	Economic sector	UAH thousand			
		31.12.2019		31.12.2018	
		amount	%	amount	%
1	Public sector	-	-	-	-
2	Production and distribution of electricity, gas and water	147 234	12,75 %	158 660	15,75%
3	Real estate transactions, lease, engineering and provision of services	-	-	5 669	0,56%
4	Trade, car repairs, domestic appliances and personal appliances	610 284	52,85 %	537 694	53,38%
5	Agriculture, hunting and forestry	56 404	4,88%	3 714	0,37%
6	Construction	205 946	17,84 %	196 843	19,54%
7	Private security companies	-	-	563	0,06%
8	Ore mining	23 739	2,06%	23 327	2,31%
9	Non-hazardous waste collection	-	-	-	-
10	Insurance	1 483	0,13%	-	-
11	Financial market management	40 197	3,48%	21 419	2,13%
12	Individuals	69 456	6,01%	59 477	5,90%
<b>13</b>	<b>Total loans and advances to customers less allowances for expected credit losses</b>	<b>1 154 743</b>	<b>100%</b>	<b>1 007 366</b>	<b>100%</b>

Table 7.8 Loans by the types of collateral as at 31.12.2019

Line	Changes	UAH thousand			
		Corporate loans	Mortgage loans to individuals	Consumer loans to individuals	Total
1	Unsecured loans	319 230	71	26 607	345 908
2	Loans secured by:	766 058	12 038	30 739	808 835
2.1	cash deposits	8 099	933	-	9 032
2.2	property	324 524	11 105	27 520	363 149
2.2.1	including residential property	14 109	11 105	26 808	52 022
2.3	other assets	433 435	-	3 219	436 654
<b>3</b>	<b>Total loans and advances to customers less allowances for expected credit losses</b>	<b>1 085 288</b>	<b>12 109</b>	<b>57 346</b>	<b>1 154 743</b>

Table 7.9 Loans by the types of collateral as at 31.12.2018

Line	Changes	UAH thousand			
		Corporate loans	Mortgage loans to individuals	Consumer loans to individuals	Total
1	Unsecured loans	191 785	80	16 462	208 327
2	Loans secured by:	756 104	13 166	29 769	799 039
2.1	cash deposits	9 921		972	10 893
2.2	property	525 136	13 166	22 832	561 134
2.2.1	including residential property	6 039	13 166	22 832	42 037
2.3	other assets	221 047	-	5 965	227 012
<b>3</b>	<b>Total loans and advances to customers less allowances for expected credit losses</b>	<b>947 889</b>	<b>13 246</b>	<b>46 231</b>	<b>1 007 366</b>

Table 7.10 Analysis of credit quality of the loan portfolio as at 31.12.2019

					UAH thousand
Line	Changes	Corporate loans	Mortgage loans to individuals	Consumer loans to individuals	Total
1	Loans at 1 <sup>st</sup> stage of impairment:	302 121	1 004	28 808	331 933
1.1	Not overdue	302 121	1 004	28 808	331 933
2	Loans at 2 <sup>nd</sup> stage of impairment:	337 880	2 495	7 811	348 186
2.1	Not overdue	337 880	1 949	7 811	347 640
2.2	32 to 92 days overdue	-	546	-	546
3	Loans at 3 <sup>rd</sup> stage of impairment:	445 287	8 610	7 588	461 485
3.1	Not overdue	241 062	-	-	241 062
3.2	184 to 365 (366) days overdue	6 699	-	7 588	14 287
3.3	over 366 (367) days overdue	197 526	8 610	-	206 136
4	Collectively impaired loans:	-	-	13 139	13 139
4.1	Not overdue	-	-	12 946	12 946
4.2	less than 31 days overdue	-	-	46	46
4.3	32 to 92 days overdue	-	-	19	19
4.4	93 to 183 days overdue	-	-	67	67
4.5	184 to 365 (366) days overdue	-	-	15	15
4.6	over 366 (367) days overdue	-	-	46	46
5	Total loans and advances to customers	1 085 288	12 109	57 346	1 154 743
6	Allowances for expected credit losses	(434 073)	(7 635)	(11 725)	(453 433)
7	<b>Total loans less allowances for expected credit losses</b>	<b>651 215</b>	<b>4 474</b>	<b>45 621</b>	<b>701 310</b>

Table 7.11 Analysis of credit quality of the loan portfolio as at 31.12.2018

					UAH thousand
Line	Changes	Corporate loans	Mortgage loans to individuals	Consumer loans to individuals	Total
1	Loans at 1 <sup>st</sup> stage of impairment:	327 195	-	31 478	358 673
1.1	Not overdue	327 195	-	31 478	358 673
2	Loans at 2 <sup>nd</sup> stage of impairment:	177 223	3 181	7 843	188 247
2.1	Not overdue	177 223	3 101	7 843	188 167
2.2	less than 31 days overdue	-	80	-	80
3	Loans at 3 <sup>rd</sup> stage of impairment:	443 471	10 065	-	453 536
3.1	Not overdue	230 994	-	-	230 994
3.2	32 to 92 days overdue	6 242	-	-	6 242
3.3	93 to 183 days overdue	9 402	-	-	9 402

Line	Changes	Corporate loans	Mortgage loans to individuals	Consumer loans to individuals	Total
3.4	184 to 365 (366) days overdue	1 910	-	-	1 910
3.5	over 366 (367) days overdue	194 923	10 065	-	204 988
4	Collectively impaired loans:	-	-	6 910	6 910
4.1	Not overdue	-	-	6 744	6 744
4.2	less than 31 days overdue	-	-	14	14
4.3	32 to 92 days overdue	-	-	110	110
4.4	93 to 183 days overdue	-	-	11	11
4.5	184 to 365 (366) days overdue	-	-	22	22
4.6	over 366 (367) days overdue	-	-	9	9
5	Total loans and advances to customers	947 889	13 246	46 231	1 007 366
6	Allowances for expected credit losses	(361 969)	(8 447)	(4 318)	(374 734)
<b>7</b>	<b>Total loans less allowances for expected credit losses</b>	<b>585 920</b>	<b>4 799</b>	<b>41 913</b>	<b>632 632</b>

Table 7.12 Effect of collateral value on the loan quality as at 31.12.2019

Line	Item	Carrying amount	Collateral value	UAH thousand Collateral effect
1	Corporate loans	651 215	3 581 962	(2 930 747)
2	Mortgage loans to individuals	4 474	13 789	(9 315)
3	Consumer loans to individuals	45 621	104 538	(58 917)
<b>4</b>	<b>Total loans</b>	<b>701 310</b>	<b>3 700 289</b>	<b>(2 998 979)</b>

Table 7.13 Effect of collateral value on the loan quality as at 31.12.2018

Line	Item	Carrying amount	Collateral value	UAH thousand Collateral effect
1	Corporate loans	947 889	3 365 237	(2 417 348)
2	Mortgage loans to individuals	13 246	13 714	(468)
3	Consumer loans to individuals	46 231	99 920	(53 689)
<b>4</b>	<b>Total loans</b>	<b>1 007 366</b>	<b>3 478 871</b>	<b>(2 471 505)</b>

### Note 8. Investment securities

Table 8.1 Investment securities

Line	Item	31.12.2019	UAH thousand 31.12.2018
1	Debt securities at fair value through other comprehensive income	585 397	305 025
1.1	Ukrainian government bonds	128 555	159 736
1.2	Saving (deposit) certificates issued by the NBU	456 842	145 289
2	Debt securities at fair value through other comprehensive income	-	-

Line	Item	31.12.2019	31.12.2018
2.1	Debt securities at fair value through other comprehensive income	10	10
2.2	Revaluation of corporate shares and other variable income securities at fair value through other comprehensive income	(10)	(10)
3	Debt securities measured at amortized cost	111 140	320 421
3.1	Saving (deposit) certificates issued by the NBU	111 140	320 421
<b>4</b>	<b>Total investment securities</b>	<b>696 537</b>	<b>625 446</b>

Information of Note 8 and Table 8.1, Line 4 is used for the purposes of the statement of financial position (the balance sheet).

For the purposes of the statement of cash flows, saving (deposit) certificates issued by the NBU are classified as cash.

Impairment of debt securities issued by NBU and Ministry of Finance of Ukraine, is not recognized. These investments are treated as non-risk, allocated to first stage of impairment and are not impaired.

As at December 31, 2019, bank portfolio includes shares of UMBV PrJS of UAH 10 thousand. Fair value of the shares is 0 UAH, allowances for expected credit losses for the total value of the asset was recognised.

Bank portfolio does not have securities, used for repo transactions, as at December 31, 2018.

### Note 9. Investment property

Table 9.1 Investment property measured at fair value in the reporting period

Line	Item	31.12.2019	UAH thousand 31.12.2018
1	Fair value of investment property as at the beginning of period	469 109	494 768
2	Acquisitions	-	-
3	Disposals	(88 842)	(25 355)
4	Losses from revaluation to fair value	(3 277)	(304)
5	Fair value of investment property as at the end of period	376 990	469 109

Information of Note 9 and Table 9.1, Line 5 is used for the purposes of the statement of financial position (the balance sheet).

All investment properties were acquired by the Bank as a result of collateral foreclosure.

In 2019, one object of investment property was divided into 16 objects, eight of which were sold.

Disposal of investment property resulted from its sale.

With respect to investment properties with carrying value of UAH 349 744 thousand, sales agreements with approved payment schedules were signed on 14.11.2017. Prepayments in the amount of UAH 5 324,7 thousand were received within the framework of these agreements as at 01.01.2020. Along with this, superficies agreements were signed for the period till the final settlements for these properties and their transfer to the buyers, which envisage a monthly income of UAH 291,6 thousand, including VAT, and a compensation of the Bank's expenses in the amount of UAH 268,6 thousand, including VAT.

In accordance with the results of valuation of investment property as at 01.11.2019, carried out by appraisers D. Yu. Consulting LLC (EDRPOU code 32766458) and Ostriv Consulting Company LLC (EDRPOU code 38506047), value of nine investment property objects went up by UAH 5 250 thousand, while one object was devalued by UAH 4 700 thousand.

Table 9.2 Amounts disclosed in the statement of profit and loss and other comprehensive income (statement of financial performance)

№	Income and expenses	UAH thousand	
		2019	2018
1	Lease income from investment property	3 347	3 935
2	Direct operating expenses (including repairs and maintenance) from investment property that does not generate lease income	(2 136)	(2 020)

Table 9.3 Future minimum lease payments under non-cancellable operating leases where the Bank is the lessor

Line	Operating lease term	UAH thousand	
		31.12.2019	31.12.2018
1	Up to 1 year	3 011	3 697
2	1-5 years	10 268	16 472
3	Total	13 279	20 169

**Note 10. Fixed and intangible assets**

UAH thousand

Line	Item	Bindings, constructi on and transmitti ng equipmen t	Machines and equipment	Vehicles	Instruments, devices and furniture	Other property and equipment	Other non- current tangible assets	Capital investments into fixed and intangible assets in progress	Intangible assets	Total	Line
<b>1</b>	<b>Carrying amount as at 01.01.2018</b>	<b>72 616</b>	<b>3 687</b>	<b>825</b>	<b>922</b>	<b>114</b>		<b>886</b>	<b>737</b>	<b>742</b>	<b>80 529</b>
1.1	Historical (revalued) value	91 520	15 158	5 220	4 387	487		3 982	737	4 812	126 303
1.2	Depreciation and amortization at the end of reporting period	(18 904)	(11 471)	(4 395)	(3 465)	(373)		(3 096)		(4 070)	(45 774)
2	Acquisitions		1 503	11	64	3		148	2 003	878	4 610
3	Disposals		(443)	(369)	(345)	(21)		(63)		(209)	(1 450)
3.1	Depreciation and amortization write-off		443	369	345	21		56		209	1 443
4	Depreciation and amortization charges	(1 845)	(1 237)	(387)	(237)	(34)		(955)		(599)	(5 294)
5	Revaluation	18 262									18 262
5.1	Historical value	23 481									23 481
5.2	Depreciation and amortization	(5 219)									(5 219)
<b>6</b>	<b>Carrying amount as at 01.01.2019</b>	<b>89 033</b>	<b>3 953</b>	<b>449</b>	<b>749</b>	<b>83</b>	<b>-</b>	<b>72</b>	<b>2 740</b>	<b>1 021</b>	<b>98 100</b>
6.1	Historical (revalued) value	115 001	16 218	4 862	4 106	469	-	4 067	2 740	5 481	152 944
6.2	Depreciation and amortization at the beginning of reporting period	(25 968)	(12 265)	(4 413)	(3 357)	(386)	-	(3 995)		(4 460)	(54 844)
7	Effect of first application of IFRS 16	-	-	-	-	-	2 981				2 981
8	Acquisitions	-	2 568	5 758	79		2 836	177	817	1 581	13 816
9	Disposals	-	(50)	(2 173)	(3)		(1)	(25)	-	(160)	(2 412)
9.1	Depreciation and amortization write-off		43	2 173	3	-	1	25	-	160	2 405
10	Depreciation and amortization charges	(2 272)	(1 441)	(620)	(193)	(29)	(1 904)	(249)	-	(837)	(7 545)
<b>11</b>	<b>Carrying amount as at 31.12.2019</b>	<b>86 761</b>	<b>5 073</b>	<b>5 587</b>	<b>635</b>	<b>54</b>	<b>3 913</b>	<b>-</b>	<b>3 557</b>	<b>1 765</b>	<b>107 345</b>
11.1	Historical (revalued) value	115 001	18 736	8 447	4 182	469	5 816	4 219	3 557	6 902	167 329
11.2	Depreciation and amortization at the end of reporting period	(28 240)	(13 663)	(2 860)	(3 547)	(415)	(1 903)	(4 219)	-	(5 137)	(59 984)

As at December 31, 2019, historical (revalued) value of fully depreciated property and equipment is UAH 19 900 thousand (UAH 21 330 thousand as at 31.12.2018). The Bank has no property and equipment with legally restricted usage and disposal. In 2019, fixed and intangible assets were not pledged.

Buildings are carried at revaluation represented by the fair value net of subsequently accumulated depreciation. As at December 31, 2019, the management obtained evaluations from independent professional appraisers for the purposes of the building's fair valuation. The method used for the fair valuation of buildings includes comparison with the data of recent sales of similar buildings. Principal assumptions relate to the state, quality and location of buildings that were compared. As at December 31, 2010, the carrying amount of buildings, included into financial statements, would have been UAH 19 654 thousand, were the building disclosed at purchase price less accumulated depreciation (UAH 21 926 thousand - 2018).

### Note 11. Other assets

Table 11.1 Other assets

		UAH thousand	
Line	Item	31.12.2019	31.12.2018
1	Other financial assets:	24 042	38 743
1.1	Receivables for transactions with payment cards	1 507	2 051
1.2	Restricted cash	235 866	250 891
1.3	Other financial assets	634	626
1.4	Allowances for expected credit losses of other financial assets	(213 965)	(214 825)
2	Other assets:	6 918	6 483
2.1	Receivables under asset sale	-	106
2.2	Advances for services	6 891	5 945
2.3	Other assets	511	709
2.4	Allowances for impairment of other assets	(484)	(277)
<b>3</b>	<b>Total other assets</b>	<b>30 960</b>	<b>45 226</b>

Information of Note 11 and Table 11.1, Line 3 is used for the purposes of the statement of financial position (the balance sheet).

Other assets of the Bank do not contain significant financing component; so, ECL are recognized during the life of an asset irrespective of asset quality, i.e. analysis of changes in credit risk and determination of impairment stage are not necessary.

Table 11.2 Analysis of changes in loss allowances for expected credit losses for other financial assets in 2019

		UAH thousand		
Line	Changes	Restricted cash	Other financial assets	Total
1	Balance as at 01.01.2019	(214 295)	(530)	(214 825)
2	(Increase)/decrease loss allowances for expected credit losses for other financial assets in 2019	939	(79)	860
3	Balance as at 31.12.2019	(213 356)	(609)	(213 965)

Table 11.3 Analysis of changes in loss allowances for expected credit losses for other financial assets in 2018

				UAH thousand
Line	Changes	Restricted cash	Other financial assets	Total
1	Balance as at 01.01.2018	(212 082)	(1 768)	(213 850)
2	(Increase)/decrease of loss allowances for expected credit losses for other financial assets in 2018	(2 213)	1 168	(1 045)
3	Bad debts written off during the period	-	70	70
4	Balance as at 31.12.2018	(214 295)	(530)	(214 825)

Table 11.4 Credit quality analysis of other financial assets as at 31.12.2019

					UAH thousand
Line	Item	Receivables for transactions with payment cards	Restricted cash	Other financial assets	Total
1	Neither past due nor impaired	1 507	-	4	1 511
2	Individually impaired debt overdue for	-	211 855	498	212 353
2.1	less than 31 days	-	-	35	35
2.2	32-92 days	-	-	51	51
2.3	93-183 days	-	-	54	54
2.4	184-365 (366) days	-	-	119	119
2.5	over 366 (367) days	-	211 855	239	212 094
3	Individually impaired debt not overdue	-	24 011	132	24 143
4	Total other financial assets	1 507	235 866	634	238 007
5	Allowances for expected credit losses for other financial assets	-	(213 356)	(609)	(213 965)
6	Total other financial assets less allowances for expected credit losses	1 507	22 510	25	24 042

Table 11.5 Credit quality analysis of other financial assets as at 31.12.2018

					UAH thousand
Line	Item	Receivables for transactions with payment cards	Restricted cash	Other financial assets	Total
1	Neither past due nor impaired	2 051	-	-	2 051
2	Individually impaired debt overdue for	-	211 855	357	212 212
2.1	less than 31 days	-	-	38	38
2.2	32-92 days	-	-	48	48
2.3	93-183 days	-	-	45	45
2.4	184-365 (366) days	-	-	96	96
2.5	over 366 (367) days	-	211 855	130	211 985

Line	Item	Receivables for transactions with payment cards	Restricted cash	Other financial assets	Total
3	Individually impaired debt not overdue	-	39 036	269	39 305
4	Total other financial assets	2 051	250 891	626	253 568
5	Allowances for expected credit losses for other financial assets	-	(214 295)	(530)	(214 825)
6	Total other financial assets less allowances for expected credit losses	2 051	36 596	96	38 743

Table 11.6 Analysis of changes in allowances for impairment for other assets in 2019

Line	Changes	Receivables under asset sales	Advances for services
1	Balance as at 01.01.2019	<b>(52)</b>	<b>(225)</b>
2	Decrease/increase of allowances for impairment during the period	52	(259)
3	<b>Balance as at 31.12.2019</b>	-	<b>(484)</b>

Table 11.7 Analysis of changes in allowances for impairment for other assets in 2018

Line	Changes	Receivables under asset sales	Advances for services
1	Balance as at 01.01.2018	-	(219)
2	Decrease/increase of allowances for impairment during the period	(52)	(6)
3	<b>Balance as at 31.12.2018</b>	<b>(52)</b>	<b>(225)</b>

### Note 12. Amounts due to customers

Table 12.1 Amounts due to customers

Line	Item	31.12.2019	31.12.2018
1	State and public organizations	-	-
1.1	Current accounts	-	-
1.2	Term deposits	-	-
2	Other legal entities	921 705	979 173
2.1	Current accounts	760 421	689 263
2.2	Term deposits	161 284	289 910
3	Individuals	678 196	585 961
3.1	Current accounts	377 231	314 989
3.2	Term deposits	300 965	270 972
4	<b>Total amounts due to customers</b>	<b>1 599 901</b>	<b>1 565 134</b>

Information of Note 12, table 12.1, line 4 is used for the purposes of the statement of financial position (the balance sheet).

Table 12.2 Amounts due to customers by economic sectors

		UAH thousand			
Line	Economic sector	31.12.2019		31.12.2018	
1	Public sector	-	-	-	-
2	Production and distribution of electricity, gas and water	452 785	28,30%	451 627	28,85%
3	Real estate transactions, lease, engineering and provision of services	9 254	0,58%	11 909	0,76%
4	Trade, car repairs, domestic appliances and personal appliances	97 239	6,08%	93 573	5,98%
5	Agriculture, hunting and forestry	9 641	0,60%	13 570	0,87%
6	Public sector	684 171	42,76%	584 403	37,34%
7	Production and distribution of electricity, gas and water	346 811	21,68%	410 052	26,20%
	Real estate transactions, lease, engineering and provision of services	8 361	0,52%	18 097	1,16%
	Architecture and engineering; testing and research. R&D. Advertising and market studies. Other professional, research and technical activities.	2 121	0,13%	7 582	0,48%
	Metallurgy, production of finished metal ware, excluding machinery and tools	-	-	177 537	11,34%
	Financial services, insurance, related financial services and insurance	135 471	8,47%	93 456	5,97%
	Production of machinery and tools, other vehicles, repair and installation of machines and equipment	60 595	3,79%	37 986	2,43%
	Law and accounting	9 402	0,59%	11 771	0,75%
	Soft drinks, textiles, production of dress, hide processing, production of goods from leather and other materials	27 515	1,72%	-	-
	Warehousing and auxiliary transportation-related services	28 789	1,80%	-	-
	Software development, consulting and related activities	25 381	1,59%	-	-
	Administrative and auxiliary office services, other auxiliary services	12 135	0,76%	-	-
8	<b>Total due to customers</b>	<b>1 599 901</b>	<b>100%</b>	<b>1 565 134</b>	<b>100%</b>

### Note 13 Provisions for liabilities

Table 13.1 Changes in provisions for liabilities in 2019

		UAH thousand	
Line	Changes	Liabilities of credit nature	Total
1	<b>Balance as at January 1, 2019</b>	<b>27</b>	<b>27</b>
2	Provision	495	495
3	Commission fee received under guarantees issued	5 920	5 920

4	Amortization of commission fee under guarantees issued, disclosed in Interim Profit and Loss and Other Comprehensive Income Statement	(5 920)	(5 920)
<b>5</b>	<b>Balance as at December 31, 2019</b>	<b>522</b>	<b>522</b>

Information of Note 13, table 13.1, line 5 is used for the purposes of the statement of financial position (the balance sheet)

Table 13.2 Changes in provisions for liabilities in 2018

		UAH thousand	
Line	Changes	Liabilities of credit nature	Total
<b>1</b>	<b>Balance as at January 1, 2018</b>	<b>9</b>	<b>9</b>
2	Provision	18	18
3	Commission fee received under guarantees issued	226	226
4	Amortization of commission fee under guarantees issued, disclosed in Interim Profit and Loss and Other Comprehensive Income Statement	(226)	(226)
<b>5</b>	<b>Balance as at December 31, 2018</b>	<b>27</b>	<b>27</b>

Information of Note 13, table 13.2, line 5 is used for the purposes of the statement of financial position (the balance sheet)

#### Note 14. Other liabilities

		UAH thousand	
Line	Item	31.12.2019	31.12.2018
<b>1</b>	<b>Other financial liabilities</b>	<b>5 284</b>	<b>501</b>
1.1	Payables under foreign currency transactions	-	-
1.2	Lease-related liabilities*	4 138	-
1.3	Other financial liabilities	1 143	501
1.4	Derivative financial liabilities in trade portfolio	3	-
<b>2</b>	<b>Other liabilities</b>	<b>15 133</b>	<b>49 821</b>
2.1	Payables under taxes and dues, except for corporate income tax	1 136	851
2.2	Payables under due to Deposit Guarantee Fund	1 267	1 072
2.3	Payables to Bank employees	5 775	4 784
2.4	Payables under asset purchase/sales	5 325	41 626
2.5	Deferred income	1 342	1 147
2.6	Other payables	288	341
<b>3</b>	<b>Total other liabilities</b>	<b>20 417</b>	<b>50 322</b>

Information of Note 14, line 3 is used for the purposes of the statement of financial position (the balance sheet).

\*Disclosure of lease-related liabilities by maturity:

		UAH thousand	
Line	Item	31.12.2019	31.12.2018
1	Up to 1 year	2 235	-
2	1 - 5 years	1 903	-
3	Over 5 years	-	-
4	Total lease-related liabilities	4 138	-

Interest expenses under lease-related liabilities are disclosed in the Note 18 to the financial statements, being equal to UAH 660 thousand.

Expenses, related to lease of low-value assets, are presented in Table 21.3 of Note 21, being equal to 163 thousand UAH

The Bank does not have short-term lease contracts.

### Note 15. Share capital and share premium

UAH thousand				
Line	Item	Shares outstanding (thousands)	Ordinary shares (UAH thousands)	Total
1	Opening balance as at 01.01.2018	48,173	510 393	510 393
2	Closing balance as at (opening balance as at the beginning or the reporting period) 31.12.2018	48,173	510 393	510 393
<b>3</b>	<b>Closing balance as at 31.12.2019</b>	<b>48,173</b>	<b>510 393</b>	<b>510 393</b>

Information in Note 15, Line 3 is used for the purposes of the statement of financial position (the balance sheet) and the statement of changes in equity.

- a) no shares declared for issue;
- b) no shares issued and paid or issued and partially paid;
- c) face value of a share as at 01.01.2018 is UAH 10,595.00 (ten thousand five hundred and ninety-five);
- d) face value of a share as at 31.12.2018 is UAH 10,595.00 (ten thousand five hundred and ninety-five);
- e) face value of a share as at 31.12.2019 is UAH 10,595.00 (ten thousand five hundred and ninety-five);
- f) all shareholders of the Bank have the same rights and privileges, and there are no restrictions;
- g) there are no shares reserved for issue under options and sale contracts.

Profit from the bank's operations in 2018 in the amount of UAH 186,333 thousand was used for covering losses of previous periods.

### Note 16. Changes of revaluation reserves (components of other comprehensive income)

UAH thousand			
Line	Item	2019	2018
<b>1</b>	<b>Opening balance</b>	<b>63 389</b>	<b>48 923</b>
2	Revaluation of investment debt securities disclosed at fair value through other comprehensive income	945	(620)
2.1	Revaluation to fair value	-	-
2.2	Sales income (expenses), reclassified into profit or loss in the reporting period	945	(620)
3	Revaluation of fixed and intangible assets	-	18 262
3.1	Revaluation to fair value	-	18 262
4.	Realized revaluation, disclosed in retained earning	(169)	(3 176)
4.1	Income tax, related to:	(169)	111
4.2	Change of reserve for investment debt securities, disclosed at fair value through other comprehensive income	-	(3 287)
5	Change of reserve for revaluation of fixed and intangible assets	776	14 466
<b>6</b>	<b>Total changes of revaluation reserves (other comprehensive income) less income tax</b>	<b>64 165</b>	<b>63 389</b>

Information in Note 16, Line 6 is used for the purposes of the statement of financial position (the balance sheet).

**Note 17. Maturity analysis of assets and liabilities**

Line	Item	Note	UAH thousand					
			< 12 months	31.12.2019 > 12 months	Total	< 12 months	31.12.2018 > 12 months	Total
ASSETS								
1	Cash and cash equivalent	5	178 885	13 213	192 098	237 275	-	237 275
2	Loans and due from banks	6	-	12 387	12 387			
3	Loans and advances to customers	7	657 939	43 371	701 310	550 948	81 684	632 632
4	Investment debt securities, disclosed at fair value through other comprehensive income	8	585 397	-	585 397	291 466	13 559	305 025
5	Investment debt securities disclosed at amortized cost	8	111 140	-	111 140	320 421	-	320 421
6	Investment property	9	-	376 990	376 990	-	469 109	469 109
7	Current income tax receivables		11 073	-	11 073	11 073	-	11 073
8	Deferred tax assets	22	-	53 271	53 271	-	22 236	22 236
9	Fixed and intangible assets	10	-	103 432	103 432	-	98 100	98 100
	Right of use assets	10	-	3 913	3 913	-	-	
10	Other financial assets	11	14 103	9 939	24 042	32 700	6 043	38 743
11	Other assets	11	6 918	-	6 918	6 483	-	6 483
12	Total assets		1 565 455	616 516	2 181 971	1 450 366	690 731	2 141 097
LIABILITIES								
13	Due to customers	12	1 551 313	48 588	1 599 901	1 537 324	27 810	1 565 134
14	Provisions for liabilities	13	522	-	522	27	-	27
15	Other financial liabilities	14	5 284	-	5 284	501	-	501
16	Other liabilities	14	4 383	10 750	15 133	6 930	42 891	49 821
17	Total liabilities		1 561 502	59 338	1 620 840	1 544 782	70 701	1 615 483

**Note 18. Interest income and expense**

		UAH thousand	
Line	Item	2019	2018
<b>Interest income on financial assets at amortized cost</b>			
1	Loans and advances to customers	117 391	129 013
2	Debt securities measured at amortized cost	15 168	17 945
3	Due from other banks	11 401	8 285
4	Correspondent accounts with other banks	1 814	6 732
5	Interest income under impaired financial assets	13 503	11 610
6	Total interest income for financial assets, disclosed at amortized cost	159 277	173 585
<b>Interest income on financial assets measured at fair value through other comprehensive income</b>			
7	Debt securities disclosed at fair value through other comprehensive income	45 385	24 723
8	Total interest income for financial assets, disclosed at fair value through other comprehensive income	45 385	24 723
<b>9</b>	<b>Total interest income</b>	<b>204 662</b>	<b>198 308</b>
<b>Interest expense on financial liabilities at amortized cost</b>			
10	Corporate term deposits	(17 757)	(46 739)
11	Debt securities in issue		
12	Lease-related liabilities	(660)	-
13	Term deposits of individuals	(17 008)	(14 802)
14	Term deposits of other banks	(6)	(1 448)
15	Current accounts	(51 057)	(30 791)
<b>16</b>	<b>Total interest expense</b>	<b>(86 488)</b>	<b>(93 780)</b>
<b>17</b>	<b>Net interest income</b>	<b>118 174</b>	<b>104 528</b>

Information in Note 18, Lines 9 and 16, is used for the purposes of the Statement of Profit and Loss and Other Comprehensive Income (statement of financial performance).

**Note 19. Commission income and expense**

		UAH thousand	
Line	Item	2019	2018
<b>Commission income</b>			
1	Settlement and cash transactions	50 938	43 427
2	Collection	138	247
3	Securities transactions	1 881	2 206
4	Other	10 932	13 463
5	Fiduciary management transactions	29	32
6	Guarantees issued	2 037	446
<b>7</b>	<b>Total fee and commission income</b>	<b>65 955</b>	<b>59 821</b>
<b>Fee and commission expense</b>			
8	Settlement and cash transactions	(10 666)	(9 241)
<b>9</b>	<b>Total fee and commission expense</b>	<b>(10 666)</b>	<b>(9 241)</b>
<b>10</b>	<b>Net fee and commission income</b>	<b>55 289</b>	<b>50 580</b>

Information in Note 19, Lines 7 and 9, is used for the purposes of the Statement of Profit and Loss and Other Comprehensive Income (statement of financial performance).

**Note 20. Other operating income**

		UAH thousand	
Line	Item	2019	2018
1	Operational lease income	5 361	5 823
2	Sub-lease income	52	49
3	Gain on disposal of property, equipment and intangible assets	869	201
4	Other*	4 164	5 804
<b>5</b>	<b>Total operating income</b>	<b>10 446</b>	<b>11 877</b>

Information in Note 20, Line 5, is used for the purposes of the Statement of Profit and Loss and Other Comprehensive Income (statement of financial performance).

\*Details of line 4 for the reporting period:

Item no.	Account	2019
1	Penalties and fines received by the Bank	19
2	Income for the modification of the terms of financial assets recognition contracts	
3	Income from compensation of refund value of keys	14
4	Income from making entries to and obtaining extracts from the State Registry on Encumbrances of Movable Property	48
5	Court expense reimbursements	
6	Income from compensation of utilities cost	9
7	Repayment of bad loans previously written-off	3 020
8	Compensation of expenses, related to system of land tenure	275
9	Fee for attraction of customers and clients	55
10	Income from payment card transactions after the protest term expiry	16
11	Sale of land plots	459
12	Insurance paid	146
13	Return of advance payment for court enforcement action	48
14	Other	55
15	Total:	4 164

\* Details of line 4 for the previous period:

Item no.	Account	2018
1	Penalties and fines received by the Bank	
2	Income for the modification of the terms of financial assets recognition contracts	2
3	Income from compensation of refund value of keys	11
4	Income from making entries to and obtaining extracts from the State Registry on Encumbrances of Movable Property	34
5	Court expense reimbursements	29
6	Income from compensation of utilities cost	11
7	Income from making entries to and obtaining extracts from the State Registry on Encumbrances of Movable Property	5 241
8	Fee for attraction of customers and clients	49
9	Income from payment card transactions after the protest term expiry	-
10	Sale of land plots	396
11	Other	31
12	Total:	5 804

**Note 21. Administrative and other operating expenses**

Table 21.1 Expenses and payments to employees

		UAH thousand	
Line	Item	2019	2018
1	Salaries and bonuses	(60 567)	(47 079)
2	Payroll charges	(11 980)	(9 447)
3	Other payments to employees	(394)	(398)
4	Total personnel costs	(72 941)	(56 924)

Information in Table 21.1, Line 4, is used for the purposes of the Statement of Profit and Loss and Other Comprehensive Income (statement of financial performance).

Table 21.2 Depreciation and amortization charges

		UAH thousand	
Line	Item	2019	2018
1	Depreciation of fixed assets	(4 804)	(4 695)
2	Amortization of software and intangible assets	(837)	(599)
3	Depreciation of the right-of-use	(1 904)	-
4	Total depreciation and amortization charges	(7 545)	(5 294)

Information in Table 21.2, Line 4, is used for the purposes of the Statement of Profit and Loss and Other Comprehensive Income (statement of financial performance).

Table 21.3 Other administrative and operating expenses

		UAH thousand	
Line	Item	2019	2018
1	Cost of maintenance of fixed and intangible assets, telecommunications and other related services	(27 525)	(23 875)
2	Operating lease expenses	(163)	(2 294)
3	Other fixed-assets related expenses		
4	Professional services	(1 664)	(1 534)
5	Marketing and promotion	(2 859)	(949)
6	Insurance expenses	(5 630)	(4 249)
7	Other taxes and dues, excluding income tax	(5 848)	(4 592)
8	Impairment of non-current assets held for sale (or disposal groups)		
9	Other*	(6 142)	(6 387)
<b>10</b>	<b>Total administrative and other operating expenses</b>	<b>(49 831)</b>	<b>(43 880)</b>

Information in Table 21.3, Line 10, is used for the purposes of the Statement of Profit and Loss and Other Comprehensive Income (statement of financial performance).

\*Details of line 9 for the reporting period:

Item no.	Account	2019
1	Cost of collection and transportation of cash	(310)
2	Cost of consulting services	(194)
3	Fines and penalties paid	(204)
4	Travel expenses	(118)
5	Advertising, entertainment expenses	(1 411)
6	Sponsorship and charity	(381)
7	Legal costs	(506)
8	Expenses, related to system of land tenure	(460)
9	Cost of IT security testing	(140)
10	Membership fees	(144)

11	Depository services	(299)
12	Cost of search of buyers for a property object	(792)
13	Cost of transaction's settlements	(190)
14	Other	(993)
15	Total:	(6 142)

\* Details of line 9 for the previous period:

Item no.	Account	2019
1	Cost of collection and transportation of cash	(232)
2	Cost of consulting services	(600)
3	Travel expenses	(125)
4	Advertising, entertainment expenses	(1 329)
5	Sponsorship and charity	(240)
6	Legal costs	(205)
7	Payment under court decision	(2 217)
8	Cost of IT security testing	(198)
9	Cost of search of buyers for a property object	(53)
10	Membership fees	(114)
11	Other	(1 074)
12	Total:	(6 387)

## Note 22. Income tax expenses

Table 22.1. Income tax expenses

Line	Item	2019	UAH thousand 2018
1	Current income tax	-	-
2	Changes of deferred income tax	31 204	(471)
<b>3</b>	<b>Total income tax expenses</b>	<b>31 204</b>	<b>(471)</b>

Information in Note 22, Line 3, is used for the purpose of the Statement of Profit and Loss and Other Comprehensive Income (statement of financial performance).

Table 22.2. Reconciliation of accounting profit (loss) and taxable profit (loss)

Line	Item	2019	UAH thousand 2018
1	Profit before income tax	3 537	186 804
2	Theoretical tax charge at the applicable statutory rate	(637)	(33 625)
3	Adjustments of accounting profit (loss)		
3	Non-deductible expenses recognized in statutory accounting (to be specified)	(112)	(123)
3.1	Charity		-
3.2	Adjustment of bad debt provision	(89)	(3)
3.3	Non-deductible depreciation and amortization	(23)	(120)
4	Deductible expenses not recognized in statutory accounting (to be specified)	31 953	33 277
4.1	4/8 of excess of provision over limit, calculated in line with Tax Code, as at 01.01.2018	32 749	32 749
4.2	Partial 2017 loss carry forward to decrease 2018 results	-	528
4.3	Partial 2019 loss carry forward to decrease 2019 results	(796)	-
5	Other adjustments	-	-
<b>6</b>	<b>Income tax expenses</b>	<b>31 204</b>	<b>(471)</b>

Table 22.3 Tax implications of deferred tax asset and deferred tax liability recognition in 2019

UAH thousand					
Line	Item	Balance as at 01.01.2019	Recognized in profit/loss	Recognized in other comprehensive income	Balance as at 31.12.2019
1	Tax implications of temporary differences that reduce (increase) taxation and tax losses carried forward	22 236	31 204	(169)	53 271
1.1	Fixed assets	(3 032)	(291)	-	(3 323)
1.2	Tax loss carryforward	25 212	31 495	-	56 707
1.3	Securities revaluation	56		(169)	(113)
<b>2.</b>	<b>Net deferred tax assets (liabilities)</b>	<b>22 236</b>	<b>31 204</b>	<b>(169)</b>	<b>53 271</b>
3.	Deferred tax assets recognized	25 523	31 240	(56)	56 707
4.	Deferred tax liabilities recognized	(3 287)	(36)	(113)	(3 436)

Table 22.4 Tax implications of deferred tax asset and deferred tax liability recognition in 2018

UAH thousand							
Line	Item	Balance as at 31.12.2017	Changes through application of IFRS 9	Balance as at 01.01.2018	Recognized in profit/loss	Recognized in other comprehensive income	Balance as at 31.12.2018
1	Tax implications of temporary differences that reduce (increase) taxation and tax losses carried forward	25 355	528	25 883	(471)	(3 176)	22 236
1.1	Fixed assets	153		153	102	(3 287)	(3 032)
1.2	Tax loss carryforward	25 257		25 257	(45)		25 212
1.3	Change of loss allowances (ECL) due to application of IFRS 9	-	528	528	(528)	-	-
1.4	Securities revaluation	(55)		(55)		111	56
<b>2.</b>	<b>Net deferred tax assets (liabilities)</b>	<b>25 355</b>	<b>528</b>	<b>25 883</b>	<b>(471)</b>	<b>(3 176)</b>	<b>22 236</b>
3.	Deferred tax assets recognized	25 410		25 938	(471)	56	25 523
4.	Deferred tax liabilities recognized	(55)		(55)		(3 232)	(3 287)

### Note 23. Earnings per share

Line	Item	2019	UAH thousand 2018
1	Profit/(loss) that attributable to ordinary equity holders of the Bank	34 741	186 333
2	Profit/(loss) for the year	34 741	186 333
3	Weighted average number of ordinary shares outstanding during the period (thousands)	48,173	48,173
4	<b>Net basic and diluted earnings per share, UAH</b>	<b>721,17</b>	<b>3 868,00</b>

Information in Note 23, Line 4, is used for the purposes of the Statement of Profit and Loss and Other Comprehensive Income (statement of financial performance)..

### Note 24. Operating segments

**An operating segment** is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker (the Board of the Bank), and for which discrete financial information is available.

The Bank identified three operational segments for management purposes:

- **Corporate customers:** crediting, deposit and current account services to corporate customers.
- **Retail customers and SME:** deposit servicing, crediting, payment card servicing, cash transfers and cash and settlement services for individuals and small and medium-sized entities.
- **Centralized, treasury transactions and unallocated items:** this segment includes trade in financial instruments, capital market transactions, transactions in foreign currencies and with banknotes, correspondent relations with the NBU and other banks, property and equipment, deferred tax assets, prepayments, accounts receivable and payable related to the business and administrative operations.

Inter-segment transactions are performed at general commercial terms. Cash is redistributed to segments resulting in transfer income and expenses included into operating income (see the *Elimination* column in *Interest income* and *Interest expenses*). Interest charged on these funds is determined in accordance with the Bank financing costs computation. Adjustments for internal settlements and transfer pricing were included in each segment's results. There are no other significant inter-segment income or expenses.

Administrative and other operating expenses for each segment include direct costs of this segment and indirect costs allocated. For the purposes of management decisions, the results of the segments are assessed using various performance indicators, including profit before tax.

Management monitors the performance of each segment to make managerial decisions on the allocation of resources and to assess its operating results. Management inspects financial information regarding each operational segment, including assessment of operating results, assets and liabilities.

The Bank has no revenue from a single customer that comprises more than 10% of its total revenue.

Table 24.1 Income, expense and financial results of reporting segments in 2019

Line	Item	Corporate business	Reporting segments Services to individuals and SMEs	Centralized, treasury transactions and unallocated items	Elimination	UAH thousand Total
1	Interest income	207 654	72 616	245 039	(320 647)	204 662
2	Fee and commission income	22 195	43 631	129	-	65 955
3	Other operating income	124	5 160	5 162	-	10 446
4	Total segments income	229 973	121 407	250 330	(320 647)	281 064

Line	Item	Corporate business	Reporting segments		Elimination	Total
			Services to individuals and SMEs	Centralized, treasury transactions and unallocated items		
5	Interest expense	(174 145)	(34 856)	(198 134)	320 647	(86 488)
6	Fee and commission expense	(34)	(7 426)	(3 206)	-	(10 666)
7	Net profit (loss) from transactions with financial instruments disclosed at fair value through profit or loss			(1 277)	-	(1 277)
8	Net income (loss) from transactions with debt financial instruments, disclosed at fair value through other comprehensive income			768	-	768
9	Net gain (loss) from foreign currency transactions		1 613	8 674	-	10 287
10	Net gain (loss) from foreign currency revaluation			(1 396)	-	(1 396)
11	Net income (loss) from investment property revaluation			(3 277)	-	(3 277)
12	Administrative and other operating expenses	(35 800)	(54 895)	(39 622)	-	(130 317)
<b>13</b>	<b>Operating income of segments</b>	<b>19 994</b>	<b>25 843</b>	<b>12 860</b>	<b>-</b>	<b>58 697</b>
14	Net gain / (loss) from decrease / (increase) in loss allowances for financial assets	(68 951)	(9 316)	23 602	-	(54 665)
15	Net (increase)/decrease of provision for liabilities	(495)	-	-	-	(495)
<b>16</b>	<b>Income/(loss) before taxes</b>	<b>(49 452)</b>	<b>16 527</b>	<b>36 462</b>	<b>-</b>	<b>3 537</b>

Table 24.2 Assets and liabilities of reporting segments as at 31.12.2019

					UAH thousand	
Line	Item	Corporate business	Reporting segments		Line	Item
			Services to individuals and SMEs			
1	Segment assets	645 439	55 884		1 480 648	2 181 971
2	<b>Total assets</b>	<b>645 439</b>	<b>55 884</b>		<b>1 480 648</b>	<b>2 181 971</b>
3	Segment liabilities	848 318	742 545		29 977	1 620 840
4	<b>Total liabilities</b>	<b>848 318</b>	<b>742 545</b>		<b>29 977</b>	<b>1 620 840</b>
5	Capital investments	-	-		16 797	16 797
6	Depreciation and amortization	-	-		(7 545)	(7 545)

UAH thousand

Table 24.3 Income, expense and financial results of reporting segments in 2018

						UAH thousand
Line	Item	Corporate business	Reporting segments		Elimination	Total
			Services to individuals and SMEs	Centralized, treasury transactions and unallocated items		
1	Interest income	237 203	56 350	216 342	(311 587)	198 308
2	Fee and commission income	22 585	37 148	88	-	59 821
3	Other operating income	95	7 112	4 670	-	11 877
4	Total segments income	259 883	100 610	221 100	(311 587)	270 006
5	Interest expense	(184 752)	(27 857)	(192 758)	311 587	(93 780)
6	Fee and commission expense	(40)	(6 392)	(2 809)	-	(9 241)
7	Net profit (loss) from transactions with financial instruments disclosed at fair value through profit or loss	-	-	(206)	-	(206)
8	Net income (loss) from transactions with debt financial instruments, disclosed at fair value through other comprehensive income	-	-	166	-	166
9	Net gain (loss) from foreign currency transactions	67	1 035	7 418	-	8 520
10	Net gain (loss) from foreign currency revaluation	-	-	532	-	532
11	Net income (loss) from investment property revaluation	-	-	(304)	-	(304)
12	Administrative and other operating expenses	(29 657)	(40 528)	(35 913)	-	(106 098)
13	<b>Operating income of segments</b>	<b>45 501</b>	<b>26 868</b>	<b>(2 774)</b>	<b>-</b>	<b>69 595</b>
14	Net gain / (loss) from decrease / (increase) in loss allowances for financial assets	162 279	(4 588)	(40 464)	-	117 227
15	Net (increase)/decrease of provision for liabilities	-	-	(18)	-	(18)
16	<b>Income/(loss) before taxes</b>	<b>207 780</b>	<b>22 280</b>	<b>(43 256)</b>	<b>-</b>	<b>186 804</b>

Table 24.4 Assets and liabilities of reporting segments as at 31.12.2018

						UAH thousand
Line	Item	Corporate business	Reporting segments		Line	Item
			Services to individuals and SMEs			
1	Segment assets	580 812	51 864	1 508 421		2 141 097
2	<b>Total assets</b>	<b>580 812</b>	<b>51 864</b>	<b>1 508 421</b>		<b>2 141 097</b>

3	Segment liabilities	934 601	624 632	56 250	1 615 483
<b>4</b>	<b>Total liabilities</b>	<b>934 601</b>	<b>624 632</b>	<b>56 250</b>	<b>1 615 483</b>
5	Capital investments	-	-	4 610	4 610
6	Depreciation and amortization	-	-	(5 294)	(5 294)

## Note 25. Financial risk management

### Credit risk

The Bank does not engage in active transactions with debtors or counterparts, residents of other countries, so, it does not develop policies and procedures of identification, measurement, monitoring, reporting and control over country risk and transfer risk.

The Bank does not invest in affiliates or subsidiaries, so it did not set requirements for identification, measurement, monitoring, reporting and reduction of investment risk for affiliates or subsidiaries.

Credit risk is assessed at two levels: at the individual level, i.e. at the level of a particular borrower, and at the portfolio level based on a total debt of the Bank for transactions with inherent credit risk. The main credit risk management procedures include detection, identification, assessment (including the assessment of the capital adequacy to cover credit risk), monitoring, provisioning, setting limits, diversification, control and development of preventive measures.

The Bank manages the customer risk as:

- pre-settlement risk, as it changes depending on changes of fair value of an instrument, creating this risk for the Bank;
- settlement risk.

The Bank manages pre-settlement risk by establishment of limits for a counterpart and their control, and development of procedures in case of default of a counterpart under the contract. The Bank reduced pre-settlement risk by:

- implementation of safety margin;
- receipt of counterpart's collateral for the amount of possible pre-settlement risk;
- inclusion of provisions into a contract regarding the right of the Bank to unilateral pre-term termination of a contract without fines or penalties in case of inadequate collateral compared to pre-settlement risk;
- entering into contract on netting of counterclaims.

To evade settlement risk, the Bank has a right to enter into contracts under the terms of prepayments or advance supply by a counterpart, or supply against payment to central counterpart.

Quantitative parameters for identification and controlling of credit risks are:

- maximum credit risk exposure per counterparty limit (H7);
- large credit risks limit (H8);
- limit of maximum credit risk exposure in related party transactions (H9);
- non-performing assets (net of allowances for impairment) to total assets ratio;
- loan loss allowances due from customers ratio.

As at 31.12.2019, the Bank complied with prudential requirements of NBU regarding credit risks (H7, H8, H9 limits are complied with).

The Bank uses the following quantitative indices of risk appetite to credit risk:

- maximum growth of credit portfolio in present of its size as at the beginning of the year;
- maximal debt of a single debtor / group of related counterparts as percent of total loan portfolio and share capital of the Bank;
- maximal scope of industry and geographic concentration of loan portfolio as percent of total loan portfolio;
- maximal scope of credit products portfolio as percent of total loan portfolio;
- maximal scope of non-performing assets as percent of respective loan portfolio.

The bank sets the credit risk limits regarding:

- powers of Credit committee of the Bank on approval of credit decisions for loan portfolio in general and for a single debtor or group of related counterparts;
- single debtors and groups of related counterparts;
- risk of concentration (maximal debt) per single debtor or group of related counterparts, debtors of common type of business and debtors of same geographical region;
- risk of a counterpart by each one;
- maximal scope of pledged assets, which may be collected by the bank, if the bank realizes its rights as holder of pledge.

When approving decision on crediting, the bank analyses information and assesses the risk, taking into account the following factors:

- purpose of loan and sources of repayment;
- credit history and current solvency of a debtor, based on financial trends of previous periods and forecast of cash flows for different scenarios;
- viability of business model of a debtor – legal entity, private entrepreneur and availability of their competence and resources for its implementation;
- behavioural model of debtors – natural persons (applicational, behavioural scoring);
- practical business experience of a debtor, situation in the industry where the debtor operates, debtor's position, markets for sales of products / services, produced or offered by debtor, and debtor's competitiveness;
- acceptability and adequacy of pledge, possibility to sell it;
- additional terms of a loan contract, aimed at limitation of credit risk growth in future;
- assumptions on the size of loan allowances to be established for ECL and scope of credit risk as at the moment of issuance of credit;
- debtor's reputation and ability / readiness to undertake legal obligations and cooperate with the bank regarding any matter that may arise during the crediting period;
- structure of group of related counterparts, credit history and current solvency of these counterparts;
- decisions of persons, controlling the legal entity, on getting a credit, their powers as to making such decision;
- soundness and adequacy of legal position of the bank regarding terms of a loan contract, pledge / collateral contracts to provide for proper cooperation with debtors / counterparts / pledgers.

The bank has a low risk appetite regarding credit risks, applies conservative approach to credit risk management and uses credit practices, ensuring high probability that loans will be repaid.

### **Market (currency) risk**

Market risk is the probability of losses or additional costs, or receipt of less than planned revenues resulting from unfavourable exchange rates, interest rates, value of financial instruments. The bank evades risks inherent to trade book instruments (zero risk appetite of default risk, interest risk of trade book, risk of credit spread, risk of volatility, stock market and commodity risk), and does not enter into transactions with trade book financial instruments, including those with securities, which meet the below criteria:

- no legal limitations on sale or full hedging;

- daily fair value revaluation through profit / loss;
- keeping the financial instruments in trade book for resale within the short term, gains from short-term price fluctuations; fixing of arbitrary income or hedging of risks of keeping the instruments for the above purpose.

The bank manages, as part of market risks, the foreign currency risk (existing or potential risk for receipts and equity, created by unfavourable exchange rate fluctuations and prices of bank metals) for instruments in the bank book, and does not design policies and procedures to manage market risks, inherent to trade book instruments (risk of default, interest risk of trade book, risk of credit spread, risk of volatility, stock market and commodity risk).

Foreign currency risk management is the process of control over foreign-currency transactions of the bank with simultaneous control over open foreign currency positions, taking into account hedging of foreign currency risk. The bank applies the following to assess and measure foreign currency risk:

- analysis of compliance with limits for open currency position, set by NBU;
- analysis of compliance with internal limits of foreign currency risk;
- analysis of situation on currency and cash markets to assess the risk of probable change of exchange rates and its effect on the bank results;
- VaR method with probability of not less than 99% and size of statistical sample of not less than 250 observations during the period not less than one calendar year;
- Stress testing of foreign currency risk.

The bank sets the following limits for foreign currency risk:

- Maximal Value-at-Risk (VaR) or maximal Expected Shortfall during 10 business days as of the date of settlement with probability not less than 99% (if currency positions are kept at the factual level as at the beginning of a business day when settlement takes place);
- Scope of open currency positions in meaningful currencies as percent of bank capital (meaningful currency is a currency, composing more than five percent of Bank liabilities as at the date of analysis).

The bank uses one of the following methods or their combination to assess influence of foreign currency risk sources at its level:

- Analysis of sensitivity of assets portfolio to change of risk factors;
- Analysis of scenarios;
- Reversed stress testing.

Table 25.1. Foreign currency risk analysis

Line	Currency	As at the reporting date				As at the reporting date			
		31.12.2019				31.12.2018			
		Monetary assets	Monetary liabilities	Derivative financial instruments	Net position	Monetary assets	Monetary liabilities	Derivative financial instruments	Net position
1	US dollars	391 728	373 931	-	17 797	403 246	369 313	-	33 933
2	Euro	148 873	183 700	-	(34 827)	135 266	131 713	-	3 553
3	British pounds	3 096	2 786	-	310	5 163	3 252	-	1 911
4	Other	2 742	2 143	-	599	4 149	3 336	-	813
5	Total	546 439	562 560	-	(16 121)	547 824	507 614	-	40 210

UAH thousand

Table 25.2. Change of profit and loss and equity resulting from possible changes in the official exchange rate of UAH against foreign currencies set at the reporting date, all other variables being fixed

Item	UAH thousand			
	As at the reporting date 31.12.2019		As at the reporting date 31.12.2018	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
Appreciation of USD by 40%	7 119	7 119	13 573	13 573
Depreciation of USD by 40%	(7 119)	(7 119)	(13 573)	(13 573)
Appreciation of EUR by 40%	(13 931)	(13 931)	1 421	1 421
Depreciation of EUR by 40%	13 931	13 931	(1 421)	(1 421)
Appreciation of GBP by 40%	124	124	764	764
Depreciation of GBP by 40%	(124)	(124)	(764)	(764)
Appreciation of other currencies and banking metals	240	240	325	325
Depreciation of other currencies and banking metals	(240)	(240)	(325)	(325)

When measuring foreign currency risk, the bank uses reasonable, complete and documented assumptions, complying with its business plan, historical market and Bank own statistics. The bank assesses risk appetite to foreign currency risk as low.

Table 25.3. Monitoring of interest rates of financial instruments

Item	%					
	As at 31.12.2019			As at 31.12.2016		
	UAH	USD	EUR	UAH	USD	EUR
<b>Assets</b>						
1 Cash and cash equivalents	12,56	0,50	0,50	17,39	0,20	0,48
2 Due from other banks	17,05	2,27	0,00	16,75	0,00	0,00
3 Loans and advances to customers	15,39	9,33	11,01	14,10	8,81	11,98
4 Investment securities	16,65	5,79	0,00	15,19	5,46	0,00
<b>Liabilities</b>						
5 Due to other banks						
6 Amounts due to customers	7,82	2,83	1,41	8,46	2,44	1,57
6.1 current accounts	6,49	1,73	0,58	5,13	0,85	0,71
6.2 term deposits	12,96	3,51	3,29	13,22	3,43	3,30

### Interest rate risk

Interest risk is the probability of losses or additional costs, or receipt of less than planned revenues resulting from unfavourable interest rates affecting bank book. Interest rate risk affects economic value of Bank capital and net interest income of the bank.

Major purpose of interest rate risk management is decrease of effect of interest rates on the capital through limitation and decrease of amount of possible losses that bank open positions may suffer from the changes of financial market situations.

Interest rate risk includes the following risks:

- Risk of gaps, generated by difference between terms of repayment (for instruments with fixed interest rate) or change of interest rate index (for instruments with floating interest rate) of assets, liabilities and off-balance sheet positions in the bank book. The bank calculates risk of gaps, taking into account whether interest rates change sequentially for all profitability curve (parallel risk) or differentially by periods with respective changes of slope and form of profitability curve (non-parallel risk);
- Basis risk resulting from absence of close relationship between adjustments of rates, received and paid under different instruments, all other characteristics of which are similar regarding revaluation;
- Risk of options, resulting from Bank transactions with options (automatic risk of options) or existence of in-built options in bank's standard products (behavioural risk of options).

The bank applies the following methods of interest rate risk management depending on its type:

1) risk of gaps: decrease of short-term interest rate gaps if the bank assumes transition of profitability curve into inverted curve (increase of interest rates within 6-month period);

2) basis risk:

- Referencing floating interest rate for active transactions to the same benchmark<sup>1</sup>, as used for attracted resources;
- Use of resourced, received under floating interest rates, solely for crediting with floating interest rate with similar regularity of reviews;
- Placement of resources with fixed interest rate taking into account the term of similar debt resources;

3) risk of options:

- Use of minimal interest rate for clients' deposits keeping in mind possibility of pre-term withdrawal of funds (if withdrawal is permitted by terms of deposit);
- Inclusion of procedures of calculation and payment of penalties for pre-term repayment of loans into contracts with corporate clients;
- Use for credits, issued as renewable credit lines (where a customer has an option to get / repay loan at any time), special transfer rate - FTP-ask, including additional margin, covering Bank risk (thus, minimizing possibility of a customer to use such loan to generate arbitrary revenue: get funds during the period of high rates and place them into other bank for interest rate higher than interest rate under the loan, fixed at the moment of signing of the contract, with subsequent repayment at decreased market rates);
- Issuance of overdraft credits solely under the term that the bank has an option for regular (not less than once per quarter) review of interest rate depending on changes of market indicators.

The bank measures interest rate risk based on at least four scenarios of interest rate changes:

- Similar rates of increase of interest rates for all terms (parallel shock up);
- Similar rates of decrease of interest rates for all terms (parallel shock down);
- Increase of rates only for 6 months (including) term (short rates shock up);
- Decrease of rates only for 6 months (including) term (short rates shock down).

The bank uses the following instruments to assess the interest rate risk:

- GAP analysis – to evaluate changes in net interest income of the bank;
- Modified duration method – to evaluate changes in economic value of bank capital;
- Analysis of compliance with internal limits of interest rate risk;
- Analysis of cash market situation to assess the risk of possible interest rate changes and their effect on NII and EVE;
- Stress testing of interest rate risk.

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<sup>1</sup> Interest rate used at bank market as basis for selection of interest rate for assets / liabilities with floating interest rate (e.g., LIBOR, EURIBOR, MosPrime, UIIR, UIRD)

Table 25.4. General analysis of interest rate risk

Line	Item	On demand	Less than 1 month	1-12 months	More than one year	No interest rate risk	UAH thousand Total
<b>As at 31.12.2019</b>							
1	Total financial assets	589 378	139 384	804 600	93 012	-	1 626 374
2	Total financial liabilities	1 141 509	15 275	399 813	20 934	27 654	1 605 185
3	Net interest gap at the year end	(552 131)	124 109	404 787	72 078	(27 654)	(25 327)
<b>As at 31.12.2018</b>							
4	Total financial assets	647 439	20 285	765 085	101 287	0	1 534 096
5	Total financial liabilities	969 334	268 907	299 584	156	27 654	1 565 635
6	Net interest gap at the year end	(321 895)	(248 622)	465 501	101 131	(27 654)	(31 539)

Based on the net interest gap the following conclusions about an impact of interest rates changes on the Bank's financial results can be made:

Effect of interest rate change on bank revenue	On demand	Less than 1 month	1-12 months	More than one year	No interest rate risk	(UAH thousand) Total
Interest rate change: +1%	(5 520)	1 241	4 047	720	-	488
Interest rate change: -1%	5 520	(1 241)	(4 047)	(720)		(488)

### **Geographic risk**

Geographic risk is existing or potential risk of losses for the Bank resulting from the clients' or counterparties' failure to perform under contracts when the clients or counterparties operate in a specific country and, as a result, are exposed to risks inherent to that country.

Geographic risk is not inherent in the Bank's operations as the Bank has no branches or outlets in other countries and operates only in Ukraine except for correspondent accounts with other banks required to meet its obligations to its clients.

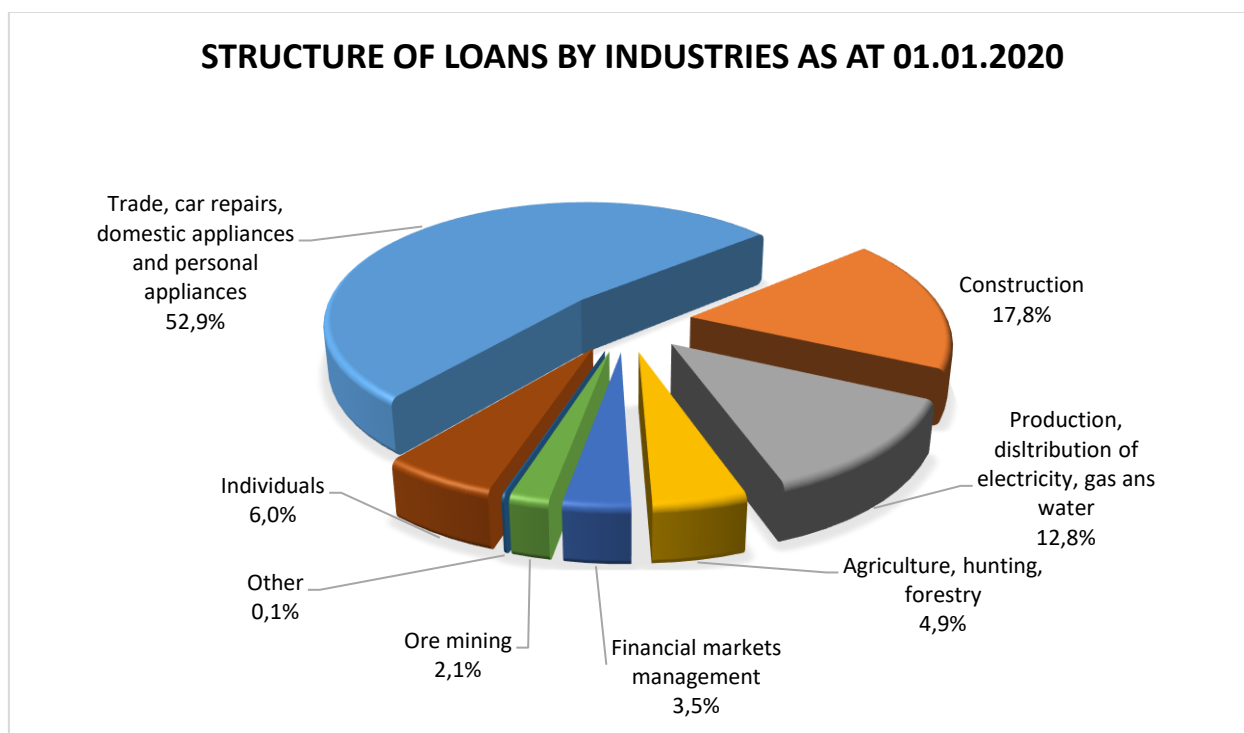
Table 25.5. Analysis of geographic concentration of financial assets and liabilities in 2019

Line	Item	Ukraine	OECD	Other countries	UAH thousand Total
<b>Assets</b>					
1	Cash and equivalents	121 734	70 063	301	192 098
2	Cash in other banks	12 387	-	-	12 387
3	Loans and advances to customers	701 310	-	-	701 310
4	Investment securities available for sale	585 397	-	-	585 397
5	Investment securities held to maturity	111 140	-	-	111 140
6	Other financial assets	24 042	-	-	24 042
7	Total financial assets	1 556 010	70 063	301	1 626 374
<b>Liabilities</b>					
8	Due to other banks	-	-	-	-
9	Amounts due to customers	1 588 127	1 579	10 195	1 599 901
10	Other financial liabilities	5 284	-	-	5 284
11	Total financial liabilities	1 593 411	1 579	10 195	1 605 185
12	<b>Net position on financial instruments</b>	(37 401)	68 484	(9 894)	21 189
13	Credit related commitments	95 692	-	-	95 692

Table 25.6. Analysis of geographic concentration of financial assets and liabilities in 2018.

Line	Item	Ukraine	OECD	Other countries	UAH thousand Total
<b>Assets</b>					
1	Cash and equivalents	111 169	125 084	1 022	237 275
2	Loans and advances to customers	632 632	-	-	632 632
3	Investment securities available for sale	305 025	-	-	305 025
4	Investment securities held to maturity	320 421	-	-	320 421
5	Other financial assets	38 743	-	-	38 743
6	Total financial assets	1 407 990	125 084	1 022	1 534 096
<b>Liabilities</b>					
7	Due to other banks	-	-	-	-
8	Amounts due to customers	1 558 115	1 785	5 234	1 565 134
9	Other financial liabilities	501	-	-	501
10	Subordinated debt	0	-	-	0
11	Total financial liabilities	1 558 616	1 785	5 234	1 565 635
12	<b>Net position on financial instruments</b>	(150 626)	123 299	(4 212)	(31 539)
13	Credit related commitments	7 361	-	-	7 361

### Other risks concentration



As at 01.01.2020 structure of loan portfolio of the bank is not adequately diversified, as it significantly depends on Trade, car repairs, domestic appliances and personal appliances sector (covering 52,9% of total loan portfolio), so, the risk of concentration, based on this aspect, is higher. The way to minimize it is to attract new customers through introduction of attractive and competitive programs of services in other industries, at the same time keeping the profitability of assets at the necessary level

### Liquidity risk

Liquidity risk is existing or potential risk of losses or receipt of less than expected profit, generated by bank inability to provide for financing of increase of assets and/or compliance with its liabilities within the proper terms.

The bank uses the following instruments to assess and measure the liquidity risk:

- Analysis of compliance with liquidity and mandatory provisioning ratios, set by NBU;
- GAP analysis, reflecting time difference between claims and liabilities of the bank (both balance sheet and off-balance sheet) based on contractual or expected terms of repayment;
- Analysis of concentration of bank liabilities by meaningful groups of counterparts, tools / products (rates of concentration in liabilities portfolio);
- Comparison of assets and liabilities in every meaningful currency, including comparison of strategic time intervals;
- Monitoring of available unsecured high-liquid assets (liquidity buffer), held as possible provision in case of realization of stress scenarios, including loss or deterioration of terms of attraction of unsecured and accessible under normal conditions sources of financing by types and meaningful currencies;
- Estimation of scope of available funds to finance operations in case of loss of access to unstable funding;
- Analysis of information on situation at stock market and financial sector, market characteristics of securities included into the list of high-liquid assets (HLA); calculation of excess liquidity index – excess of actual size of liquidity buffer over minimally needed (planned) size;

- Calculation of index of risk of cash flow changes resulting from possible decrease of scope of funding, which may be received using the liquidity buffer (e.g., as a result of adjustment of market value of HLA elements);
- Calculation of indicators of early detection of liquidity crisis;
- Analysis of Bank liquidity risk within one business day.

The bank also uses the following method to assess liquidity risk:

- Analysis of liquidity cover ratio (LCR) in accordance with Decree of NBU Board №13 of 15.02.2018 *On Introduction of Liquidity Cover Ratio (LCR)*;

The bank sets the following limits to control liquidity risk:

- Limit of cumulative GAP between claims and liabilities of the bank for time periods of up to one year, calculated based on GAP analysis;
- Limits of concentration of bank financing by five and ten biggest depositors and other bank creditors / groups of related counterparts, aimed at diversification of sources of funding.

During 2019, the bank complied with liquidity ratios, set by NBU. Liquidity ratios as at 31.12.2018 were:

- Short-term liquidity ratio (H6) was 93,63% with NBU ratio of not less than 60%;
- Current liquidity ratio in all currencies (liquidity coverage ratio – LCR<sub>BB</sub>) was 164,47% with NBU ratio of not less than 100%;
- Current liquidity ratio in foreign currency (liquidity coverage ratio – LCR<sub>ib</sub>) was 141,70% with NBU ratio of not less than 100%.

The bank uses non-discounted flows when calculating gaps between terms of assets and liabilities, reflecting terms of repayments in accordance with the contracts, for analysis of liquidity risk.

Table 25.7. Maturity analysis of financial assets and liabilities, based on estimated terms of repayment

							UAH thousand
Line	Item	On demand	Less than 1 month	1-12 months	Over 1 year	Without term	Total
	As at 31.12.2019						
1	Total financial assets	589 378	139 384	804 600	93 012	-	1 626 374
2	Total financial liabilities	1 141 509	15 275	399 813	20 934	27 654	1 605 185
3	Net interest gap at the year end	(552 131)	124 149	404 787	72 078	(27 654)	52 981
4	Cumulative liquidity gap for financial instruments	(552 131)	(428 022)	(23 235)	48 843	21 189	-
	As at 31.12.2018						
5	Total financial assets	647 438	20 285	765 085	101 288	-	1 534 096
6	Total financial liabilities	969 334	268 907	299 584	156	27 654	1 565 635
7	Net interest gap at the year end	(321 897)	(248 622)	465 501	101 131	(27 654)	(3 887)
8	Cumulative liquidity gap for financial instruments	(321 897)	(570 519)	(105 018)	(3 887)	(31 541)	-

A major portion of liabilities of CLEARING HOUSE JSCB represents corporate funds. Therefore, significant amounts of highly liquid funds are kept on correspondent accounts to maintain liquidity. Furthermore, continuous monitoring of balances on demand accounts allows to calculate the volatility of this indicator and identify the portion of funds that, for the purposes of liquidity risk analysis are classified as ‘stable balances’. Most corporate term deposits are also of acceptable stability and, based on historic data, their term may be considered longer than the contractual term. It is highly probable that these deposits will be extended.

In the course of maturity analysis of financial assets and liabilities based on their expected deadlines, the primary index is the cumulative gap indicating any deficit (negative value) or surplus (positive value) of funds. However, the gap does not necessarily indicate an imbalance that leads to losses of capital. Certain limit gaps may be dangerous for the Bank. The Bank is able to cover these gaps without resorting to practices resulting in capital loss. The Assets and Liabilities Committee approves any dangerous ratios (cumulative gaps for a specified period to the amount of total assets). In case of changes in the economic situation, the balance sheet structure or any other essential factors, the Committee adjusts the ratios.

Table 25.8. Maturity analysis of financial liabilities as at 31.12.2019

Line	Item						UAH thousand
		On demand and less than 1 month	1-3 months	3-12 months	12 months to 5 years	Over 5 years	Total
1	Due to other banks	-	-	-	-	-	-
2	Amounts due to customers	1 234 182	112 631	287 802	20 182	31 086	1 685 883
3	Subordinated debt	-	-	-	-	-	-
4	Other financial liabilities	5 284	-	-	-	-	5 284
5	Other credit related liabilities	95 692	-	-	-	-	95 692
6	Total potential future payments under financial liabilities	1 335 158	112 631	287 802	20 182	31 086	1 786 859

Table 25.9. Maturity analysis of financial liabilities as at 31.12.2018

Line	Item						UAH thousand
		On demand and less than 1 month	1-3 months	3-12 months	12 months to 5 years	Over 5 years	Total
1	Due to other banks	-	-	-	-	-	-
2	Amounts due to customers	1 336 268	95 879	200 677	166	29 432	1 662 422
3	Subordinated debt	-	-	-	-	-	-
4	Other financial liabilities	501	-	-	-	-	501
5	Other credit related liabilities	7361	-	-	-	-	7361
6	Total potential future payments under financial liabilities	1 344 130	95 879	200 677	166	29 432	1 670 284

The bank has low-level risk appetite to liquidity risk. The bank has adequate reserves of liquid funds to meet its liabilities. Potential loss (income less than planned) from keeping of required level of high liquid assets is realized through decrease of NII of the bank and is reflected in risk appetite to interest rate risk.

**Note 26. Capital management**

Capital is one of the most important indicators for the Bank's operations. Its main purpose is to cover any adverse consequences of various risks accepted by the Bank in the course of its operations, and to protect deposits, financial stability and sustainability of the Bank.

In order to minimize potential negative impacts of risks on the amount of regulatory capital, in the course of its operations the Bank, on a continuous basis:

- monitors the diversification of its assets;
- invests on the basis of prudence and profitability principles;
- assesses the quality of all assets and off-balance sheet credit commitments (objective and consistent valuation of assets is based on transparent standards and accounting practices, and can be enhanced by expert reviews);
- creates allowances for potential loan losses;
- develops promotional events and programs to attract cheaper resources;
- analyses interest rates on assets and liabilities, compliance with established interest margins, monitors interest rates of other banks;
- controls its currency position, sufficiency of resources mobilized for active operations for each type of currency;
- monitors applicable Ukrainian laws.

The Bank uses the following capital management methods in its operations:

- financial planning consisting of several stages: approval of the budget for the next year (by the year end), supervision on the budget implementation (quarterly), and monthly planning of financial results of the Bank;
- capitalization of the Bank. In order to implement strategic goals of the Bank and taking into account economic performance of Ukraine as a whole, the issue of the share capital increase and the use of dividends to form reserves in the amount that exceeds statutory minimum is submitted to the general meeting of the Bank's shareholders;
- assessment of the Bank's capital adequacy;
- development and approval of new banking products, expansion of the customer base by type of services;
- assessment of shocks impact (scenario analysis) on the decrease in the equity market value in order to assess the total loss and losses by the type of assets should extraordinary events occur, as well as the Bank's potential to compensate these losses, assess the state of its equity and the quality of its risk management techniques.

The following issues are considered in the course of capital adequacy assessment:

- sufficiency, adequacy, reliability and objectivity of existing allowances and provisions;
- compliance with legal requirements of the NBU.

As at 01.01.2020, the regulatory capital adequacy was 37,35%, which is 27,35% higher than the adequacy required.

As at 01.01.2019 actual regulatory capital amounted to UAH 537 058 486,53 UAH, which is UAH 337 058 486,53 more than required by existing standards.

**Note 27. Contingent liabilities of the Bank**

- a) As at 01.01.2020, there is no litigation where the Bank is a defendant;
- b) The Bank has no contingent tax liabilities;
- c) The Bank has no capital investment commitments;
- d) Lease liabilities:

The Bank has 28 operating-lease contracts: no operating lease contracts with lease term of one month or less, 16 lease contracts on lease of low-value assets, where right-of-use assets and lease liabilities are not recognized, while lease payments are recognized as expenses by a straight-line basis during term of lease and posted at expense accounts, and 12 lease contracts, accounted in accordance IFRS 16. Deferred expenses under lease of low-value assets are UAH 1 356 thousand.

Future repayment of lease liabilities under lease contracts is UAH 4 173 thousand:

- Payable within 1 year – UAH 2 441 thousand
- Payable during 1 to 5 years – UAH 1 732 thousand.

Table 27.1 Minimum future lease payments under lease contracts

Line	Item	UAH thousand	
		31.12.2019	
1	Up to 1 year	2 441	
2	1 to 5 years	1 732	
<b>3</b>	<b>Total</b>	<b>4 173</b>	

The bank has four lease contracts, two of which relate to lease of investment property and one is sub-lease contract.

In accordance with contracts on lease of investment property the Bank leases out ten objects, owned by the Bank: nine land plots and one property complex.

The Bank leases out one car under lease contract.

Under sub-lease contract the Bank leases out a part of premises, received under lease contract.

Table 27.2 Structure of credit related commitments

Line	Item	UAH thousand	
		31.12.2019	31.12.2018
1	Unused credit lines	361 803	338 228
2	Guarantees issued	95 692	7 361
3	Provisions for credit related commitments	-	-
<b>4</b>	<b>Total credit related commitments less provisions</b>	<b>457 495</b>	<b>345 589</b>

Table 27.3 Credit-related commitments by currencies

Line	Item	31.12.2019	31.12.2018
1	Hryvnia	322 697	232 817
2	US dollars	9 356	101 922
3	Euro	29 750	3 489
4	Other	-	-
5	Total	361 803	338 228

The Bank has no irrevocable commitments.

## Note 28. Fair value of financial instruments

Results of fair value valuation are analysed and allocated to hierarchy levels of fair value in the following way: Level 1 relates to values quoted (without any adjustments) at active markets for identical assets and liabilities, Level 2 relates to values, received by methods of valuation, where all material input data, directly or indirectly, are observable for an asset or liability (e.g., prices), while Level 3 relates to values, which are not based on observable market data (i.e., they are based on non-observable input data). Management uses professional judgement to allocate financial instruments to respective categories.

Fair value is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties on terms other than the forced exchange or liquidation sale.

Fair value of financial instruments was estimated by the Bank using available market information and the applicable valuation methodologies. The best evidence of the fair value of a financial instrument is a quoted market price. As there is no readily available market for the majority of financial instruments, the Bank has to use a number of assumptions while measuring fair value based on current economic conditions and specific risks attributable to these financial instruments.

The estimates presented herein are not always indicative of amounts the Bank could receive as a result of market exchange of all financial instruments of a particular type. Available market information was used for fair valuation of financial instruments.

Table 28.1 Fair value disclosure as at 31.12.2019

						UAH thousand
	Valuation date	Level of inputs used for fair valuation			Total fair value	Total carrying amount
		Level 1	Level 2	Level 3		
Assets measured at fair value						
Ukrainian government bonds	31.12.2019	-	128 555	-	128 555	128 555
Shares	31.12.2019	10	-	-	10	10
Saving (deposit) certificates issued by the NBU	31.12.2019	-	456 842	-	456 842	456 842
Property – buildings	01.11.2019	-	-	107 345	107 345	107 345
Investment property	01.11.2019	-	-	376 990	376 990	376 990
Assets for which fair values are disclosed						
Cash and cash equivalents	31.12.2019	-	192 098	-	192 098	192 098
Loans and due from banks	31.12.2019	-	-	12 741	12 741	12 387
Loans and advances to customers	31.12.2019	-	-	707 458	707 458	701 310
Investment debt securities, disclosed at amortized cost	31.12.2019	-	111 140	-	111 140	111 140
Other financial assets	31.12.2019	-	-	24 042	24 042	24 042
Liabilities with fair value disclosed						
Due to customers	31.12.2019	-	1 599 832	-	1 599 832	1 599 901
Other financial liabilities	31.12.2019	-	-	5 284	5 284	5 284

Table 28.2 Fair value disclosure as at 31.12.2018

						UAH thousand
	Valuation date	Level of inputs used for fair valuation			Total fair value	Total carrying amount
		Level 1	Level 2	Level 3		
Assets measured at fair value						
Ukrainian government bonds	31.12.2018	-	159 736	-	159 736	159 736
Shares	31.12.2018	10	-	-	10	10
Saving (deposit) certificates issued by the NBU	31.12.2018	-	145 289	-	145 289	145 289
Property – buildings	01.11.2018	-	-	98 100	98 100	98 100
Investment property	01.11.2018	-	-	469 109	469 109	469 109
Assets for which fair values are disclosed						
Cash and cash equivalents	31.12.2018	-	237 275	-	237 275	237 275
Loans and advances to customers	31.12.2018	-	-	621 244	621 244	632 632
Investment debt securities, disclosed at amortized cost	31.12.2018	-	320 421	-	320 421	320 421
Other financial assets	31.12.2018	-	-	38 743	38 743	38 743
Liabilities whose fair value is disclosed						
Due to customers	31.12.2018	-	1 564 953	-	1 564 953	1 565 134
Other financial liabilities	31.12.2018	-	-	501	501	501

#### Methods and assumptions used in fair value determination

Fair value of financial assets allocated to Levels 2 and 3 of fair value hierarchy was calculated based on estimated future cash flows discounted by current interest rates for new instruments of similar credit risk and maturity term.

As to assets, the bank used assumptions regarding rates for loans and level of pre-term repayments by counterparts. Liabilities were discounted using the bank rate for borrowings. Liabilities to be repaid on demand were discounted as of the first day of potential demand to repay by the bank.

**Cash and cash equivalents** are carried at amortized cost that is a close approximation of their fair value.

**Due from other banks.** The Bank estimates that the fair value of due to other banks does not differ significantly from its carrying amount, and the loans are provided under interest rates equal to the market interest rates.

**Loans and advances to customers.** Loans and advances to customers are carried net of any impairment allowance. The fair value of loans and advances to customers reflects the expected cash flows.

**Debt securities available for sale** are carried at fair value. When there is no active market for debt securities available for sale and their fair value cannot be estimated reliably, the Bank carries them at cost.

**Borrowings.** Estimated fair value of liabilities without fixed maturity is the amount payable on demand. Estimated fair value of deposits with a fixed interest rate and other of borrowings is determined based on market rates.

**Financial instruments with fixed interest rate**

Fair value of financial assets and liabilities with fixed rate carried at amortized cost is estimated by comparing market interest rates at the date of their initial recognition to current market rates of similar financial instruments.

**Note 29 Presentation of financial instruments by measurement categories**

Table 29.1 Financial assets by measurement categories in 2019

Line	Item	Amortized cost	Fair value through other comprehensive income	UAH thousand Total
	Assets			
1	Cash and equivalent	192 098	-	192 098
2	Loans and due from banks:	12 387	-	12 387
2.1	Deposits in other banks	12 387	-	12 387
2.2	Loans to other banks	-	-	-
3	Loans and advances to customers	701 310	-	701 310
3.1	Corporate loans	1 085 288	-	1 085 288
3.2	Mortgage loans to individuals	12 109	-	12 109
3.3	Consumer loans to individuals	57 346	-	57 346
3.4	Allowances for expected credit losses of loans	(453 433)	-	(453 433)
4	Investment debt securities at fair value through other comprehensive income	-	585 397	585 397
5	Investment debt securities at amortized cost	111 140	-	111 140
6	Other financial assets:	24 042	-	24 042
6.1	Receivables under transactions with payment cards	1 507	-	1 507
6.2	Restricted cash	22 510	-	22 510
6.3	Other financial assets	25	-	25
7	Total financial assets	1 040 977	585 397	1 626 374

Table 29.2 Financial assets by measurement categories in 2018

Line	Item	Amortized cost	Fair value through other comprehensive income	UAH thousand Total
	Assets			
1	Cash and cash equivalents	237 275	-	237 275
2	Loans and advances to customers	632 632	-	632 632
2.1	Corporate loans	947 889	-	947 889
2.2	Mortgage loans to individuals	13 246	-	13 246
2.3	Consumer loans to individuals	46 231	-	46 231
2.4	Allowances for expected credit losses of loans	(374 734)	-	(374 734)
3	Investment debt securities, at fair value through other comprehensive income	-	305 025	305 025

Line	Item	Amortized cost	Fair value through other comprehensive income	Total
4	Investment debt securities at amortized cost	320 421	-	320 421
5	Other financial assets:	38 743	-	38 743
5.1	Receivables for transactions with payment cards	2 051	-	2 051
5.2	Restricted cash	36 596	-	36 596
5.3	Other financial assets	96	-	96
6	Total financial assets	1 229 071	305 025	1 534 096

Table 29.3 Financial liabilities by measurement categories in 2019

UAH thousand			
Line	Item	Amounts due to customers and accounts payable	Total
	Liabilities		
1	Amounts due to customers	1 599 901	1 599 901
1.1	Corporate term deposits	921 705	921 705
1.2	Individual deposits	678 196	678 196
2	Other financial liabilities	5 281	5 281
2.1	Other financial liabilities	5 281	5 281
3	Total financial liabilities	1 605 182	1 605 182

Table 29.4 Financial liabilities by measurement categories in 2018

UAH thousand			
Line	Item	Amounts due to customers and accounts payable	Total
	Liabilities		
1	Amounts due to customers	1 565 134	1 565 134
1.1	Corporate term deposits	979 173	979 173
1.2	Individual deposits	585 961	585 961
2	Other financial liabilities	501	501
2.1	Other financial liabilities	501	501
3	Total financial liabilities	1 565 635	1 565 635

### Note 30 Related party transactions

The ultimate owners of the Bank are Lovochkina Luliia Volodymyrivna (60,3453% interest in the Bank) and Fursin Ivan Hennadiiovych (42.6042% interest in the Bank).

Other owners have insignificant interest in the Bank (less than 10%).

The total amount of loans granted to related parties comprises 0.04% of the Bank's regulatory capital.

The total amount of funds received from the related parties comprises 5,70% of the Bank's liabilities.

Table 30.1 Outstanding balances with related parties as at 31.12.2019.

Line	Item	Shareholders of the Bank	Key management personnel	UAH thousand	
				Associated entities	Other related parties
1	Loans to other banks (contractual interest rate - 19,5%)	-	-	17 000	-
2	Allowances for expected credit losses for loans to other banks	-	-	(17 000)	-
3	Loans and due from customers (contractual interest rate: 16,5% - 35%)	9	93	-	90
4	Allowances for expected credit losses for loans and advances to customers	(1)	(7)	-	(90)
5	Customers' fund (contractual interest rate: 0% - 17,5%)	31 239	2 614	55 013	3 502
6	Other assets	1	-	17	-

Table 30.2 Outstanding balances with related parties as at 31.12.2018

Line	Item	Shareholders of the Bank	Key management personnel	UAH thousand	
				Associated entities	Other related parties
1	Due from other banks	-	-	35 000	-
2	Allowances for expected credit losses for due from other banks	-	-	(35 000)	-
3	Loans and advances to customers (contractual interest rate: 16.5% - 35%)	-	127	-	-
4	Allowances for expected credit losses for loans and advances to customers	-	(10)	-	-
5	Loans and advances to customers (contractual interest rate: 0% - 15.9%)	60 677	941	42 194	1 250

Table 30.3 Income and expenses from transactions with related parties in 2019

Line	Item	Shareholders of the Bank	Key management personnel	UAH thousand	
				Associated entities	Other related parties
1	Interest income	-	17	4 599	1
2	Interest expense	(504)	(22)	(1 252)	(24)
3	Changes in allowances for expected credit losses of loans to customers and due from other banks	(1)	3	17 990	(90)
4	Fee and commission income	60	44	152	36

Table 30.4 Income and expenses from transactions with related parties in 2018

Line	Item	Shareholders of the Bank	Key management personnel	UAH thousand	
				Associated entities	Other related parties
1	Interest income	1	14	6 340	-
2	Interest expense	(1 114)	(21)	(756)	(19)
3	Changes in allowances for expected credit losses of loans to customers and due from other banks	(1)	(8)	(34 935)	-
4	Fee and commission income	151	213	153	10

Table 30.5 Total amount of loans granted to and repaid by related parties in 2019

Line	Item	Shareholders of the Bank	Key management personnel	UAH thousand	
				Associated entities	
1	Loans granted to related parties in the reporting period	78	3 128	25 000	
2	Loans repaid by the related parties in the reporting period	78	3 316	8 000	

Table 30.6 Total amount of loans granted to and repaid by related parties in 2018

Line	Item	Shareholders of the Bank	Key management personnel	UAH thousand	
				Associated entities	
1	Loans granted to related parties in the reporting period	57	2 273	-	
2	Loans repaid by the related parties in the reporting period	73	2 460	-	

Table 30.7 Compensation of key management personnel

Line	Item	2019		2018	
		Expenses	Accruals	Expenses	Accruals
1	Current employee benefits	12 851	847	9 292	660

### Note 31. Subsequent events

SARS-CoV-2 coronavirus epidemics started late in 2019 in China, turning into pandemics in early 2020 spreading throughout the world. Most countries implemented significant limiting measures to deter its effects. These financial, economic and physical measures, aimed at protection of human lives, slow down world economy growth, which may result in global economic crisis. Now, it is impossible to make a reliable estimate of the length of period of limiting measures and potential effect of the situation on economies of some countries and business environment where companies and individuals operate.

Starting from March 11, 2020, Cabinet of ministers of Ukraine issued a number of decrees, related to prevention of COVID-19 spread in Ukraine, introducing quarantine in Ukraine from March 12 to July 31, 2020, with

possible extension and declaring emergency situation. Supreme Rada of Ukraine approved the laws, aimed at prevention of COVID-19 spread in Ukraine, introducing certain changes into a number of Ukrainian laws.

Continuation of Covid-19 epidemics in Ukraine and quarantine complicated significantly the business by major limitations aimed at prevention of COVID-19 spread in Ukraine, thus materially affecting the Banks' work. In addition, there is a significant risk that Bank employees face the risk of infection and impossibility to perform their duties for a certain period of time.

Bank management believes that the Bank can continue as going concern, and the financial statements of the Bank do not have to be adjusted because of current limitations of the Bank activities or inability of the Bank and its counterparts meet their obligations in time and in full.

Bank management continuously monitors the situation. In case of significant changes of the situation or introduction of state of emergency in the country, or other events materially affecting work of the Bank, management of the Bank shall assess the effect of the events on work of the Bank and take decision regarding the need to adjust financial statements data and disclose this information.

Approved for issue and signed on 22.06.2020

Chair of the Management Board

Chief Accountant



V. O. Andreievskia

O. O. Markina

**PUBLIC JOINT STOCK COMPANY  
"BANK "CLEARING HOUSE"**

Management Report  
2019

*translation from Ukrainian original*

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## 1. Background information

Public Joint-Stock Company "Bank CLEARING HOUSE" operates on Ukrainian financial market as of 1996, offering full range of banking services for business and individuals.

**The Bank operates through Head office and 5 branches:**

- Head office (address: 5a, Borysohlibska str., Kyiv);
- Private banking center (address: 5/2, Zankovetskoy str., Kyiv);
- Dnipropetrovsk regional department branch (address: 4, Sichovyh Striltsiv str., Dnypro);
- Odessa regional department branch (address: 29, Uspenska str., Odessa);
- Severodonetsk branch (address: 59, Central avenue, Severodonetsk);
- Boryspilsk branch (address: 1<sup>st</sup> floor, premises of *Hall of Official Delegations SE*, airport, Boryspil, Kyiv oblast).

The Bank team includes over 250 employees, sharing Bank values, being true professionals, caring for offering high-quality services to the clients.

The Bank operates under the License to provide banking services No 171 of 13 October 2011 issued by the National Bank of Ukraine p. 3, Art. 47 of the Law of Ukraine On Banks and Banking Activities.

The Bank has the following licenses issued by the National Securities and Stock Market Commission to perform professional (depository) operations in the stock market:

- series AE No 263457 as of 01.10.2013 – depository activities of a depository institution;
- series AE No 263458 as of 01.10.2013 – activities of a custodian of mutual funds;
- series AE No 263459 as of 01.10.2013 – activities of a custodian of pension fund assets.

The Bank has the following licenses issued by the National Securities and Stock Market Commission to perform professional activities in the stock market (trading securities):

- series AE No 185076 from 19.10.2012 – dealer activities;
- series AE No 185077 from 19.10.2012 – brokerage activities.

The Bank is a member of the Deposit Guarantee Fund (registered on February 14, 2002, registration no. 149 as of 8 November 2012) and operates under the Law of Ukraine *On Individuals Deposits Guarantee Fund* No 4452-VI of 23.02.2012.

Resolution No 153 of 23.03.2016 of the Committee of the National Bank of Ukraine On Banking Supervision and Regulation, Payment System Oversight provided the consent to the acquisition of a qualifying shareholding in the Bank.

The Bank is a member of the Independent Banks' Association of Ukraine, the Association of Taxpayers of Ukraine, the Professional Association of the Participants of Capital Market and Derivatives, and the Ukrainian Stock Traders (the self-regulatory organization of professional securities market participants).

The Bank is effectively integrated into the international information and payment systems as a member of SWIFT international payment system and of REUTERS international dealing system, and an associate member of VISA international payment system.

## 2. Strategic mission and goal

### Bank's mission

The Bank is modern and stable financial institution, its missions is to offer high-quality personalized banking services to its clients, thus assisting in economic and social growth of the country.

The Bank strives to be a reliable partner of the customers, financial adviser and assistant, understanding needs and intentions of the customers, and offering them efficient solutions.

**Strategic goal of the Bank** is to maintain reliable-partner status for all parties interested in cooperation:

- Have a balanced growth, focusing on development of relations and business in segments of medium corporate clients and individuals;
- For clients – to be a reliable partner and financial advisor;
- For employees – to be the best employer, building strong, united and loyal team of professionals;
- For shareholders – to be profitable commercial bank and improve its position in the market of banking services.

## 3. Development strategy

**Major attributes of the Bank's financial model are:**

**Clients.** The Bank focuses its attention on attraction and development of relations with its clients from target segments, complying with requirements to reputation and financial position.

**Products.** Bank's products are selected based on current and prospective needs of clients from target segments. Pricing and tariff policies are based on market figures providing for adequate level of profitability.

**Technologies.** The Bank closely follows innovative processes in financial sector and implements modern technologies, if they are effectively used by the market leaders.

**Risk management.** The Bank uses risk management system, based on segregation of duties between departments, using advanced three protection-lines model. Major purpose of risk management system is to ensure financial sustainability of the Bank and efficient use of available resources to optimize risk/profitability ratio.

**Personnel.** The Bank creates comfort conditions for employees building strong, united and loyal team of professionals, improving their skills and professional competences, thus advancing the Bank.

**The Bank uses segmented approach to improve and develop its relations with the clients.**

**The Bank focuses its attention on cooperation with three target sectors:**

- Corporate – large business entities. Almost **800** entities engaged the Bank for provision of banking services in 2019.
- Private banking – wealthy individuals. The Bank is a stable partner for more than **1 900** premium clients, offering them exclusive servicing in specialized offices.
- Bank at work – individuals and SME, comprising over **23 000** individuals and SMEs, growing together with the Bank.

**Identification of a client as a target client of the Bank is based on:**

- Requirements to services and bank products
- Client's interests

**Effective work with a client is based on:**

- Development of respective services and channels for each business segment
- Planning and analysis of business targets for each segment and synergy of cooperation of businesses

**The Bank aims at long-term financial stability and efficiency, so, its major benchmarks are:**

1. Profitability of operations.
  - Maintaining profitability of assets at the level not less than **2%**
  - Maintaining profitability of assets at the level not less than **10%**
2. Financial stability and adequacy of equity
  - Maintaining enough adequacy of equity at the level not less than **13%**.

## **4. Ratings and awards**

**RURIK National Rating Agency increased major ratings level of the Bank on August 29, 2019.**

Public Joint-Stock Company "Bank CLEARING HOUSE" was awarded with increase of long-term credit rating of borrower to uaAA level in investment category with 'stable' forecast, which is characterized by very high creditworthiness compared to other Ukrainian borrowers or debt instruments. 'Stable' forecast confirms absence of preconditions for changes in the rating level in the near future.

Besides, RURIK National Rating Agency was assigned deposit reliability rating of the Bank at the level "**r4+**" on August 29, 2019, where reliability level 'r4' means high reliability of deposits, Bank activities are moderately dependent on financial and economic conditions, and level of market situation. Probability of collection of deposits is high. Sign '+' demonstrates intermediate rating level compared to major levels.

Key factors affecting increase of credit rating level:

- Adequate level of protection of assets by the equity.
- Adequate liquidity ratios.
- High concentration of loan portfolio by major borrowers.
- Adequate efficient operations indices.

**Financial Club financial analytic group included Public Joint-Stock Company "Bank CLEARING HOUSE" into *50 leading Ukrainian banks – 2019* rating.**

On April 25, 2019, Financial Club published annual *50 leading Ukrainian banks – 2019* rating. *Banks of 2019* rating posted Bank CLEARING HOUSE as number 5 in *Profitable Bank* nomination and number 10 in *Currency Bank for Business* nomination in the *Banks with Private Ukrainian Capital* category. Besides, based on its performance, Bank CLEARING HOUSE holds position 33 of the 50 leading Ukrainian banks.

*50 leading Ukrainian banks* project is the annual independent review of Ukrainian banking sector, selecting 50 leading Ukrainian banks and Top 10 banks in different sectors and lines of banking services. The purpose of this rating is to demonstrate best banks in products and services, disclosing their most promising projects and portfolios to big, medium and small business, as well as individuals. The review covers all banks operating in Ukraine, excluding insolvent ones. Methodology of the review is based on assigning of points to the banks in different segments of banking services.

***Global Banking & Finance Review* recognized Public Joint-Stock Company "Bank CLEARING HOUSE" as the BEST PRIVATE BANK UKRAINE 2019.**

Well-known *Global Banking & Finance Review* international financial publication awarded Public Joint-Stock Company "Bank CLEARING HOUSE" with its annual 2019 award. Decision to award Public Joint-Stock Company "Bank CLEARING HOUSE" as **BEST PRIVATE BANK UKRAINE 2019** was taken by expert committee of financial analysts of *Global Banking & Finance Review*, who pointed out continuing high quality of work of the Bank. *Global Banking & Finance Review Awards* review is the annual project of the leading international *Global Banking & Finance Review* publication with more than 3.6 million visitors per year from 200 countries. Since its introduction in 2011, the review reflects innovations, achievements, strategies, progressive and inspiring changes in the global financial community.

## 5. Corporate governance report

Corporate governance of Public Joint-Stock Company "Bank CLEARING HOUSE" is based on the provisions, set by Civil and Business Codes of Ukraine, Laws of Ukraine *On Banks and Banking Activities, On Joint Stock Companies, On Securities and Stock Exchange Market*, other laws, rules and regulations of NBU, National Committee of securities and stock exchange, Statute, Code of corporate governance of Public Joint-Stock Company "Bank CLEARING HOUSE", decisions of general meeting of shareholders, Supervisory Board and the Board of the Bank.

Code of corporate governance of Public Joint-Stock Company "Bank CLEARING HOUSE" is published at the website of the Bank:

[https://www.clhs.com.ua/storage/app/media/docs/about/Informatsiia\\_Emitenta/kod%D0%B5ks\\_korporatyvnoho\\_upravlinnia.pdf](https://www.clhs.com.ua/storage/app/media/docs/about/Informatsiia_Emitenta/kod%D0%B5ks_korporatyvnoho_upravlinnia.pdf)

In 2019, the Bank fully complied with principles of the Code of corporate governance without any deviations from the requirements of the Code.

Major methods of corporate governance in the Bank are:

- Rational and clear segregation of powers between management and control bodies, organization of their efficient functioning;
- Setting of strategic goals for the Bank and control over their implementation (including introduction of efficient systems of planning, risk management and internal control);
- Control over prevention, detection and settlement of conflicts of interests, which may arise between shareholders, members of Supervisory Board or the Board, employees, creditors, depositors, other clients and counterparts;
- Setting of rules and procedures to ensure compliance with the professional ethics principles;
- Setting of rules and control over disclosure of Bank-related information.

### Share capital and shareholders

Share capital of the Bank is UAH 510 392 935,00.

Share capital of the Bank is comprised of 48 173 registered shares, or 100% of their total quantity, par value of share is UAH 10 595,00.

Form of shares is paperless.

As at January 1, 2019, 7 legal entities and 2 natural persons are the shareholders of the Bank. Legal entities – shareholders own 82,2971% of share capital of the Bank, while natural persons – shareholders own 17,7029% of share capital.

### The ultimate owners of material interests in the Bank are:

Liovochkina Yuliia Volodymyrivna who indirectly owns 60.3453% of Bank's shares.

Resolution No 154 of the Committee of the National Bank of Ukraine On Banking Supervision and Regulation, Payment System Oversight on the consent to the acquisition of a qualifying shareholding in the Bank as of 23.03.2016.

Fursin Ivan Hennadiiovych who owns in total 42.6042% of shares in the Bank, including direct ownership of 10.7654% and indirect ownership of 31.8388%.

Resolution No 153 of the Committee of the National Bank of Ukraine On Banking Supervision and Regulation, Payment System Oversight on the consent to the acquisition of a qualifying shareholding in the Bank as of 23.03.2016.

### **Governance and Control bodies of the Bank**

#### **Governance bodies of the Bank are:**

- General meeting of shareholders of the Bank;
- Supervisory Board;
- Management Board.

#### *Control bodies of the Bank are:*

- Internal audit department;
- Risk management department;
- Compliance department.

### **General meeting of shareholders**

Highest governance body of the Bank is General meeting of shareholders.

General meeting of shareholders conducts general governance of Bank activities, setting objectives and strategy of development of the Bank.

The sole competence of General meeting of shareholders of the Bank include decisions on:

- 1) setting major lines of business and approving reports on their implementation;
- 2) introduction and changes and amendments into Statute of the Bank;
- 3) revocation of shares;
- 4) change of type of joint-stock company;
- 5) placement of Bank shares, placement of other securities with the value higher than 25% of the value of the Bank's assets;
- 6) increase of stated capital of the Bank;
- 7) decrease of stated capital of the Bank;
- 8) splitting or consolidation of shares;
- 9) approval of regulations on General meeting of shareholders, Supervisory Board, the Board, remuneration of Supervisory Board members, as well as introduction of changes and amendments into those regulations;
- 10) approval of annual results of Bank operations, Supervisory Board report, Board report, external audit conclusions and approval of measures to be taken based on results of deliberation over the above reports and conclusions;
- 11) distribution of profit and coverage of losses of the Bank;
- 12) redemption of stock by the Bank;
- 13) approval of annual dividends;
- 14) election of Chairman and members of Supervisory Board, approval of civil-law or labor contracts to be signed with them, setting their remuneration, including incentives and compensations, appointment of a person authorized to sign contracts with members of Supervisory Board of the Bank, approval of report on remuneration of Supervisory Board members;
- 15) termination of powers of Chairman and members of Supervisory Board;

- 16) termination and liquidation of the Bank, appointment of liquidation committee, approval of rules, procedures and terms of liquidation, rules of distribution of assets, remained after meeting of creditors' claims, and approval of liquidation balance sheet;
- 17) taking decisions based on deliberation over reports of Supervisory Board and the Board of the Bank;
- 18) approval of principles (code) of corporate governance of the Bank;
- 19) appointment of Bank termination committee;
- 20) based on appeal of Supervisory Board of the Bank, taking decision on entering into a material agreement, if market value of assets or services under the agreement are higher than 25 % of the value of Bank's assets in accordance with latest financial statements of the Bank;
- 21) taking decision on non-use of preferential right of shareholders to purchase shares of additional issue during their placement;
- 22) appointment of members of counting board, taking decisions on termination of their powers;
- 23) other issues of sole competence of General meeting in accordance with the Statute or regulations of General meeting of shareholders of the Bank, brought by Supervisory Board or the Board of the Bank for consideration of the General Meeting of shareholders, except for those, which under the law or Statute of the Bank, are the sole competence of the Supervisory Board of the Bank.

In 2019, General meetings of shareholders took decisions on the following issues:

- Review of report of the Board on the performance of Public Joint-Stock Company "Bank CLEARING HOUSE" in 2018;
- Review of report of the Supervisory Board on the performance of Public Joint-Stock Company "Bank CLEARING HOUSE" in 2018;
- Review and approval of the reports and independent auditor's report and the measures to be taken based of the results of review of audit firm report;
- Review and approval of 2018 annual financial statements of Public Joint-Stock Company "Bank CLEARING HOUSE";
- Distribution of 2018 profit and loss;
- Termination of powers of Supervisory Board of Public Joint-Stock Company "Bank CLEARING HOUSE";
- Election of members of Supervisory Board of Public Joint-Stock Company "Bank CLEARING HOUSE".

### **Supervisory Board**

Supervisory Board of the Bank is governing and controlling body, protecting interests of depositors, other creditors and Bank shareholders, which, within the framework of their competence, set by Statute and Ukrainian law, governs the Bank, controls and regulates the Board of the Bank.

Supervisory Board takes all necessary measures to prevent the conflict of interests in the Bank and assists in their settlement. Supervisory Board informs NBU on the conflict of interests in the Bank, if any, and provides for actual cooperation with NBU.

**In accordance with decision of General meeting of shareholders №40 of 25.04.2017**, Supervisory Board of Public Joint-Stock Company "Bank CLEARING HOUSE" was elected for 1-year period, consisting of:

#### **Chairman of Supervisory Board:**

- Viktor V. Vorobiov – representative of a shareholder – MONIER INDUSTRIAL GROUP LLC

#### **Members of Supervisory Board:**

- Iryna V. Dyrkina – representative of a shareholder EAST-WEST CAPITAL INVESTMENT LLC;
- Iryna P. Koleda - representative of a shareholder – MONIER INDUSTRIAL GROUP LLC;
- Volodymyr L. Krotiuk - representative of a shareholder – MONIER INDUSTRIAL GROUP LLC;
- Oleksandr V. Kyrychenko - independent member of Supervisory Board;
- Hanna T. Karcheva - independent member of Supervisory Board;
- Nadia P. Stadnik - independent member of Supervisory Board.

The sole competence of Supervisory Board includes:

- 1) approval of strategy of the Bank's development in accordance with major lines of business, stated by General meeting of shareholders of the Bank;
- 2) approval of Bank's budget, including budget of internal audit department;
- 3) approval of business plan for Bank's development;
- 4) development and approval of strategy and policies of risk management, procedures of risk management, list of risks and their limits;
- 5) provision for functioning of internal controls system and control over its efficiency;
- 6) control of efficiency of risk management system;
- 7) approval of the plan of restoration of Bank's operations;
- 8) determination of sources of capitalization and other financing of the Bank;
- 9) establishment of credit policies of the Bank;
- 10) provision for timely presentation (publication) of reliable information on Bank's operations by the Bank in accordance with Ukrainian law;
- 11) selection of organizational structure of the Bank, including structure of internal audit department;
- 12) approval and introduction of changes into internal rules, regulating work of structural departments of the Bank;
- 13) calling of General meeting, preparation of its agenda, taking decision on its date and inclusion of proposals into agenda of General meeting;
- 14) information of shareholders on General meeting, including the date of preparation of the list of Bank's shareholders, who must be informed about General meeting and have the right to take part in the meeting;
- 15) taking decision on regular and extraordinary General meetings at the request of shareholders or at the proposal of the Board;
- 16) taking decision on sale of redeemed shares;
- 17) taking decision on issuance of other securities by the Bank;
- 18) taking decision on redemption of other securities by the Bank;
- 19) approval of market value of assets in cases, set by Ukrainian law;
- 20) control over operations of the Board, offer of proposals to improve it;
- 21) appointment and discharge of Chairman and members of the Board;
- 22) approval of terms of civil-law, labor contracts to be signed with members of the Board, amount of their remuneration, including incentives and compensations;
- 23) taking decision of suspension (temporary) of Chairman of the Board from his/her powers and election of a person to act as Chairman of the Board, members of the Board;
- 24) appointment and discharge of heads of internal audit department, risk management department, compliance department of the Bank;
- 25) approval of terms of civil-law, labor contracts to be signed with heads of internal audit department, risk management department, compliance department of the Bank, amount of their remuneration, including incentives and compensations;

- 26) approval of rules and procedures and plans of work of internal audit department, and control over its work;
- 27) control over work of risk management department and compliance department;
- 28) appointment of audit firm to perform external audit of the Bank, approval of terms of the contract on audit, determination of the service fee;
- 29) deliberation over conclusions of external auditor of the Bank and development of recommendations for General meeting regarding decision on auditor's conclusions;
- 30) control over correction of deficiencies, identified by NBU and other state bodies, which, within the limits of their competence, oversee Bank's operations, internal audit department and audit firm. Based on the results of independent audit;
- 31) determination of the date of preparation of lists of persons, entitled to dividends, procedures and terms of payment of dividends within the time limits, set by law;
- 32) decisions on participation of the Bank in bank groups, unions and associations, establishment of other legal entities;
- 33) decisions on merger, acquisition, division, segregation or reorganization of the Bank;
- 34) decision on entering into significant contract, if market value of assets and services, covered by the contract, is 10 - 25 % of assets' value as per latest annual financial statements of the Bank;
- 35) decision on entering into a contract of interest;
- 36) determination of probability of insolvency of the Bank, resulting from its acceptance of liabilities or compliance with them, including payment of dividends or redemption of shares;
- 37) decision on selection of appraiser of Bank's assets and approval of term of the contract to be signed with the appraiser and service fee;
- 38) decision on selection (replacement) of depository and/or clearing entity and approval of term of the contract to be signed and service fee;
- 39) in cases, set by law, sending offers to Bank's shareholders on purchase of their shares;
- 40) decision on engagement of appraiser during transactions with securities, issued by the Bank;
- 41) decision on establishment, reorganization or liquidation of affiliates, branches and representative offices of the Bank, approval of their statutes and regulations;
- 42) approval of rules and procedures of transactions with the related parties;
- 43) other functions, as set by Ukrainian law.

Issues of the sole competence of Supervisory Board may not be solved by other bodies of the Bank, except for General meeting and in cases, set by Ukrainian law.

Supervisory Board of the Bank has a right to include any issue within its sole competence, as set by law or Statute, into agenda of General meeting.

Competence of Supervisory Board includes:

- Appointment and discharge of manager responsible for internal financial monitoring for prevention and counteraction of legalization (money laundering) of illegal revenues, financing of terrorism, financing of proliferation of mass destruction weapon, in accordance with NBU rules and regulations. The candidate for the position shall be agreed with NBU;
- Decision on maximal number of employees and payroll of the Bank;
- Appointment of registration committee and the secretary of General meeting of shareholders, called by Supervisory Board;
- Authorization of relevant person to chair General meeting of shareholders;

- Development of terms of contracts on merger (acquisition) or plans of division (segregation, reorganization) of the Bank and approval of the project;
- Preparation of explanations of terms of contracts on merger (acquisition) or plans of division (segregation, reorganization) of the Bank and approval of the project;
- Approval of draft statute of the Bank to be established by merger;
- Other powers delegated by General meeting of shareholders.

Supervisory Board may establish committees, consisting of its members, to study the issues within its competence and prepare them for consideration at its meetings, e.g., Supervisory Board committees on appointments, remuneration, risks, audit, etc.

In 2019, there were 76 meetings of Supervisory Board, 5 of which were common with the Management Board of the Bank, while 14 were held by secret ballot.

Supervisory Board considered the following:

- Review and approval of Risk Management Policies and Strategies;
- Approval of Code of Conduct (corporate ethics), Policies of prevention of conflict of interests, Rules of notification on violations;
- Review of PKF UKRAINE LLC independent auditor's report and 2018 management report;
- Review of 2018 Annual report of the Issuer;
- Approval of 2020 – 2022 Business plan of the Bank;
- Approval of 2020 Bank budget;
- Together with the Board – corrective measures based on results of NBU inspection;
- Approval of plans of audits by internal audit service;
- Updating current and approval of new internal Bank regulations in accordance with Supervisory Board competence;
- Review and approval reports on Bank operations and compliance with Bank budgets in 2018 and 2019;
- Review of reports Bank internal audit department;
- Review and approval of plans of audits by Compliance service for 2019;
- Approval of changes in Corporate structure of the Bank;
- Review and approval of Regulation on Bank departments;
- Approval of agenda of regular General meetings of shareholders, format and texts of bulletins, and decisions of other issues of Bank operations.

### **Management Board of the Bank**

Management Board manages everyday operations of the Bank, formation of the funds, accumulation of fixed assets, necessary for operations of the Bank in accordance with its statute, being responsible for efficiency of the Bank in accordance with rules and principles set by Statute, decisions of General meeting of shareholders and Supervisory Board of the Bank.

Number of members of Management Board is set by Supervisory Board of the Bank, and it cannot have less than 5 (five) members. Composition of the Board is approved by Supervisory Board of the Bank based on proposals of Chairman of Management Board.

### **Management Board of the Bank comprises:**

- Viktoriya O. Andreievskaya – Chair;
- Natalia G. Bryzhnik – deputy Chair;
- Mykola I. Onyschenko – deputy Chair;
- Liudmila L. Melenchuk – deputy Chair;
- Oleksandra O. Markina – Chief accountant;
- Pavlo Ye. Bassak – member of Board – head of financial monitoring function.

As of September 2, 2019, Liudmila L. Melenchuk was elected as deputy Chair in accordance with decision №42 of Supervisory Board of the Bank. National Bank of Ukraine approved appointment of Liudmila L. Melenchuk as deputy Chair by its decision №566 of 04.11.2019.

As at January 1, 2019, officials of the Bank do not own shares of Public Joint-Stock Company "Bank CLEARING HOUSE".

Management Board is accountable to General meeting of shareholders, Supervisory Board and provides for implementation of their decisions. Management Board operates in accordance with Statute of the Bank and Regulations of Management Board.

Management Board takes steps to develop and implement Regulation of processes of determination of related parties of Public Joint-Stock Company "Bank CLEARING HOUSE", approved by Supervisory Board of the Bank.

Management Board takes decisions on all issues of everyday operations of the Bank, except for those within the competence of General meeting of shareholders and Supervisory Board, namely:

- 1) development of draft budget of the Bank, strategy and business plans of development of the Bank for approval by Supervisory Board;
- 2) implementation of strategy and business plan of Bank's development;
- 3) determination of the form and rules of monitoring of Bank activities;
- 4) implementation of decisions of Supervisory board of the Bank regarding organization and functioning of internal control system related to day-by-day management of the Bank;
- 5) implementation of strategy and risk-management policies, approved by Supervisory Board, provision for implementation of procedures of identification, assessment, control and monitoring of risks;
- 6) formation of organizational structure of the Bank, approved by Supervisory Board, selection and training of personnel, management of structural and separated segments of the Bank;
- 7) development of provisions, regulating activities of structural and separated segment of the Bank in accordance with its strategy of development;
- 8) provision of security of Bank's IT systems and systems, used to safeguard clients' assets;
- 9) communication of information on Bank's performance, identified violation of laws, internal rules of the Bank and any deterioration of Bank's financial position or a threat of deterioration, level of risks, arising during Bank's operations, to Supervisory Board;
- 10) conduct of Bank operations, entering into interbank or other contracts in accordance with Statute of the Bank, NBU general license on currency transactions, accounting, reporting and organization of internal controls;
- 11) implementation of decisions of General meeting of shareholders, Supervisory Board, own decisions and orders;
- 12) provision of compliance with current laws, rules and regulations of NBU and National Committee on Securities and Stock Exchange by Bank employees;
- 13) approval of rules, programs, regulations, plans, instructions and all other internal regulatory documents of the Bank, approval of which is not the sole competence of General meeting and Supervisory Board.

Chair of Management Board is appointed by Supervisory Board.

Chair of Management Board has a right to act in the name of the Bank without Power of Attorney, including representation of Bank interests, in the name of the Bank sign contracts, which are not prohibited by Ukrainian law, Statute of the Bank and are not within the sole competence of General meeting of shareholders or Supervisory Board of the Bank, issue orders and commands, mandatory

for all personnel of the Bank, issue Powers of Attorney to other persons, who under Ukrainian law may act as Bank representatives.

Chair of Management Board organizes work of Management Board, calls its meetings, ensures keeping of minutes of Management Board meetings.

Chair of Management Board has a right to take part in meetings of Supervisory Board with advisory vote.

Management Board establishes standing committees to manage risks, namely, credit committee, assets and liabilities management committee, and other committees.

In 2019, Management board of the Bank held 198 meetings, 5 of which were held together with Supervisory Board of the Bank.

Management Board considered the following:

- review of Bank performance in 2018;
- control of performance of the Bank and compliance with 2019 budget;
- development of 2020-2022 Business plan of the Bank;
- review of 2020 budget of the Bank;
- review of reports on results of monitoring of business risks of the Bank and results of monitoring of efficiency of Bank internal control system;
- review of reports of internal audit service and implementation of recommendations based on audits;
- approval of the list of related parties of the Bank;
- introduction of changes into composition of Bank committees;
- Updating current and approval of new internal Bank regulations;
- Introduction of new Bank products and changes into existing products;
- Approval of job descriptions for Bank employees;
- Approval of Program of training and continuing education of Bank employees on risk management;
- Decisions on alienation and acquisition of property and decisions on other issues of Bank operations.

#### **Riles of appointment and discharge of Bank officials**

Election and termination of powers of members of Supervisory Board is based on decision of General meeting of shareholders. In accordance with Law of Ukraine *On Joint Stock Companies*, members of Supervisory Board are elected by cumulative vote, while termination of powers and election of Chair of the Supervisory Board of the Bank is based on majority of votes of shareholders, registered for participation at the general meeting, who are owners of voting shares.

Election and termination of powers/discharge of Chair and members of Management Board of the Bank (including deputy Chairs) is the sole competence of Supervisory Board of the Bank. Decisions are taken by simple majority of votes of members of Supervisory Board with voting power, taking part at the session. If the votes of members of Supervisory Board are equal, the vote of the Chair of Supervisory Board is decisive.

#### **Information on facts of violations internal rules by members of Supervisory and Management Boards, resulting in losses of the Bank or Bank clients**

There were no facts of violations internal rules by members of Supervisory and Management Boards, resulting in losses of the Bank or Bank clients.

**Fines and penalties applied to the Bank, including members of Supervisory and Management Boards by state bodies**

In 2019, the Bank was fined by UAH 202,7 thousand by results of tax audit of State fiscal administration and UAH 1,7 thousand for violation of currency laws by decision of NBU.

In 2019, no fines and penalties were applied members of Supervisory and Management Boards of the Bank.

**Internal audit department**

Internal audit department of the Bank is a standing department, which is a component of internal control system of the Bank. Professional qualifications of the head and employees of the department must comply with NBU requirements.

Internal audit service operates in accordance with approved internal regulations of the Bank. The service reports to NBU on its work twice a year and once a year – to Supervisory Board. Work of internal audit service in 2019 was recognized as satisfactory.

In accordance with Regulation on organization of risk management system in Ukrainian banks and bank groups, approved by Decree of NBU Board N 64 of June 11, 2018, and Regulation on organization of internal control system in Ukrainian banks and bank groups, approved by Decree of NBU Board N 88 of July 2, 2019, internal audit service of the Bank is the subject of risk management system and subject of internal control system of the Bank. In three-line protection model, internal audit service of the Bank is the third line, providing for review and evaluation of efficiency of functioning of risk-management system; independent evaluation of efficiency of functioning first and second protection lines, as well as overall evaluation of efficiency of internal control system.

Internal audit department, acting as third protection line, performs the following:

- 1) reviews existence and efficiency of risk management systems, correspondence of the systems to types and scopes of Bank transactions, and internal control of the Bank;
- 2) reviews process of assessment of adequacy of capital taking into account the risks of the Bank;
- 3) monitors compliance of managers and employees of the Bank with laws and internal Bank regulations, approved by Supervisory Board;
- 4) assesses IT support of control and performance of transactions;
- 5) reviews correctness and reliability of accounting and financial reporting;
- 6) reviews financial and business activities of the Bank;
- 7) reviews correspondence to qualification requirements and compliance with professional duties of Bank employees;
- 8) identifies and reviews cases of abuse of authorities by Bank officers and conflict of interests in the Bank;
- 9) reviews reliability and timeliness of presentation of information to state bodies, supervising Bank activities within limits of their competence;
- 10) evaluates activities of the Bank, outsourced to legal entities or natural persons on contractual basis;
- 11) based on the results of reviews, prepares and present reports (conclusions) and proposal (recommendations) on correction of identified violations to Supervisory Board;
- 12) performs other functions, related to supervision and control over Bank activities.

Internal audit department is accountable to Supervisory Board, acting on the basis of regulations approved by Supervisory Board.

Internal audit service offered recommendations to management, based on the results of audits performed, on improvements in internal-control and risk-management systems, corporate governance. Reports on results of audits were presented to Supervisory and Management Boards of the Bank. The service performed overall evaluation of internal control system by the processes reviewed in 2019. In general, efficiency of internal control system is adequate. Implementation of recommendations issued by internal audit service is controlled during the year.

### **Organization of internal control system**

Taking into account recommendations of Basel committee on banking supervision, rules and regulations of National Bank of Ukraine, the Bank provided for functioning of integral, efficient and adequate internal control system.

Internal control system is integrated into corporate management system of the Bank through:

- establishment of respective organizational structure;
- establishment of powers, subordination, accountability and segregation of duties of persons, engaged in functioning of internal control system, their responsibilities and procedures of interactions in internal documents, regulations on collegial bodies and structural departments of the Bank.

Internal control system of the Bank:

- includes the following components: control environment; inherent Bank risk management, including compliance risk; control activity in the Bank; control over information flows and communications of the Bank; monitoring of efficiency of internal control system of the Bank;
- provides for achievement of operating, information, compliance goals of Bank operations;
- is implemented at each organizational level of the Bank.

Internal control system of the Bank is based on segregation of duties between bank departments except for functions within the sole competence of Supervisory and Managements Boards of the Bank, Bank committees in accordance with Ukrainian laws, rules and regulations of National Bank of Ukraine and internal Bank regulations.

This segregation is based on three-line protection model, namely:

- first protection line – at the level of business and support departments of the Bank. These departments initiate, execute or disclose transactions, accept risk in their work process being responsible for current management of these risks and performing control measures within their competence;
- second protection line – at the level of Risk management department and Compliance service minimal requirements to which are set by Regulation on organization of internal control system in Ukrainian banks and bank groups, approved by Decree of the Board of National Bank of Ukraine № 64 of 11.06.2018. These departments provide assurance to Bank management that risk-control and management measures, done by first protection line and designed and operate properly;
- third protection line – at the level of Internal audit service, independently evaluating efficiency and adequacy of functioning of risk-management and internal-control systems, functioning of risk-management and compliance risk, taking into account requirements, set by Regulation on organization on internal audit in Ukrainian banks, approved by Decree of the Board of National Bank of Ukraine №311 of 10.05.2016.

General strategy, principles and approaches to organization and design of internal control system are set by Policies of internal control system of Public Joint-Stock Company "Bank CLEARING HOUSE", approved by Supervisory Board of the Bank.

### **Organization of risk management system**

Taking into account recommendations of Basel committee on banking supervision, rules and regulations of National Bank of Ukraine, the Bank provided for functioning of integral, efficient and adequate risk management system.

The Bank makes an integral assessment of the defined material risks, inherent to Bank activities: credit risk, liquidity risk, interest rate risk, market risk, operating risk (including information risk) and compliance risk.

When assessing all types of risks, the Bank takes into account risk of concentration.

Major goals of risk management system are:

- Identification and assessment of risk level of materiality;
- Assessment, aggregating and forecast of risk levels;
- Setting limits of the risks;
- Monitoring and control of scope of risk accepted, implementation of measures to reduce the risk in order to keep it within present internal / external range;
- Compliance with mandatory norms and limits set by regulator;
- Assessment of adequacy of financial resources to cover significant risks, inherent in Bank business (taking into account realization of stress scenarios);
- Strategic planning, taking into account the level of accepted risk;
- Informing Supervisory Board, Board, committees and other collegial bodies, established by Bank Board, departments, engaged in risk acceptance/management process, on significant risks and adequacy of Bank capital;
- Development of risk culture and competences regarding risk management.

Risk management policies are integral part of business planning and budgeting of Bank, aimed at:

- Ensuring / maintaining proper level of risk within the range of approved level of risk appetite and / or other limits and ranges;
- Provision of adequacy of capital to cover significant risks;
- Ensuring financial stability of the Bank and minimization of potential financial losses;
- Ensuring effective allocation of resources to optimize risk / profitability ratio;
- Ensuring going concern and planning of optimal business management of the Bank, taking into account possible stress situations;
- Prevention of cases of untimely and / or incomplete meeting of Bank obligations towards creditors and depositors;
- Improvement of risk management system, taking into account laws and regulations, internal and external factors, influencing Bank activities;
- Optimization of risk management processes at all organizational levels, ensuring timely detection of all significant risks;
- Assessment of risks and introduction of respective limiting measures;
- Effective cooperation of Bank departments in risk management processes and formation of provisions for possible losses;
- Compliance with internal procedures and powers in decision making.

Organizational structure of the Bank foresees distribution of functions, duties, powers and responsibilities between Bank departments in accordance with principle of 'three lines of defense'; for this purpose, the Bank uses continuous process of exchange / receipt / provision of necessary

information from internal and external sources. Continuity of the process implies use of the following mechanisms to support risk management processes:

- Information, analytical and technological systems as source of information and means of its transfer;
- Internal and external communications regarding Bank risk management;
- Regular reporting to Supervisory Board, Board and committees of the Bank, established by the Board, in line with their lines of risk-related responsibilities, on results of operations and compliance with risk management culture of the Bank.

The Bank maintains a set mechanism of exchange / transfer of information on risk management 'down-upward' (from employees to managers) and 'top-downward' (from managers to employees) for whole organizational structure of the Bank and assesses the risks by 2 major parameters: probability of risk realization and level of risk influence. Quantitative and qualitative methods and tools of risk assessment are selected depending on type of risk, based on internationally accepted practices, when the Bank assesses the risks individually and as a group, taking into account interactions of risks and their concentration.

### **Disposition to financial/non-financial risks**

The Bank regularly reviews its level of disposition to risks and sets risk appetite as an aggregate for all type of risks and as individual index for separate risks, defined in advance, within the range of admissible risk, covered by the Bank decision on expediency of compliance with them in order to achieve strategic goals and implement business plan of the Bank.

Significant risk factors, affecting the financial institution during the year were:

- High concentration of deposits of largest creditors in Bank liabilities;
- Short-term placement funds of clients dominate in resource base of the Bank.

In accordance with results of integral assessment of financial/non-financial risks (as at 01.01.2020), the Bank complies with prudential requirements of National Bank of Ukraine.

The Bank has low aggregated risk appetite, as confirmed by results of stress testing by types of inherent material risks of the Bank.

### **Protection of rights of consumers of financial services**

Public Joint-Stock Company "Bank CLEARING HOUSE" approved the rules of office work with appeals of citizens, setting the respective procedures, to ensure protection of rights of consumers of financial services.

Review and settlements of clients' appeals, replies based on the results of review is the responsibility of a structural department of the Bank, which competence covers the respective issue.

The Bank implemented a mechanism of confidential notification on improper conduct, said mechanism being set by Rules of confidential notification on improper conduct in the bank (whistleblowing policy mechanism).

Appeals with notification on improper conduct are reviewed by Compliance department, while other departments may be also engaged, if necessary.

The Bank recognizes each appeal as a possibility to further improve its work, quality of services and level of satisfaction of clients.

There were no complaints or appeals of the clients to the Bank in 2019.

As at the end of 2019, there were no court appeals by the clients against the Bank caused by provision of financial services.

The Bank steadily complies with legal requirements to protection of consumers' rights, implementing requirements of Regulation on provision of information on bank and other financial services by banks, approved by Decree of the Board of National Bank of Ukraine № 141 (with changes) of November 28, 2019

### **Other information on governing and managing bodies of the Bank**

Remuneration of members of Supervisory Board and Management Board of the Bank in 2018 was UAH 9,3 mln.

There were no facts of violation of internal regulations by members of Supervisory Board and Management Board in 2019, resulting in losses of the Bank or its depositors or other creditors, and facts of application of penalties for violation of banking laws and laws on prevention and counteraction of legalization (money laundering) of illegal revenues, financing of terrorism, financing of proliferation of mass destruction weapon, rules and regulations of NBU, or engagement in risky activities, threatening interests of depositors or other creditors of the Bank, and/or stability of banking system by state bodies (in particular, National Bank of Ukraine, over members of Supervisory Board and Management Board of the Bank. Besides, there were no decisions of the committees or decrees of the NBU Board on non-compliance of members of Supervisory Board and the Board of the Bank with requirements as to business reputation, independent directors and / or requirements of independence, or other violations by Bank officers, set by art. 42 of Law of Ukraine *On Banks and Banking Activities*.

Transactions with related parties are disclosed in Note 30 to 201 annual financial statements of Public Joint-Stock Company "Bank CLEARING HOUSE".

There were no facts of alienation and purchase-sale of assets during the year over the scope, set by Statute of the Bank.

There were no facts of issuance of derivatives or entering into contracts on derivatives by issuer in 2019.

There is no information on any limitations of rights of participation or voting rights of shareholders at general meetings of the Issuer.

### **External auditor**

Supervisory Board of Public Joint-Stock Company "Bank CLEARING HOUSE" (minutes of Supervisory Board № 31 of 21.09.2018), appointed PKF UKRAINE LLC as the external auditor.

PKF UKRAINE Limited liability company operates in the audit-services market for 13 years. PKF UKRAINE LLC provides audit services for the Bank for 4 years, including the reporting year.

The audit firm is registered in *Subjects of audit activities, having the right to act as statutory auditor of public interest entities* section of the Register of auditors and subjects of audit activities. Registration number in the Register is 3886.

Other audit services, provided by PKF UKRAINE LLC to the Bank during the year in addition to statutory audit of annual financial statements, included:

- sustainability assessment (assets quality review and acceptability of collateral under credit operations) as at 01.01.2019 in accordance with Decree of NBU Board № 141

of December 22, 2017, *On Assessment of Sustainability of Banks and Banking System of Ukraine* (with changes and amendments);

External auditor applied the following recommendations:

- art. 40<sup>1</sup> of Law of Ukraine *On Securities and Stock Exchange*
- art. 12<sup>2</sup> of Law of Ukraine *On Financial Services and State Regulation of Financial Services Market*
- On application of and compliance with requirements of Decision of SCSSE № 160 of 12.02.2013 *On Approval of Requirements to Auditor's Conclusion Presented to National Committee on Securities and Stock Exchange for Issuance of License on Professional Activities on Securities Market*
- On application of and compliance with requirements of Decree of NBU Board №90 *On Approval of Regulations On Rules of Filing of Auditor's Report Based on Results of Audit of Annual Financial Statements by Banks* of August 2, 2018
- On application of and compliance with requirements of Decree of NBU Board №373 *On Approval of Regulations on Preparation and Publication of Financial Statements by Ukrainian Banks* of October 24, 2011.

Rotation of auditors of the financial institution during last five years complied with requirements of Ukrainian law.

There were no penalties imposed on the auditor by Chamber of Auditors of Ukraine in 2019. There were no facts of filing of misstated financial statements, confirmed by auditor's opinion, identified by regulators of financial services markets.

There were no cases of conflict of interests and/or combining functions of internal auditor.

## **6. Economic environment**

The Bank operates in Ukraine, where economic environment is open and viewed as market with certain characteristics of transitional economies. Ukrainian economy greatly depends on world prices for raw materials and has low liquidity on capital markets. In this situation, banking in Ukraine is characterized by increased risks, which are not typical for advanced markets.

In case of Ukraine, external position and fiscal stability significantly improved during recent years, although the risks are still high, taking into account delays in official financing, in particular, by IMF, internal political cycle and high susceptibility to changes in external environment.

2014-2015 economic crisis caused the liquidity crisis in banking system. Additional administrative and regulatory restrictions on bank and client operations were implemented in banking legislation, including restrictions on foreign currency and cash transactions.

The economic situation started to stabilize in the second half of 2016.

In 2019, in the absence of significant turbulence, the economy continued to restore, while GDP grew by close to 3,3% (in 2018 GDP grew by 3,3%).

Major drivers were increase of consumers' demand at the background of increase of salaries, pensions and improvement of consumer's appetite together with rapid increase of investments. It caused growth of trade, transportation, construction and several services sectors. New record harvest of grain and oil-seed crops was an important driver for increase of GDP and export.

Industrial indices were low during the year due to unfavourable effect of international price situation, decrease of price competitiveness, strengthening of real exchange rate and dramatic climate changes through global warming (industrial production index in 2019 was negative, being «-0,5%» compared to 2018). Still, economic growth in 2019 increase demand for labor force, thus reducing unemployment and increasing employment.

In 2019, currency market demonstrated trend to strengthening of UAH due to excessive offer of foreign currencies during a lengthy period. Major sources of currency inflow were traditional export-oriented industries, portfolio investments and large offer of currency cash. National currency strengthened compared to USD by 5,7% and EUR by 10,6% in 2019, compared to average figures of 2018k.

Consistent monetary policies of National Bank of Ukraine and reasonable fiscal policies of the Ukrainian government created an environment with low and stable inflation. E.g., consumer's inflation in 2019 went down to 4.1% (2018 - 9.8%). For 5 months of 2020 inflation index was 1.8%.

Due to rapid improvement of macroeconomic situation in the country, NBU continued to extenuate its monetary policies, decreasing interest rate down to 13.5% annual as at the end of 2019. In June 2020, interest rate went further down to 6%. Decrease of interest rate and expectations of further decrease resulted in decrease of profitability of government bonds and UAH interest rate for clients of the banks.

National Bank of Ukraine continued to extenuate its currency control policies to improve business in Ukraine: on June 20, 2019, requirement of mandatory sale of currency by entities was invalidated, while limits to repatriation of dividends as of July 2019.

For 12 months of 2019 the Banks generated net profit of UAH 59,6 billion, while in 2018 net profit of the banks was UAH 16,5 billion. Banking sector continues to be profitable in 2020.

Retail credits and payment-processing servicing of clients continue to be major drivers of profitability of banking system. In 2019, demand for credit resources by corporate segment is increasing with simultaneous increase of cost of crediting and toughening of requirements regarding assessment of solvency of borrowers.

Changes in economic environment in 2019 brought the changes in sovereign credit rating of Ukraine and increase of international reserves of the country (reaching USD 25,4 billion as at June 1, 2020).

In June 2020, Moody's Investors Service international rating agency increased rating of long-term issuer and priority unsecured liabilities of Ukrainian government from 'Caa1' to 'B3' with 'stable' forecast.

In March 2020, Standard & Poor's international rating agency confirmed sovereign credit rating of Ukraine at 'B' level'.

In April 2020 Fitch international rating agency confirmed sovereign credit rating of Ukraine at 'B' level', lowering the forecast from 'positive' to 'stable'.

Level of macroeconomic uncertainty in Ukraine in 2019 continued to be high due to significant part of state debt repayable in 2019-2020, calling for mobilization of significant internal and external financing in the situation when developing countries have a lot of problems with sourced of financing. Further prospects of development depend on efficiency of reforms in the country, effective cooperation with IMF, economic policies of the government and positive changes in legal, fiscal and political areas.

SARS-CoV-2 coronavirus epidemics started late in 2019 in China, turning into pandemics in early 2020 spreading throughout the world. Most countries implemented significant limiting measures to deter its effects. These measures create operating problems for many companies, materially affecting international financial markets, while level of effect is undeterminable. Materiality of effect of COVID-19 on Bank operations greatly depends on length and effect of the virus on world and Ukrainian economies.

As the result of the above factors, Ukrainian banks aim, first of all, to stabilize their capitalization and profitability, ensure liquidity and solvency, improve quality of assets in order to comply with the standards, set by NBU.

## 7. Operating results

**Year of 2019 was the year of growth of financial stability and efficiency for Public Joint-Stock Company "Bank CLEARING HOUSE".**

### The Bank keeps high level of capitalization

Regulatory capital of the Bank as at the end of 2019 is **UAH 537,1 mln.**, being much higher than regulatory requirements of NBU, thus providing adequacy of capital at the level of **37,35%** while the minimal level is 10%. Basic capital is **UAH 457,7 million** or more than **85%** of total regulatory capital.

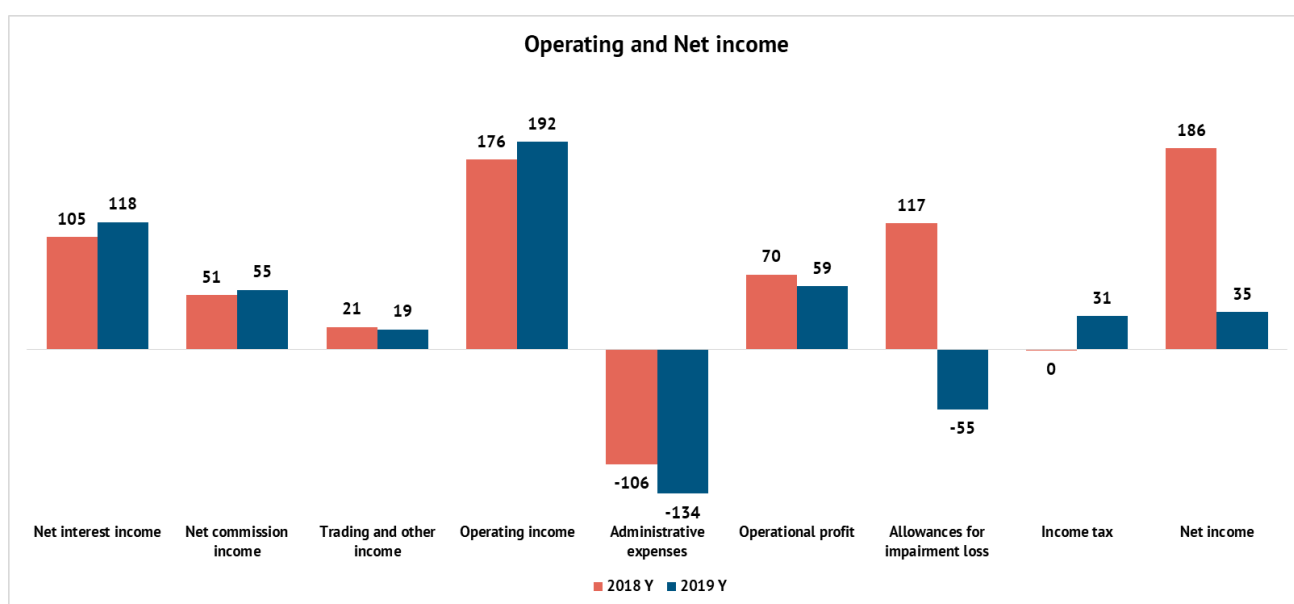
### Increase of profitability

Public Joint-Stock Company "Bank CLEARING HOUSE" is profitable commercial bank, getting net financial result of **UAH 34.7 mln.**

Operating income of the Bank in 2019 was **UAH 58,7 mln.**, including:

- Corporate – **UAH 20 mln.**;
- Individuals and SME – **UAH 25,8 mln.**:
  - Private Banking – **UAH 11,1 mln.**
  - Individuals and SME (Bank at work) – **UAH 14.7 mln.**
- Centralized, treasury transactions and non-allocated items – **UAH 12,9 mln.**

Effective performance of the Bank made it possible to improve its capital by creation of additional reserves for continuing growth and development in the process of implementation of EC directives and introduction of *Basel III* rules in Ukraine.

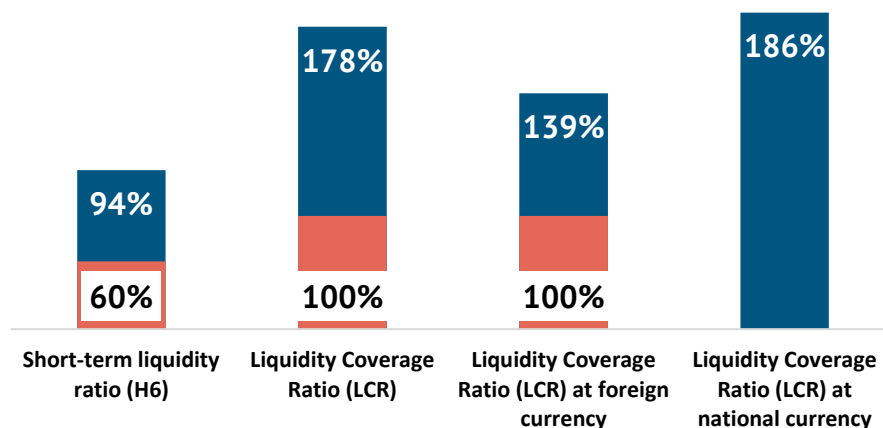


**Indicators of liquidity confirm stability of Bank positions, being higher than NBU requirements.**

Indicators of liquidity confirm that the Bank has adequate funds to cover its liabilities towards its clients.

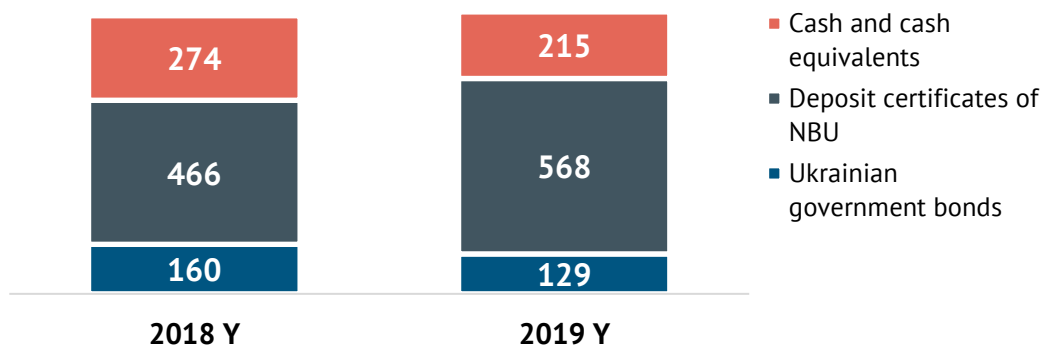
Indicators of liquidity are much higher than NBU requirements.

**Liquidity ratios (Indicators of liquidity)**



Over **76,4%** of high liquid assets are Deposit certificates of NBU and government bonds, permitting the Bank both to have adequate level of liquidity to meet its liabilities towards the clients and generate additional income. High liquid assets of the Bank increased by **UAH 71 mln.**

**High-liquid assets**

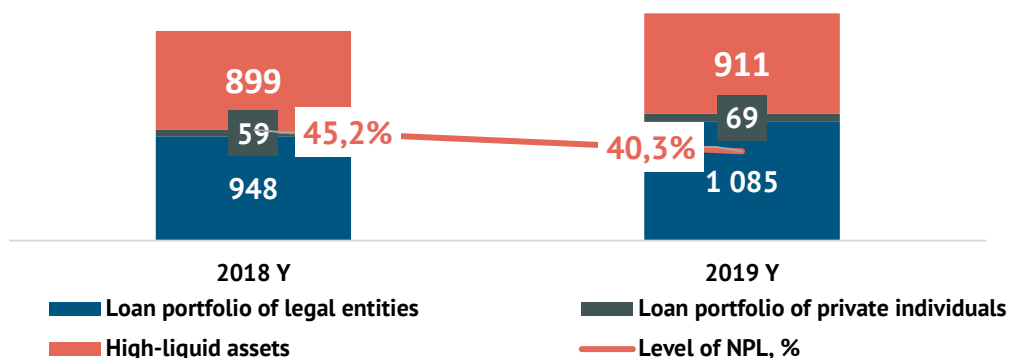


**Loan portfolio management**

As at the end of 2019, the Bank reached level of NPA in credit portfolio of **40.32%**, or **4.92 p.p.** lower than as at 01.01.2019 and **10.5 p.p.** better than average for Ukrainian banking system (as at the end of 2019, NPA share on loan portfolio of the banking system was **50,82%**).

In 2019, loan portfolio of private individuals increased by was **UAH 8,9 mln.**, with the growth rate of portfolio of **16%**. Major input into growth of such loan portfolio was increase of consumers loans. Still, total number of the borrowers with debts as at the end of 2019 is close to 750 clients or 258 clients more than as at the beginning of the year.

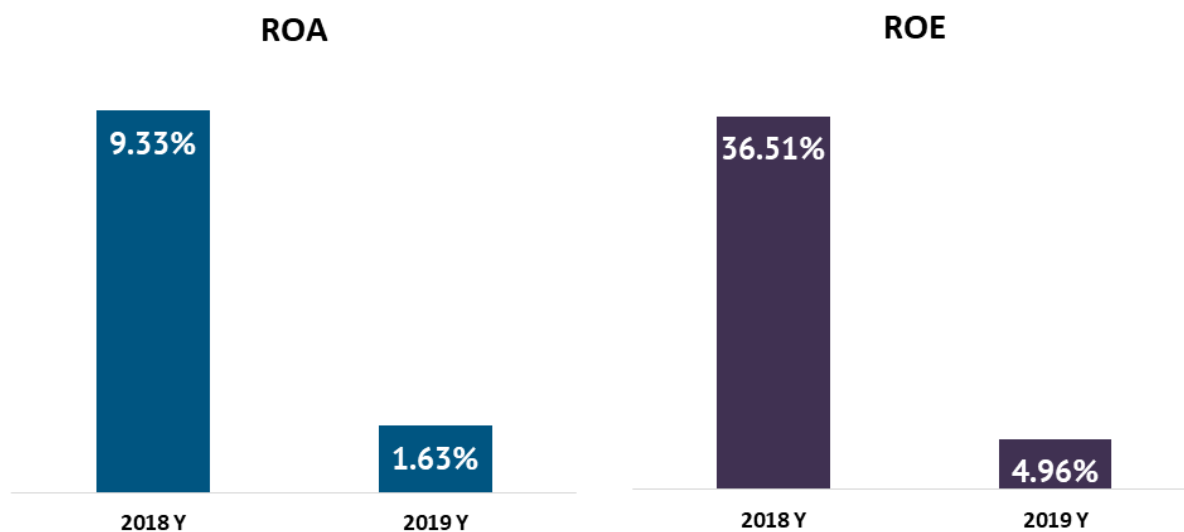
## Loan portfolio



### Efficiency indices grew up:

- ROE – ratio of net income and bank capital
- ROA – ratio of net income and bank assets
- Cost to income – ratio of administrative expenses and operation income
- Net interest margin – ratio of net interest income and amount of interest-generating assets.

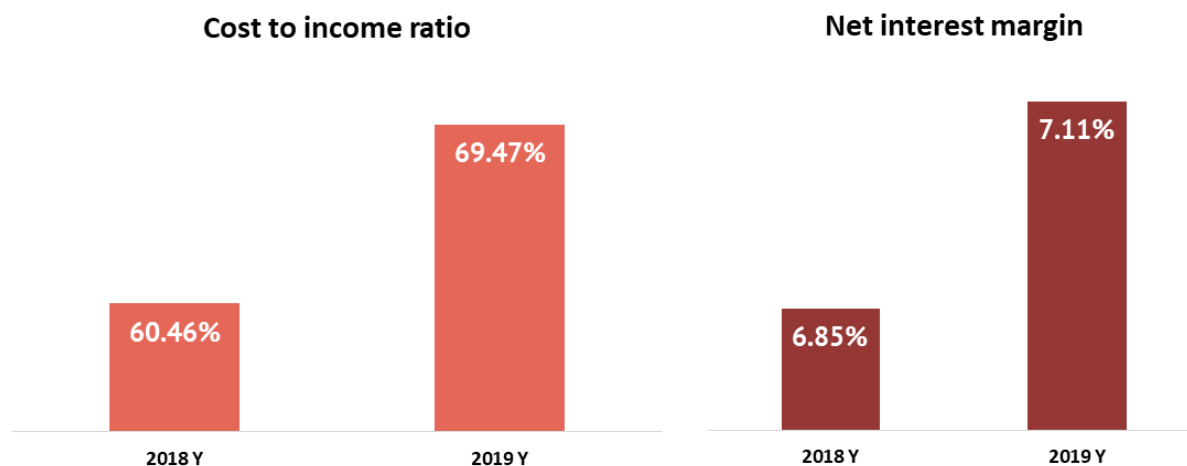
ROA and ROE reached **1,6%** and **4,9% %** respectively.



In 2019, Cost to income ratio of the Bank reached 69,5% as at the end of the year.

Net interest margin reached **7,1%** by 2019 results.

Major drivers for growth of efficiency of work with interest bearing resources and assets were significant decrease of costs of attraction of funds, increased efficiency of work with high liquid funds and increase of interest income through providing loans to new corporate clients and individuals.



### Depository activities

Public Joint-Stock Company "Bank CLEARING HOUSE" has more than 20 years of positive experience of work as depository with well-established and experienced team of experts at national stock market.

Public Joint-Stock Company "Bank CLEARING HOUSE" as a depository is a client of National Depository of Ukraine, NBU Depository, member of Professional association of members of capital and derivatives market (PARD).

In 2019, the Bank served more than 150 thousand accounts of securities and more than 460 issues of securities of local issuers, including state ones. Besides, the Bank provides services on safekeeping of assets of joint investment institutions and assets of private pension funds.

Depository operates in accordance with the license of National committee of securities and stock exchanges to professionally operate at stock market – depository activities.

Advantages of the Bank as depository include: many years of experience, active position at stock market, personalized and qualified approach to every client, optimal tariffs for depository services and full range of depository services.

### Operations and IT strategy

In 2019, departments of Centre of information technologies continue to operate along priority lines of IT strategy and modern IT challenges. Major aspects of IT strategies of the Bank include introduction of modern innovative technologies, automation of business processes, improvement of IT culture and transition to modern hard- and software.

Special attention was focused on project of replacement of major banking system (ABS), taking into account all requirements of users to channels of interaction with banking sector.

In order to improve its position in competitive environment and following the trends of banking services market in 2019, the Bank actively developed mobile payment systems. In 2019 the Bank introduced:

- E-wallets Apple Pay and Google Pay;
- Mobile app MyBank365.

Introduction of Apple Pay, Google Pay and mobile app MyBank365 improved interaction with the Bank, making it more comfortable and quicker, improving Bank's competitive position on the market and making it possible to add new services and optimize processing of bank products and their after-sale servicing in 2020.

Integral part of work of IT department is improvement of protection of IT systems, quality of which sets the level of safe and accessible services for clients and employees of the Bank.

## **8. Corporate**

Corporate business of the Bank demonstrates stable development and high results for quite a few consecutive years, thus confirming efficiency of selected business model of this sector.

Major goals for 2019 were maintenance of existing clients' base and initiation of cooperation with new clients, whose business complies with Bank requirements to compliance with laws and regulations and risk profile.

Over **800** corporate clients use financial services and products of the Bank (number of clients increased by **20** entities or **3.5%**). Number of transactions on settlements with counterparts by Bank clients in 2018 was over **410 thousand**, covering close to **UAH 75 billion**.

Cooperation with partners and clients is based on the following values:

- Personalization;
- Exclusivity;
- Confidentiality;
- Integrity and transparency;
- Long-term relations;
- Openness and experience of personnel.

Relations are developed through the following attributes:

Current services.

- Cash management
- Overdraft facilities
- Accumulating accounts
- Suppliers.

Safe and fast payments

- Availability of liquid funds for instant transfers
- Short-term loans
- Further development.

Project financing

- Documentary transactions
- Transactions with securities
- Deposits

Employees

- Salary cards
- Current services
- Loans
- Deposits

In 2019, the Bank focused its work in Corporate sector on improvement of personalized servicing of clients and improvement of credit products. E.g., in 2019, the Bank improved procedures of crediting and standardized procedures of issuance of bidding guarantees.

The Bank has an exclusive expertise in servicing entities of fuel and power industry with the products adapted for their cooperation with banking sector of economy.

Total loan portfolio of main debts is close to **UAH 900 mln.** Loan portfolio of new clients in 2019 went up by more than **UAH 124 mln.**, while the number of borrowers increased by 22%.

During the year, the Bank improved line of products for its clients, paying special attention to actualization of tariffs and products of resource-free active transactions. Considering rapid changes on banking services market, basic tariffs were adapted for consumers demand, thus making it possible for the Bank to be an active competitor on the markets of services to legal entities.

Funds of the clients reached close to **UAH 850 mln.**

Public Joint-Stock Company "Bank CLEARING HOUSE" offers maximal range of banking services, starting from different programs and products of financing of business development, efficient placement of temporarily free funds, servicing of corporate cards and salary projects, depository services and documentary transactions, to its corporate clients.

**Operating income** of corporate business in 2019 was more than **UAH 56 mln.**, including non-interest income of **UAH 20 mln.**

### **Major products and services**

#### Cash flow management:

- Opening and servicing current accounts;
- Centre of financial control of a company and controlled entities;
- International payments;
- budgeting;
- corporate auto-client;
- collection of cash;
- servicing of corporate cards and salary projects.

#### Free cash-flow management:

- classic term deposit;
- short-term treasury deposits, up to 30 days;
- overnight placement of funds;
- special decisions.

#### Financing of business:

- financing of circulating capital;
- multipurpose credit line;
- crediting of agricultural entities;
- classic overdraft (for legal entities);
- overdraft with differentiated interest rates;
- trade financing and documentary transactions (including bank guarantees, import letters of credit, documentary collection, settlements under promissory notes).

#### Depository services:

- opening and servicing securities accounts;
- servicing of non-documentary securities circulation on stock and off-stock exchange markets, including compliance with principle 'delivery of securities against payment';
- safekeeping of securities;
- blocking (pledge with liabilities) of securities and crediting against pledge of securities;
- servicing of joint investing institutions and private pension funds.
- immobilization of securities.

## 9. Private Banking

Development of cooperation with wealthy clients is one of major drivers of business model of the Bank.

The Bank creates an atmosphere that helps to unite people and values of a wealthy client.

Year by year number of clients in Private banking sector increases, confirming strong position of the Bank as a player in this segment of banking services in Ukraine.

In 2019 more than **1 900** wealthy clients (increase by more than **180** clients, or **10%**) preferred to cooperate with offices of Public Joint-Stock Company "Bank CLEARING HOUSE".

Cooperation with partners and clients is based on such values, as:

- Personalization;
- Exclusivity;
- Confidentiality;
- Integrity and clarity;
- Long-term relations;
- Openness and expertise of personnel.

Relations are developed through separate aspects of lives of wealthy clients:

- Family and home
- Friends and partners
- Business
- Personal interests

In 2019, the Bank focused on improvement of its competitiveness in Private Banking sector, based on its strong points – personalized services and flexibility.

The Bank closely monitors the development of services in Private banking both locally and internationally, introducing products, meeting the need of clients of this segment.

E.g., the Bank improved the scope of certain services to correspond to lifestyle of its clients. The clients get the possibility to visit lounge zones in international airports, using our card. The Bank introduced its own prize program for owners of INFINITE and Aristotle products, making it possible to increase cashless transactions of the clients due to use of the pay cards by 8%.

As a result, **operating income** of Private banking business in 2019 was over **UAH 43 mln.**, including non-interest income of **UAH 22 mln**, while operating profit in 2019 reached over **UAH 11 mln**.

Recognition of the efficient work of the Bank with Private banking clients is reflected in awards for services to wealthy clients by national and international financial publications:

- Global Banking & Finance Review mentioned Public Joint-Stock Company "Bank CLEARING HOUSE" as *Best Bank for Premier Banking Ukraine 2019*.

### Major products and services

#### Free funds management:

- Deposit with individual terms of the term, currency, accrual and payment of revenue, increase or partial draw of funds;
- Classic term deposits;
- Securities, etc.

#### Management of financial life:

- Servicing current financial needs (tariff plans based on premium VISA's cards)

- Centre of financial control of the family;
- Development of financial culture of kids;
- Agreement account for maximally safe purchase or sale of property;
- Concierge service 24/7;
- Rent of individual deposit safes;
- Collection, etc.

Financing:

- Credit cards with grace period
- Use of funds within credit limits;
- Overdraft.

## **10. Bank at work (individual clients/small and medium business)**

The Bank pays adequate attention to development of relations with clients of mass-affluent/mass segment and clients of small and medium business (Bank at work) to reach maximal synergy effect of servicing key business lines.

The Bank develops its services and assists each client to reach their goals and overcome difficulties.

Values of cooperation with the clients of major business lines are the integral part of Bank's corporate culture, so the Bank offers high-quality and high-level services its clients in Bank at work segment.

In 2019, Bank products were used by more than **22 000** individuals (number of clients increased by **1 000**, or **6%**), and close to **900** clients (number of clients increased by **100**, or **14%**), representing small and medium businesses.

Relations with clients are implemented through the following attributes:

- Family and home.
- Friends.
- Realization of goals.
- Private interests.

In 2019, the Bank improved its position in servicing acting and new clients – natural persons. In 2019, the Bank reviewed the whole line of card packages for the clients of Bank at work sector and increased cooperation with partners regarding attraction of new clients.

Non-interest income from servicing of the clients in 2019 reached over UAH **25**, or close to UAH **6** mln. more than in 2018.

In 2019, the Bank reached its goal to increase number of cashless transactions of the clients through use of pay cards and improve its position in financial life of the clients. Thus, the results of this line of business increased by **36%**.

As a result of increased activity of work with small and medium businesses, their number grew by 15% compared to the beginning of the year, thus making it possible to double portfolio of funds of these clients during the year.

Based on results of cooperation of the Bank and individual clients and SMB clients, loan portfolio of this segment increased by more than **17%** during the year, while portfolio of clients' funds reached close to UAH **230** mln. (or 56% growth rate during the year).

**Operating income** of "Bank at work" business in 2019 was close to UAH **42** mln., where more than UAH **25** mln. is non-interest income, while operating profit in 2019 reached close to **UAH 15** mln.

## Major products and services

### Management of free funds:

- Classic term deposit;
- Accumulation of funds with the possibility to add or draw funds;
- Treasury short-term (up to 30 days) deposit (for legal entities);
- Overnight placement of funds (for legal entities);
- Special decisions.

### Management of financial life:

- Opening and servicing current accounts;
- Servicing salary cards;
- Cashless transfers and payments;
- Purchase and sale of foreign currency cash;
- Rent of individual deposit safes.

### Management of cash flows (for legal entities):

- Opening and servicing current accounts;
- International payments;
- Collection of cash receipts;
- Servicing of corporate cards and payroll card projects.

### Financing:

- Overdraft for salary card;
- Credit line with renewable limit;
- Credit card with grace period;
- Mortgage crediting for purchased of property on primary market;
- Consumer's credits;
- Financing of circulating capital (for legal entities);
- Classic overdraft (for legal entities);
- Overdrafts with differentiated interest rates (for legal entities).

## 11. Synergy

**Synergy** is a component of the business model of Public Joint-Stock Company "Bank CLEARING HOUSE".

The Bank actively cooperates with Corporate segment clients to develop internal synergy, offering products for their owners, managers and employees.

E.g., total number of payroll projects in Corporate segment increased by **11** clients. In 2019, the Bank focused on increase of efficiency of servicing payroll projects, thus making it possible to increase income, generated by this product, by **40%**.

In general, in 2019, 206 companies entrusted the Bank to services their employees, which is more than **17 thousand** natural persons (increase by 700 clients).

In 2019, Treasury was traditionally active on Ukrainian interbank market, participating in operations in all segments: cash, currency, securities, etc.

The Bank is active player on interbank loan market, having a flawless reputation of reliable partner, making it possible to generate significant interest income through resource transactions on the market rather than just to support its liquidity.

Priority line of business for treasury is efficient management of free funds and achievement of optimal balance between liquidity, risk and profit.



Many years of experience and high work standards are the linchpin of successful management of liquidity and compliance with flawless payment discipline. One of the goals of treasury of the Bank is strict compliance with all necessary limits, liquidity standards, mandatory provision standards, set by the regulator.

Approved for issue and signed on 22.06.2020

Chair of the Management Board

Chief Accountant



V. O. Andreievska

O. O. Markina

## INDEPENDENT AUDITOR'S REPORT

*To the:*

*Shareholders and Supervisory Board of PJSC "CLEARING HOUSE"*

*National Bank of Ukraine*

*National Securities and Stock Market Commission*

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### OPINION

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

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

### Basis for Opinion

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

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

### Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
<b><i>Impairment assessment of loans and advances to customers</i></b>	
<p>The recognition and measurement of expected credit losses ('ECL') is complex and involves the use of significant judgment and estimation, including in the formulation and incorporation of multiple forward-looking economic conditions into the ECL estimates to meet the measurement objectives of IFRS 9.</p> <p>In determining ECL, management is required to exercise judgment in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The accuracy of the assumptions used in the models, including the macroeconomic scenarios, impacts the level of impairment provisions.</p> <p>Management exercises judgment in making estimations that require the use of assumptions which are highly subjective and sensitive to the risk factors, in particular to changes in economic and credit conditions.</p> <p>We identified the issue of impairment of loans and advances to customers as key audit matter due to the materiality of the loan balances, the complexity and subjective nature of the ECL calculation.</p> <p>We refer to the financial statements note 3 for information on principal accounting policies, notes 7 and 11 for disclosures and detailed information on the methods and models used and the level of the impairment allowances for loans and advances to customers.</p>	<p>The controls management established to support their ECL calculations were tested during our audit procedures.</p> <p>We also assessed whether the impairment methodology used by the Bank is in line with IFRS 9 requirements. Particularly we assessed the approach of the Bank regarding application of Significant increase in credit risk ('SICR') criteria, definition of default, The Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD') and incorporation of forward-looking information in the calculation of ECL.</p> <p>We have focused on assessing the Bank's assumptions and the expert adjustments applied in the model taking into account the empirical data and the existing credit and monitoring processes.</p> <p>For significant loans and advances assessed for impairment on an individual basis we applied our professional judgement for selection the sample taking into account different risk criteria:</p> <p>for selected loans and advances we checked the stage classification with assessing factors that affect the credit risk;</p> <p>for selected impaired loans and advances (Stage 3 and purchased or originated credit-impaired financial assets (POCI)) we tested the assumptions used in the ECL calculation, particularly expected scenarios and probabilities assigned to them and the timing and amount of expected cash flows, including cash flows from repayments and realisation of collaterals.</p> <p>For individually insignificant loans and advances which are assessed for impairment on a portfolio basis we performed such procedures as testing the reliability of key data inputs and related management controls, examination of key management's judgements and assumptions, including the macro-economic scenarios and the associated probability weights, analysing of impairment coverage of credit portfolio and its changes.</p>
<b><i>Fair value measurement of investment property and fixed assets (real property)</i></b>	
<p>The valuation of investment property and fixed assets is important for our audit, due to the materiality of such property and the subjective nature of the valuations.</p>	<p>We have performed procedures for assessing the risks of material misstatement in the Bank's accounting estimates based on our testing procedures. We determined that the fair value of relevant assets as at 31 December 2019 is</p>

Key audit matter	How our audit addressed the key audit matter
<p>In line with IAS 40, Bank values its investment property at fair value and in line with IAS 16 Bank values its fixed assets (real property) at fair value.</p> <p>The process of revaluation of the investment property and fixed assets is performed on a regular basis, in which each property is valued by an independent real estate valuation expert. At least annually the Bank performs an external evaluation of such assets.</p> <p>We refer to the financial statements note 3 for information on principal accounting policies. The valuation of the investment property is disclosed in note 9 and fixed assets in note 10.</p>	<p>consistent with the valuation reports of independent appraisers.</p> <p>We have performed procedures to determine the quality and objectivity of independent real estate valuation experts, the appropriateness of the parameters used and the correct recording of the revaluation.</p>

### Emphasis of matter

We draw attention to Note 31 "Subsequent events" to the Bank's financial statements, which describes the situation regarding future uncertainties related to the possible adverse effects of the COVID-19 coronavirus outbreak, both on the Bank and its counterparties and the Government of Ukraine's measures, that have been introduced and aimed at preventing its further emergence and spread.

Our opinion is not modified in respect of this matter.

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

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

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

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

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

### Responsibilities of Management and the Supervisory Board for the Financial Statements

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

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

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

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

## REPORT ON OTHER LEGISLATION AND REGULATORY REQUIREMENTS

### **Report on the requirements of the National Bank of Ukraine regarding the audit report on the audit of financial statements**

According to requirements of article 69 of Law of Ukraine "On Banks and Banking" and paragraph 27 "Regulations about the order of providing by banks to National bank of Ukraine audit reports for results of annual audit of financial statements", (approved by NBU Board Resolution No.90 of 02 August 2018) we are providing additional information (estimation), concerned annual financial statements of the Bank for the year ended 31 December 2019 about:

- correspondence (reliable disclosure) of distribution of bank's assets and liabilities by maturity buckets in the statistical data file A7X "Data structure of assets and liabilities by time buckets", prepared by the Bank for filing to National Bank of Ukraine as at January 1 of the year following the reporting one;
- compliance of the Bank with requirements determined by regulations of the National Bank on:
  - internal control;
  - internal audit;
  - measurement of credit risk on active banking operations;
  - identification of bank's related parties and conducting operations with them;
  - adequacy of banks' capital based on asset's quality;
  - accounting.

Issues, described in this report, were considered only within conducting the audit of annual financial statements of the Bank for 2019 on the base of sample testing and in the amounts, required for planning and for providing of audit procedures according to the requirements of International Standards on Auditing.

This report is intended for shareholders, management of the Bank and for National Bank of Ukraine. When examining this report, as it was stated above, limited scope of procedures, related to operations of the Bank and organisation of accounting system and internal control, should be considered.

Besides it should be taken into account, that the criteria of estimation of issues, related to the operations of the Bank and organisation of accounting system and internal control, used by us, can differ from the criteria, used by National Bank of Ukraine.

Below we present information and appropriate estimations that were mentioned above.

In compliance with the requirements of paragraph 27 Regulations about filing of auditor's report by banks to National bank of Ukraine based on results of annual audit of financial statements, that concern assessment of correspondence (reliable disclosure) of distribution of bank's assets and liabilities by maturity buckets in the statistical data file A7X "Data structure of assets and liabilities by time buckets", prepared by the Bank for filing to National Bank of Ukraine as at January 1 of the year following the reporting one, which is not an integral part of annual financial statements, the following conclusions can be reached.

We have not identified any facts of material inconsistencies (unreliable disclosure) in distribution of bank's assets and liabilities by maturity buckets in the statistical data file A7X Data structure of assets and liabilities by time buckets, prepared by the Bank for filing to National Bank of Ukraine as at January 1 of the year following the reporting one.

With regard to compliance of the Bank with requirements determined by regulations of the National bank of Ukraine on:

- internal control

In our opinion, internal control governs the risks according to the scope of the Bank's operations and risks, that the Bank is exposed to and complies to regulatory requirements.

- internal audit

In our opinion, Banks' internal audit complies with regulatory requirements. At the same time, based on the tasks that are arranging to the Internal Audit Department, the scope of planned inspections, the

support of the external audit engagements, and the tasks received from the Supervisory Board, available resources of IAD are insufficient.

- measurement of credit risk on active banking operations

We estimate that volume of credit risk on active banking operations has been adequately measured by the Bank in accordance with requirements of the regulations issued by National bank of Ukraine.

- identification of Bank's related parties and conducting operations with them

During our audit we have not found infringements of legal requirements that are prescribed for related party transactions and identification process.

- adequacy of Banks' capital based on asset's quality

As at December 31, 2019 (end of the day), regulatory capital of the Bank, is calculated in accordance with requirements of Instruction about the order of regulation of banks activity in Ukraine, (approved by NBU Board Resolution No 368 of 28 August 2001 No.368), calculated on the base of daily balance, is UAH 537 058 thousand.

The amount of capital as at the end of the reporting period is sufficient to perform operations that are specified in the banking license; the absolute amount of the capital corresponds to legal requirements for its size.

- accounting

Nothing has come to our attention that causes us to believe that the accounting of the Bank does not satisfy legal requirements of National bank of Ukraine.

### **Report on Management report**

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

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

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

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

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

### **Report on Corporate governance report**

We have examined information in Corporate governance report of the Bank, which is an integral part of the Management Report (hereinafter - Corporate governance report).

Management Board of the Bank is responsible for Corporate governance report and its preparation in accordance with p. 3 of art. 40<sup>1</sup> of Law of Ukraine *On Securities and Stock Market* and art. 12<sup>2</sup> of Law of Ukraine *On Financial Services and State Regulation of Financial Services' Markets*.

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

#### *Opinion*

Corporate governance report has been prepared and presented information is disclosed in accordance with requirements of p. 3 of art. 40<sup>1</sup> of Law of Ukraine *On Securities and Stock Market* and art. 12<sup>2</sup> of Law of Ukraine *On Financial Services and State Regulation of Financial Services' Markets*.

Description of the main features of the Bank's internal control and risk management systems in relation to the financial reporting process; list of holders, who directly or indirectly holding significant portion of shares of the Bank; information on any limitations of shareholders' rights and voting rights of shareholders at the general shareholders meeting of the Bank; rules governing the appointment and replacement of the Bank's officials, as well as authorities of the Bank's officials, disclosed in Corporate governance report, do not contradict to information, that has been obtained during our audit of financial statements and comply with the Law of Ukraine *On Securities and Stock Market*.

#### **Report on other legal and regulatory requirements of National Commission on Securities and Stock Market**

*(This section of the auditor's report is included in accordance with Requirements for audit report to be filed to National commission on securities and stock market for issuance of the license on professional activities in the stock market, approved by Decision of National Commission on securities and stock market N 160 of 12.02.2013 (hereinafter – the Commission) and in accordance with the requirements Terms of licensing of professional activities on stock market (securities market) – trading in securities, approved by Decision of National commission on securities and stock market N 819 of 14.05.2013) and with the requirements Terms of licensing of professional activities on stock market (securities market) – depository and clearing activities, approved by Decision of National commission on securities and stock market N 862 of 21.05.2013).*

#### *General information about the Bank:*

- a) full name: Public Joint-Stock Company "Bank CLEARING HOUSE"
- b) the identification code of a legal entity in the Unified State Register of Enterprises and Organizations of Ukraine, specified in the Unified State Register of Legal Entities and Individuals - Entrepreneurs and Public Associations: 21665382.
- c) location: 04070, Ukraine, Kyiv, Borysohlibska Street, building 5, letter A.
- d) date of state registration: 30.12.1996
- e) main types of activities: Code CTEA (KVED) 64.19 «Other types of money mediation».
- f) date of amendments to the constituent documents: 11.02.2019 approved by National Bank of Ukraine (shareholders' decision dated 20.12.2018)
- g) a list of participants who own 5% or more shares at the date of the audit report, indicating the actual size of this amount:
  - "INDUSTRIAL GROUP "MONIER" Limited Liability Company - 43.0718%;
  - "EAST-WEST FINANCE" Limited Liability Company - 22.3382%;
  - Fursin Ivan Hennadiiovych - 10.7654%;
  - Titarenko Oleg Mykolayovych - 6.9375%;
  - "ARDEX" Limited Liability Company - 6.4642%;
  - "EAST-WEST CAPITAL INVESTMENT" Limited Liability Company - 6.1092%.

Below is the list of matters and conclusions, reached by the auditor, regarding:

- compliance of equity, as disclosed in the financial statements of the Bank, with the requirements, set by rules and regulations of the Commission:

Equity, as disclosed in the financial statements of the Bank, complies with the requirements, set by

rules and regulations of the Commission;

- compliance of share capital with the constituent documents (description of measurement, including type of documents)

Registered stated capital in accordance with Statement of financial position of the Bank as at December 31, 2019, is UAH 510 393 thousand (510 392 935,00 UAH), thus complying with constituent documents. Stated capital was inputted by monetary funds.

- Forming and payment of share capital (paid in full or in part, documents (including name, date and ref. number), on which auditor's conclusion is reached):

According to the information specified in the letter from the National Bank of Ukraine (ref. No. 27-0008 / 20575 dated 15.04.2019), the size of the registered and actually paid share capital of the Bank is UAH 510 392 935,00. Share capital paid in full.

- Absence of overdue liabilities regarding payment of taxes (existence/absence of tax debt) and dues, unpaid penalties for violation of legislation on financial services, including services on securities market.

We did not identify any overdue liabilities regarding payment of taxes and dues, unpaid penalties for violation of legislation on financial services, including services on securities market.

- Information on directions of funds' utilisation, that have been paid-in to form share capital of the Bank, which, in accordance with its Charter, intends to be engaged in professional activities on securities market as of the date of establishment or as of the date of introduction of changes into Charter regarding major types of businesses:

Funds, paid-in to form share capital of the Bank, are has been used for banking activities.

- Information on related parties of the Bank, identified by the auditor while performing audit procedures for the financial statements:

Information on related parties of the Bank, identified by the auditor while performing audit procedures for the financial statements, is disclosed by the Bank in Note 30 "Related party transactions" to the financial statements.

- Information on existence and scope of contingent assets and/or liabilities, which probability of recognising in the balance sheet is reasonably high:

Contingent assets and/or liabilities, probability to recognise which in the balance sheet is reasonably high, are disclosed by the Bank in Note 27 "Contingent liabilities of the Bank" to the financial statements.

- Information on the events after the balance sheet date, which are not disclosed in the financial statements, but may have material effect on the financial position of the Bank:

We did not identify any information on the events after the balance sheet date, which are not disclosed in the financial statements, but may have material effect on the financial position of the Bank.

- Information on existence of other facts and circumstances, which may have significant effect on future activities of the Bank, and assessment of their influence

We did not identify existence of other facts and circumstances, which may have significant effect on future activities of the Bank, except for those disclosed in the financial statements and auditor's report.

### **Other elements**

*Basic information on the audit firm:*

a) full name of legal entity in accordance with constituent documents:

- PKF UKRAINE LIMITED LIABILITY COMPANY (ID code of legal entity 34619277)

b) number and date of issuance of Certificate on inclusion in the Register of audit firms and auditors, issued by Chamber of Auditors of Ukraine (hereinafter CAU):

- The audit firm is registered in *Auditing Entities, Having the Right to Perform Statutory Audits of*

*Financial Statements of Public-Interest Entities* section of Register of auditors and Auditing Entities. Registration number 3886.

c) number, series, date of issuance of Certificate of registration on the Register of audit firms, having the right to perform audits of professional participants of securities market, issued by National commission on securities and stock market: Keeping of Register was annulled by Decision of National commission on securities and stock market № 845 of 04.12.2018.

d) full name of the auditors, participating in the engagement; number, series, date of issuance of the auditor's certificate by CAU:

- Sviatoslav Biloblovskiy; banks' auditor certificate № 0072 of 29.10.2009; registration number in the register of auditors 100190.

e) address of the legal entity and factual place of business:

- 4<sup>th</sup> floor, 52 letter B, B. Khmel'nitskogo str., Kyiv, Ukraine

*Basic information on terms of the audit agreement:*

a) date and number of the audit agreement:

- Agreement № 41 from 26.09.2018 and supplementary agreement № 3 from 25.09.2019

b) beginning and closing date of the audit:

- Date of beginning: 18.11.2019
- Date of closing: 24.06.2020

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

We have been appointed for audit of the annual financial statements of the Bank for the financial year ended 31 December 2019 by resolution of the Supervisory Board dated 21 September 2018. The total duration of our audit engagements with the Bank is 4 years, including the reporting year.

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

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

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

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

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

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

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

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

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

Engagement partner on the audit

(registration number in the register of auditors 100190)

S.V. Biloblovskiy

On behalf of PKF UKRAINE LLC Director

I.O. Kashtanova

Kyiv, Ukraine

24 June 2020



*[Handwritten signature]*