BANK
"CLEARING HOUSE"

IFRS Financial statements and Management report with Independent auditor's report for the year ended 31 December 2018.

Contents

PUBLIC JOINT STOCK COMPANY
"BANK "CLEARING HOUSE"

Annual Financial Statements
for the year ended 31 December 2018

CONTENTS

Statement of Financial Position (Balance Sheet)

as at 31 December 2018

in thousands of UAH

Item	Notes	31.12.2018	31.12.2017
ASSETS			
Cash and cash equivalents	5	237 275	319 817
Loans and advances to customers	6	632 632	546 596
Investment securities	7	625 446	580 902
Investment property	8	469 109	494 768
Current income tax prepayment		11 073	11 073
Deferred tax assets	22	22 236	25 355
Property, equipment and intangible assets	9	98 100	80 529
Other assets	10	45 226	52 058
Non-current assets held for sale and disposal groups	11	-	80 880
Total assets		**2 141 097**	**2 191 978**
LIABILITIES			
Amounts due to clients	12	1 565 134	1 785 481
Provisions for liabilities	13	27	9
Other liabilities	14	50 322	79 269
Total liabilities		**1 615 483**	**1 864 759**
EQUITY			
Share capital	15	510 393	510 393
Financial assistance from shareholders		190 000	190 000
Retained earnings/(accumulated loss)		(238 168)	(422 097)
Reserves and other funds of the bank		-	-
Revaluation reserves	16	63 389	48 923
Total equity		**525 614**	**327 219**
Total liabilities and equity		**2 141 097**	**2 191 978**

Approved for issue and signed on 19.04.2019

Chair of the Management Board ____________ V. O. Andreevska

Chief Accountant ____________ O. O. Markina

Statement of profit and loss and other comprehensive income

(statement of financial performance)

for the year ended 31 December 2018

in thousands of UAH.

Item	Note	2018	2017
Interest income	18	198 308	158 846
Interest expense	18	(93 780)	(129 879)
Net interest income		**104 528**	**28 967**
Commission income	19	59 821	55 199
Commission expense	19	(9 241)	(7 415)
Net income (loss) from transactions with debt financial instruments measured at fair value through profit or loss		(206)	(717)
Net income (loss) from transactions with debt financial instruments measured at fair value through other comprehensive income		166	-
Gains less losses from foreign currency transactions		8 520	4 799
Gains less losses (losses less gains) from foreign currency revaluation		532	2 288
Net income (loss) from revaluation of investment property		(304)	-
Gains or losses on initial recognition of financial assets at rates above or below market		-	(108)
Net income (loss) from impairment of financial assets		117 227	(348 026)
Net (increase)/decrease of provisions for liabilities		(18)	216
Other operating income	20	11 877	28 726
Labor remuneration expenses		(56 924)	(47 362)
Depreciation and amortization		(5 294)	(5 751)
Administrative and other operating expenses	21	(43 880)	(53 330)
Income/(loss) before taxes		186 804	(342 514)
Income tax expenses	22	(471)	(4 521)
Income/(loss) from continuing operations		**186 333**	**(347 035)**
Income/(loss) for the year		**186 333**	**(347 035)**

OTHER COMPREHENSIVE INCOME:

Item	Note	2018	2017
OTHER COMPREHENSIVE INCOME NOT TO BE RECLASSIFIED TO PROFIT OR LOSS			
Revaluation of property, equipment and intangible assets	16	18 262	(1 212)
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	(1 212)
ITEMS TO BE RECLASSIFIED TO PROFIT OR LOSS			
Revaluation of debt financial instruments		(620)	568
Net change of fair value	16	(620)	568
Income tax, related to other comprehensive income to be reclassified to profit or loss	22	111	(102)
Other comprehensive income to be reclassified into profit or loss after taxes of the year		(509)	466
Other comprehensive income after taxes		14 466	(746)
Total comprehensive income for the year		**200 799**	**(347 781)**
Income (loss), belonging to:			
Bank owners		186 333	(347 035)
Total comprehensive income, belonging to:			
Bank owners		200 799	(347 781)
Earnings (losses) per share from continuing operations, UAH:			
Net earnings (loss) per share, UAH	23	3868,00	(7 203,93)
Earnings (loss) per share, belonging to Bank owners:			
Net earnings (loss) per share for the year, UAH.	23	3868,00	(7 203,93)

Approved for issue and signed on 19.04.2019

Chair of the Management Board ____________ V. O. Andreevska

Chief Accountant ____________ O. O. Markina

Публічне акціонерне товариство «БАНК «КЛІРИНГОВИЙ ДІМ» Ідентифікаційний код 21665382 м. Київ Україна

Statement of changes in equity

(statement of equity)

for the year ended 31 December 2018

in thousands of UAH

Line	Item	Notes	Share capital	Financial assistance from shareholders	Reserves and other funds	Revaluation reserves	Retained earnings/(accumulated losses)	Total equity
1	**Closing balance as at 31.12.16**	**15**	**510 393**	**190 000**	**6 971**	**49 669**	**(83 244)**	**673 789**
2	Total comprehensive income					(746)	(347 035)	(347 781)
2.1	Loss in 2017						(347 035)	(347 035)
2.2	Other comprehensive income	16				466		466
2.3	Realized revaluation of property and equipment					(1 212)		(1 212)
3	Realised revaluation of property and equipment						1 211	1 211
4	Losses covered from reserves				(6 971)		6 971	-
5	**Closing balance as at 31.12.17**	**15**	**510 393**	**190 000**	**-**	**48 923**	**(422 097)**	**327 219**
6	Influence from transition to IFRS 9						(2 404)	(2 404)
7	**Opening balance as at 01.01.2018 taking into account influence from transition to IFRS 9**	**15**	**510 393**	**190 000**	**-**	**48 923**	**(424 501)**	**324 815**
8	Total comprehensive income					14 466	186 333	200 799
8.1	2018 income						186 333	186 333
8.2	Other comprehensive income	16				14 466	-	14 466
9	**Closing balance as at 31.12.18**	**15**	**510 393**	**190 000**	**-**	**63 389**	**(238 168)**	**525 614**

Approved for issue and signed on 19.04.2019

Chair of the Management Board V. O. Andreevska

Chief Accountant O. O. Markina

Statement of cash flows prepared by indirect method

for the year ended 31 December 2018

in thousands of UAH

Item	Note	2018	2017
CASH FROM OPERATIONS			
Profit/(loss) before tax		186 804	(342 514)
Adjustments			
Depreciation and amortization		5 294	5 751
Net increase/(decrease) of asset impairment provision		(117 209)	347 810
Amortization of discount / (premium)		3 196	1 462
Results of transactions with other financial instruments measured at fair value through other comprehensive income		(166)	-
Results of transactions with other financial instruments measured at fair value through profit or loss		206	717
Result of trading in foreign currencies		(8 520)	(4 799)
(Accrued income)		84 874	(28 587)
Accrued expenses		(22 415)	3 700
Net loss/(earnings) from investing activities		(597)	(1 423)
Other non-cash operations		3 190	20 118
Cash flows from operating activities before changes in operating assets and liabilities		**134 657**	**2 235**
Changes in operating assets and liabilities			
Net (increase)/decrease of loans and due from other banks		491	(121)
Net (increase)/decrease of loans and advances to customers		(13 680)	(42 104)
Net (increase)/decrease of other financial assets		7 150	19 472
Net (increase)/decrease of other assets		(2 602)	2 431
Net increase/(decrease) of due to banks			
Net increase/(decrease) of amounts due to customers		(197 731)	(380 167)
Net increase/(decrease) of debt securities in issue		-	(5 438)
Net increase/(decrease) of provisions for liabilities		18	(216)
Net increase/(decrease) of other financial liabilities		50 362	77 075
Net increase/(decrease) of other liabilities		1 394	176
Net cash received from/(used in) operating activities before income tax expense		**(19 941)**	**(326 657)**
Income tax paid		-	-
Net cash received from/(used in) operating activities		**(19 941)**	**(326 657)**

Item	Note	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities		(220 627)	(13 441)
Proceeds from sales of investment securities		159 344	14 173
Proceeds from sale of investment property		25 750	-
Acquisition of fixed assets	9	(5 062)	(3 305)
Proceeds from sale of fixed assets		201	6 957
Purchase of intangible assets	9	(2 827)	(510)
Net cash received from/(used in) investing activities		**(43 221)**	**3 874**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash received from/ (used in) financing activities		-	-
Effect of official exchange rate fluctuations on cash and equivalent		5 680	(16 931)
Net increase/(decrease) in cash and cash equivalent		**(57 482)**	**(339 714)**
Cash and cash equivalents – opening balance	5	801 740	1 141 454
Cash and cash equivalents – closing balance	5	744 258	801 740

Approved for issue and signed on 19.04.2019

Chair of the Management Board V. O. Andreevska

Chief Accountant O. O. Markina

Note 1. Background information

These financial statements of Bank CLEARING HOUSE Public Joint-Stock Company (hereinafter – the Bank) were prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018.

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

The full name of the Bank is Bank CLEARING HOUSE Public Joint-Stock Company, 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 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. 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:

Liovochkina Yuliia 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 2018, the Bank has 4 branch banks.

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 om capital markets. In such situation, banking operations in Ukraine are characterized by increased risks, which are not typical for developed markets.

Countries with developing markets entered into period of financial turbulence after a long period of growth.

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.

In 2018, Ukrainian economy and bank sector were highly affected by the continuing effects of 2014-2015 events, in particular:

- A part of the territory in the East of the country, where the armed conflict is going on, is not controlled by Ukraine,
- Annexation of Republic of Crimea by Russian Federation, not recognized by Ukraine and many other countries, dramatically deteriorated Ukrainian – Russian relations.

A strong economic crisis caused a liquidity crisis in the banking system. [It would be discussed here below]. Additional administrative and regulatory restrictions on bank and client operations were implemented in banking legislation, including restrictions on foreign currency and cash transactions.

A deterioration of the economic situation resulted in a revision of credit quality and significant expenses on the provisions for crediting transactions. Therefore, the banks had to focus, first of all, on the search for potential sources of additional capitalization.

Local currency inflation in 2015 reached 52,2%, while in 2016 – 13,3%.

Number of active banks went down from 163 as at 31 December 2014 down to 77 as at 31 December 2018.

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

In 2018, GDP grew by 3,3% (in 2017 GDP grew by 2,5%), mostly due to increase of local demand, both consumers' and investing.

In 2017-2018, National Bank of Ukraine (NBU) removed some limitations in foreign currency controls, introduced in 2014-2016:

- Prohibition to issue local-currency loans to customers against foreign currency funds, kept at bank accounts, was removed;
- Limitation in force as of September 2016, when one customer was not allowed to get cash more than equivalent to UAH 250 thousand;
- Rules of obtaining loans from international financial institutions were simplified to improve cooperation between them and Ukrainian business and increase the inflow of debt capital into the country;
- Administrative limitations of foreign currency market were decreased (mandatory sale of foreign currency receipts went down from 65% to 50%; period for settlements under foreign-trade contracts was increased from 120 to 180 days);
- Possibility to expatriate dividends, generated by corporate rights and shares for foreign investors was improved;

- Advanced repayment of external foreign currency credits and loans was made possible.

As of beginning of 2018, the NBU increased reference rate several times, until it reached 18% per year as at the end of that year.

Toughening of monetary policies was the result of increase in risks of inflation and the need to keep in the average-term level, caused by several factors, namely, existence of high inflation pressure, complicated access to international financial resources for developing countries, uncertainty of effect of trade conflicts on market opportunities and stable consumers' demand.

Strict monetary policies of NBU restrained inflation pressure, in particular, through exchange rate channel. As a result, consumers' inflation started to decrease year by year.

Annual inflation rate in 2018 was 9,8%, while at the end of 2017 it was 13,7%.

Moderate devaluation of UAH in respect of USD in 2017 (-3,2% p/p) and its strengthening by 1,4% in 2018 helped to improve inflow of local-currency deposits into the banking system. E.g., UAH deposits of individuals increased in 2017 by 12,5% compared to 2,1% growth in 2016. In 2018 local-currency deposits continue to grow reaching 14,5% as of the beginning of that year.

In general, clients' portfolio in Ukrainian banks in 2018 increased by 3,8%, while the aggregated credit portfolio increased during the year by 4,2% p/p (NBU operative data). The highest growth rate was demonstrated by UAH loans to natural persons - 15,1% in 2018, confirming that consumers' loans are drivers for crediting activities of the banks.

Important factor of macroeconomic stability for Ukraine is cooperation with IMF – after receipt of third tranche within the EFF program framework in September 2016, Ukraine received fourth tranche in early April 2017 in an amount close to USD 1 billion, which, together with issue of Eurobonds by Ukrainian government for the amount of USD 3 billion helped to increase international reserves of Ukraine up to USD 18,8 billion as at 31 December 2017.

In 2018, international reserves of Ukraine increased by USD 3,1 billion due to:

- Receipt of IMF tranche – close to USD 1,4 billion;
- Financing within the framework of guarantees of World Bank and EC crediting program – close to USD 1 billion;
- Attraction of USD 0,5 billion by the government through loan securities.

Due to above, international reserves reached USD 20,8 billion as at 31 December 2018.

Banking sector started to generate profit in 2018 – net income of the banks was UAH 16,5 billion compared to UAH 28,1 billion loss in 2017.

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.

In 2018, Standard & Poor's (rating of «B-/B») and Fitch (rating of «B-») confirmed sovereign credit ratings of Ukraine with 'stable' forecast. In December, Moody's increased sovereign rating of Ukraine to Caa1 with 'stable' forecast.

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

External risk, in general, decreased for Ukraine. Major economic risk is the absence of progress in structural reforms, needed to maintain macroeconomic stability and further cooperation with IMF, having high volume of repayment of external debts in coming years.

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.

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 otherwise stated.

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 the 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 conract 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 ot 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 provision.

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 provisions. Income through derecognition of provisions is recognized even if it is higher that earlier provision 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 provision), 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 analyzes changes in ECL for establishment/derecognition of estimated provisions.

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-tern 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-tern 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 provision 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 though 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.

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 provision 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 by the agreement.

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

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 of 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 value of financial asset and recognizes profit or loss from modification, if term of agreement are 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 value 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 value of modified financial asset and amortizes it during the life of the asset.

The bank recognizes difference between gross carrying value under initial or modified terms as profit or loss of 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, shared 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 instruments, recognized at fair value though 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, need for liquidity, existence and profitability of alternative investments, sources or terms of financing, or range of currency risks;
- Shares and other financial investments which the bank is ready to sell because of change of risks, need for liquidity, 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 affective 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 fi9nancial 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 such nominal value.

3.10. Sale and repurchase agreements

A sale and repurchase agreement is 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. Securities 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 accr4ual 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 o0n analysis of estimated cash flows.

Impairment of debt securities, recorded at amortized cost, is reflected by establishment of provision 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 payed 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.

At the year end, the Bank discloses 3 objects as investment property that are leased. These are carried at fair value. In 2018, 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. Property and equipment.

The cost of items classified as property and equipment should exceed UAH 6,000. The low value non-current 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.

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

Useful lives of property and equipment are determined by a special commission created by a directive of the Bank management and stated in the Act 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;
- transport vehicles – 60-84;
- telephone equipment – 24-60;
- equipment (furniture) – 48-180;
- office equipment – 24-60;
- computer equipment – 24-60;
- domestic appliances – 36-120;
- other property and equipment – 24-144.

Useful lives of property and equipment were not revised in 2018.

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

In 2018, the Bank disclosed revaluation (upward or downward) of buildings and facilities, as depreciated value of assets differs from their fair value established by experts as at the reporting date.

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%.

For the estimation of the intangible assets useful lives 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 2018.

The Bank did not revise amortization rates, useful lives, or historical cost of intangible assets in 2018.

3.17. Operating leases where the Bank is a lessor and/or lessee

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.

The Bank accrues and pays lease payments on assets obtained as operating leases according to the terms of contracts. When the contract provides for leasehold improvements through modernization, modification, addition, furnishing, reconstruction etc., which increase their future economic benefits, the actual cost of improvements is recognized by the Bank as a capital investment in the creation (construction) of other non-current tangible assets. Completed capital investments are carried on account 4500 Other non-current tangible assets and are depreciated over the term of the lease using the straight-line method. Current maintenance costs of non-current assets acquired under operating lease is carried on account 7421.

3.18. Financial leases where the Bank is a lessor and/or lessee

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 will 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 2018, 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 2017 and 2018.**

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

At 31 December 2018, 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 law.

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.

The results 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.

At 31 December 2018, the principal rates of exchange used for translating foreign currency balances were as follows

:

Currency	Currency code	2018	2017
USD 100	840	2768,8264	2806,7223
EUR 100	978	3171,4138	3349,5424
GBP 100	826	3513,1366	3773,3670

Currency	Currency code	2018	2017
RUB 10	643	3,9827	4,8703
BYN 10	933	128,1983	142,2782

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

There were no changes in the accounting policies of the Bank in 2018. There were no adjustments of significant errors.

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 provision for ECL under debt financial assets, recorded 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 (ECK during 12 months) not later than the nearest reporting date after initial recognition of financial asset. The nearest reporting date regarding establishment of provision 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 provision 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 provision for financial asset at the second stage of impairment (ECL during the 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 provision for financial asset at the third stage of impairment (ECL during the life of financial asset), if, as at the reporting date, there is objective evidence of impairment of an asset.

The bank does not recognize provision 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 provision, 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 t 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 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 accounting 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, 2018.

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

The Bank applied IFRS 9 Financial Instruments for the first time, using simplified approach, when transfer is disclosed through recalculation of respective opening balances without adjustment of comparative information. Information of the nature and effect of the changes is disclosed below.

The Bank also used certain other amendments and interpretations in 2018, but they do not have significant impact on the financial standing and equity of the Bank.

The following new standards and amendments area mandatory for the bank after 1 January 2018.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is valid as of 1 January 2018. The standard is applied retrospectively to classification of financial instruments, credit loss assessment and recognition of income and expenses regarding financial instruments with certain exceptions and simplifications. Namely, previous period comparatives are not re4calculated, retrospective application does not cover items, derecognized as at the day of transition, while any differences between carrying value of financial instruments in line with IFRS 9 and IAS 39 as at the date of transition are recognized ion opening balance of equity items.

IFRS 9 did not significantly influence classification of financial assets, held by the bank as at January 1, 2018, as the deposit certificates of NBU, credits to customers, financial receivables, disclosed at amortized cost in line with IAS 39, were also measured at amortized cost in accordance with IFRS 9.

The standard includes recommendations on classification and valuation, accounting of risks created by impairment and derecognition:

- IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and its cash flow characteristics. A new business model was introduced which allows certain financial assets to be categorized as "fair value through other comprehensive income" in certain circumstances.

- The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.
- The new standard introduces a single "expected credit loss" impairment model for the measurement of financial assets.
- IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements.
- IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39.

Impact of IFRS 9 on classification and measurement of financial assets and liabilities as at the date of preparing of these financial statements is presented below:

The table below presents the impact of IFRS 9 implementation on assets and liabilities as at 01.01.2018:

(in thousands of UAH)

Line	Item	Previous data	Impact of transition to IFRS 9	Data in line with IFRS 9
1	Cash and equivalent:			
	Correspondent accounts, deposits and overnight bank loans	247 951	(491)	247 460
2	Loans and advances to customers	546 596	(2 441)	544 155
3	Deferred tax asset	25 355	528	25 883
4	Retained earnings	(422 097)	(2 404)	(424 501)

The table below presents the impact of IFRS 9 implementation on retained earnings as at 01.01.2018:

(in thousands of UAH)

Accumulated loss	
Closing balance as at December 31,2017, in line with IAS 39	***(422 097)***
Recognition of ECL in line with IFRS 9 for balances at correspondent accounts in other banks	***(491)***
Recognition of expected credit loss under IFRS 9 under loans to customers	***(2 441)***
Recognition of deferred tax asset	***528***
Total adjustments under IFRS 9	***(2 404)***
Opening balance under IFRS 9 as at January 1, 2018	***(424 501)***

The data of the statement of financial position as of January 1, 2018 were recalculated, which resulted in the increase of accumulated loss by 2 404 *in thousands of UAH.*

Statement of cash flows and basic and diluted earnings per share did not change significantly as a result of implementation of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 11 Construction Contracts, IAS 18 Revenue together with respective clarifications; it is applicable to all income items, related to contracts with customers, excluding the contracts which are covered by a separate standard.

New standard describes a five-step methodology that is required to be applied to all income generated by contracts with customers. Under IFRS 15, revenue is recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 introduces more structured approach to measurement and recognition of revenue. The standards rule to use assumptions and take into account all relevant facts and conditions, when applying each stage of the model to contracts with customers. The standard also contains requirements to additional costs of entering into contract and costs, directly related to implementation of the contract.

The Bank applies IFRS 15, using modified retrospective application method, only to the contracts, which are not terminated as at the day of first application - as at January 1, 2018. Application of IFRS 15 did not significantly affect the Bank's financial statements.

Amendments to IAS 40 Investment Property

IAS 40 requires a property to be transferred to, or from, investment property only when there is a change in use. The amendment clarifies that a change in management's intentions for the use of a property does not in isolation provide evidence of a change in use. This is because management's intentions, alone, do not provide evidence of a change in use. An entity must, therefore, have taken observable actions to support such a change.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. In addition, the interpretation should not be applied to income taxes, insurance contracts or reinsurance contracts.

For the purpose of determining the exchange rate, the date of the transaction is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, the date of the transaction is established for each payment or receipt. In other words, the related income, expense or asset should not be remeasured for changes in exchange rates occurring between the date of initial recognition of the advance consideration and the date of recognition of the transaction to which that consideration relates.

New standards and interpretations that will be mandatory for the bank in the future are presented below.

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 2019**.

The Bank has not applied these standards and interpretations before their effective date.

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 management

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 statement.

Amendment to IFRS 3 Financial Instruments Prepayment right with negative compensation

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.

Amendment to IFRS 9 Financial Instruments Prepayment right with negative compensation

The narrow-scope amendment allows Bank to measure particular prepayable financial assets with negative compensation at amortised 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.

IFRS 16 Leases

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15 Revenue from Contracts with Customers.

IFRS 16 supersedes IAS 17 Leases and related rules of application.

IFRS 16 introduces principles of recognition, presentation and disclosure of lease to provide for presentation of respective information by le4ssors and lessees, reliably presenting these transactions.

IFRS 16 uses model, based on control to identify lease to differentiate between lease transactions and service contracts, depending on whether an asset is controlled by a lessee.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right- of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognizes depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows.

IFRS 16 supersedes the following Standards and Interpretations:

- 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.

Still, the standard does not call for significant accounting changes for lessors.

At the moment, the bank started to apply IFRS 16, and the process may be described as:

- Initial recognition of acting lease contracts, where the bank is a lessee, is done retrospectively with recognition of cumulative effect of initial application of the standard.
- As at 01.01.2019, an asset, representing the right to use the leased object and liabilities under lease contracts, in an amount of 5 585,6 *in thousands of UAH* was recognized.

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, being effective for annual periods beginning on or after 1 January 2021, with early application permitted.

This standard is expected to have no effect on the financial statements of the Bank.

IAS 19 Plan Amendment, Curtailment or Settlement

Amendments to IAS 19 specify how an entity determines pension expenses when changes to a defined benefit pension plan occur. IAS 19 'Employee Benefits' specifies how an entity accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement- takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

The amendments are expected to have no effect on the financial statements of the Bank.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures come into force as of January 1, 2019 and apply to long-term interests in an associate or joint venture, being the result of introduction of another standards – IFRS 9 Financial instruments, meaning that part of long-term investments in the associate or joint venture. to which the equity method is not applied, are to be accounted in accordance with IFRS 9. These amendments are expected to have no effect on the financial statements of 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.

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 is effective for annual reporting periods beginning on or after 1 January 2019.

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 annual improvements are effective for periods beginning on or after 1 January 2019. These improvements are not expected to have any impact on the financial statements of the Bank.

Note 5. Cash and equivalent

Table 5.1. Cash and equivalent

in thousands of UAH.

Line	Item	31.12.2018	31.12.2017
1	Cash	44 923	48 186
2	Mandatory cash balances with the NBU (except for mandatory reserves)	22 282	23 680
3	Correspondent accounts, overnight loans and deposits with other banks:	212 053	249 874
3.1	*of Ukraine*	*81 894*	*130 221*
3.2	*of other countries*	*130 159*	*119 653*
4	Total cash	279 258	321 740
5	Provision for devaluation of cash	(41 983)	(1 923)
6	**Total cash and equivalent**	**237 275**	**319 817**

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 Analysis of changes in provision for cash and equivalent

in thousands of UAH

Line	Item	Stage 1	Stage 2	Stage 3	Total
1	**Provision for impairment as at the end of 31.12.2017**	**(1 923)**	-	-	**(1 923)**
2	Changes from introduction of IFRS 9	(491)	-	-	(491)
3	**Provision for impairment as at 01.01.2018**	**(2 414)**	-	-	**(2 414)**
2	(Increase)/decrease of the provision during the period	(4 624)	-	(34 851)	(39 475)
3	Recognition of profit/loss from changes at provision accounts	55	-	(149)	(94)
4	**Provision for impairment as at the end of 31.12.2018**	**(6 983)**	-	**(35 000)**	**(41 983)**

Table 5.3 Analysis of credit quality of cash as at 31.12.2018

in thousands of UAH

Line	Item	Cash	Cash in NBU	Cash at correspondent accounts	Total
1	Cash at first stage of impairment	44923	22 282	177 053	244 258

Line	Item	Cash	Cash in NBU	Cash at correspondent accounts	Total
1.1	Cash without delayed payment	44 923	22 282	177 053	244 258
2	Cash at third stage of impairment	-	-	35 000	35 000
2.1	Cash without delayed payment	-	-	35 000	35 000
3	Total cash	44 923	22 282	212 053	279 258
4	Provision for impairment of cash	-	-	(41 983)	(41 983)
5	**Total cash net of provisions**	**44 923**	**22 282**	**170 070**	**237 275**

Table 5.4 Analysis of cash credit quality as at 31.12.2017

in thousands of UAH

Line	Item	Cash	Cash in NBU	Cash at correspondent accounts	Total
1	Cash at first stage of impairment	48 186	23 680	249 874	321 740
1.1	Cash without delayed payment	48 186	23 680	249 874	321 740
2	Total cash	48 186	23 680	249 874	321 740
3	Provision for impairment of cash	-	-	(1 923)	(1 923)
4	**Total cash net of provisions**	**48 186**	**23 680**	**247 951**	**319 817**

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

in thousands of UAH.

Line	Item	31.12.2018	31.12.2017
1	Cash	44 923	48 186
2	Mandatory cash balances with the NBU (except for mandatory reserves)	22 282	23 680
3	Correspondent accounts, overnight loans and deposits with other banks	212 053	249 874
4	Deposit certificates	465 000	480 000
5	**Total cash and equivalent**	**744 258**	**801 740**

Note 6. Loans and advances to customers

Table 6.1 Loans and advances to customers

in thousands of UAH

Line	Item	31.12.2018	31.12.2017
1	Corporate loans	947 889	1 059 370
2	Mortgage loans to individuals	13 246	14 002
3	Consumer loans to individuals	46 231	22 573
4	Provision for loan impairment	(374 734)	(549 349)
5	**Total loans and advances to customers net of provision**	**632 632**	**546 596**

Information of Note 6 and Table 6.1, Line 5 is used for the purposes of the statement of financial position (the balance sheet).

Table 6.2 Analysis of changes in loan impairment provisions in 2018

in thousands of UAH

Line	Changes in provisions	Stage 1	Stage 2	Stage 3	Total
1	**Balance as at 01.01.2018**	**(745)**	**(4 153)**	**(544 451)**	**(549 349)**
2	Changes, caused by application of IFRS 9		(2 351)	(90)	(2 441)
3	(Increase)/decrease of impairment provision during the period	(15 788)	3 031	170 740	157 983
4	Recognition of profit/loss from change of utility at provision accounts			(693)	(693)
5	Bad debts written off during the period through provisions			19 865	19 865
6	Exchange rate differences	37	(3)	(133)	(99)
7	**Balance as at 31.12.2018**	**(16 496)**	**(3 476)**	**(354 762)**	**(374 734)**

Table 6.3 Analysis of changes in loan impairment provisions in 2018

in thousands of UAH

Line	Changes in provisions	Corporate loans	Mortgage loans to individuals	Consumer loans to individuals	Total
1	**Balance as at 01.01.2018**	**(534 662)**	**(8 441)**	**(6 246)**	**(549 349)**
2	Changes, caused by application of IFRS 9	(2 345)	(90)	(6)	(2 441)

Line	Changes in provisions	Corporate loans	Mortgage loans to individuals	Consumer loans to individuals	Total
3	(Increase)/decrease of impairment provision during the period	162 397	212	(4 626)	157 983
4	Recognition of profit/loss from change of utility at provision accounts	(693)	-	-	(693)
5	Bad debts written off during the period through provisions	13 303	-	6 562	19 865
6	Exchange rate differences	31	(128)	(2)	(99)
7	**Balance as at 31.12.2018**	**(361 969)**	**(8 447)**	**(4 318)**	**(374 734)**

Table 6.4 Analysis of changes in loan impairment provisions in 2017

in thousands of UAH

Line	Changes in provisions	Corporate loans	Mortgage loans to individuals	Consumer loans to individuals	Total
1	**Balance as at 01.01.2017**	**(195 418)**	**(7 656)**	**(5 477)**	**(208 551)**
2	(Increase)/decrease of impairment provision during the period	(342 106)	(3 280)	(1 272)	(346 658)
3	Bad debts written off during the period through provisions	2 306	2 200	496	5 002
4	Exchange rate differences	556	295	7	858
5	**Balance as at 31.12.2017**	**(534 662)**	**(8 441)**	**(6 246)**	**(549 349)**

Table 6.5 Loan portfolio structure by economic sectors

in thousands of UAH

No	Economic sector	31.12.2018		31.12.2017	
		amount	%	amount	%
1	Public sector	-	-	-	-
2	Production and distribution of electricity, gas and water	158 660	15,75 %	78 233	7,14%
3	Real estate transactions, lease, engineering and providing of services	5 669	0,56%	269 854	24,62 %
4	Trade, car repairs, domestic appliances and personal appliances	537 694	53,38 %	410 873	37,49 %

No	Economic sector	31.12.2018 amount	31.12.2018 %	31.12.2017 amount	31.12.2017 %
5	Agriculture, hunting and forestry	3 714	0,37%	695	0,06%
6	Construction	196 843	19,54 %	192 150	17,53 %
7	Private security companies	563	0,06%	-	-
8	Extraction of ornamental and building stone	-	-	10 955	1,00%
9	Ore mining	23 327	2,31%	28 017	2,56%
10	Non-hazardous waste collection	-	-	2 605	0,24%
11	Insurance	-	-	2 000	0,18%
12	Financial risks management	21 419	2,13%	63 988	5,84%
13	Individuals	59 477	5,90%	36 575	3,34%
14	**Total loans and advances to customers net of provisions**	**1 007 366**	**100%**	**1 095 945**	**100%**

Table 6.6. Loans by the types of collateral as at 31.12.2018

in thousands of UAH

Line	Changes in provisions	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	Securities				
2.3	Property	525 136	13 166	22 832	561 134
2.3.1	including residential property	6 039	13 166	22 832	42 037
2.4	third party guarantees and sureties				
2.5	other assets	221 047	-	5 965	227 012
3	**Total loans and advances to customers net of provisions**	**947 889**	**13 246**	**46 231**	**1 007 366**

Table 6.7. Loans by the types of collateral as at 31.12.2017

in thousands of UAH

Line	Changes in provisions	Corporate loans	Mortgage loans to individuals	Consumer loans to individuals	Total
1	Unsecured loans	168 338	84	5 247	173 669
2	Loans secured by:	891 032	13 918	17 326	922 276
2.1	cash deposits	-	-	-	-
2.2	securities	-	-	-	-
2.3	Property	698 453	13 918	16 207	728 578
2.3.1	including residential property	-	13 813	7 425	21 238
2.4	third party guarantees and sureties	-	-	-	-
2.5	other assets	192 579	-	1 119	193 698
3	**Total loans and advances to customers net of provisions**	**1 059 370**	**14 002**	**22 573**	**1 095 945**

Table 6.8. Analysis of credit quality of the loan portfolio as at 31.12.2018

in thousands of UAH

Line	Changes in provisions	Corporate loans	Mortgage loans to individuals	Consumer loans to individuals	Total
1	Loans at 1st stage of impairment:	327 195	-	31 478	358 673
1.1	Not overdue	327 195	-	31 478	358 673
2	Loans at 2nd 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 3rd stage of impairment:	443 471	10 065	-	453 536
3.1	Not overdue	230 994	-	-	230 994
3.2	less than 31 days overdue	-	-	-	-
3.3	32 to 92 days overdue	6 242	-	-	6 242
3.4	93 to 183 days overdue	9 402	-	-	9 402
3.5	184 to 365 (366) days overdue	1 910	-	-	1 910

Line	Changes in provisions	Corporate loans	Mortgage loans to individuals	Consumer loans to individuals	Total
3.6	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 including provisions	947 889	13 246	46 231	1 007 366
6	Provision for loan impairment	(361 969)	(8 447)	(4 318)	(374 734)
7	**Total loans and advances to customers net of provisions**	**585 920**	**4 799**	**41 913**	**632 632**

Table 6.9. Analysis of credit quality of the loan portfolio as at 31.12.2017

in thousands of UAH

Line	Changes in provisions	Corporate loans	Mortgage loans to individuals	Consumer loans to individuals	Total
1	Loans at 2nd stage of impairment:	311 613	1 730	11 201	324 544
1.1	Not overdue	311 613	1 730	11 201	324 544
2	Loans at 3rd stage of impairment:	747 757	12 272	6 217	766 246
2.1	Not overdue	473 530	2 286	99	475 915
2.2	less than 31 days overdue	13 369	-	-	13 369
2.3	32 to 92 days overdue	-	-	-	-
2.4	93 to 183 days overdue	-	84	-	84
2.5	184 to 365 (366) days overdue	88 809	-	6 118	94 927
2.6	over 366 (367) days overdue	172 049	9 902	-	181 951
3	Collectively impaired loans:	-	-	5 155	5 155
3.1	Not overdue	-	-	4 945	4 945

Line	Changes in provisions	Corporate loans	Mortgage loans to individuals	Consumer loans to individuals	Total
3.2	less than 31 days overdue	-	-	11	11
3.3	32 to 92 days overdue	-	-	58	58
3.4	93 to 183 days overdue	-	-	88	88
3.5	184 to 365 (366) days overdue	-	-	25	25
3.6	over 366 (367) days overdue	-	-	28	28
3	Total loans including provisions	1 059 370	14 002	22 573	1 095 945
4	Provision for loan impairment	(534 662)	(8 441)	(6 246)	(549 349)
5	**Total loans and advances to customers net of provisions**	**524 708**	**5 561**	**16 327**	**546 596**

Table 6.10 Effect of collateral value on the loan quality as at 31.12.2018

in thousands of UAH

Line	Item	Carrying value	Collateral value	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)
4	**Total loans**	**1 007 366**	**3 478 871**	**(2 471 505)**

Table 6. 11 Effect of collateral value on the loan quality as at 31.12.2017

in thousands of UAH

Line	Item	Carrying value	Collateral value	Collateral effect
1	Corporate loans	1 059 370	3 120 206	(2 060 613)
2	Mortgage loans to individuals	14 002	16 708	(2 706)
3	Consumer loans to individuals	22 573	52 683	(30 110)
4	**Total loans**	**1 095 945**	**3 189 597**	**(2 093 429)**

Note 7. Investment securities

Table 7.1. Investment securities

in thousands of UAH

Line	Item	31.12.2018	31.12.2017
1	Debt securities at fair value through other comprehensive income	305 025	200 512
1.1	Ukrainian government bonds	159 736	99 543
1.2	Saving (deposit) certificates issued by the NBU	145 289	100 969
2	Corporate shares and other variable income securities at fair value through other comprehensive income	-	-
2.1	Corporate shares and other variable income securities at fair value through other comprehensive income	10	15
2.2	Revaluation of corporate shares and other variable income securities at fair value through other comprehensive income	(10)	(15)
3	Debt securities measured at amortized cost	320 421	380 390
3.1	Saving (deposit) certificates issued by the NBU	320 421	380 390
4	**Total investment securities**	**625 446**	**580 902**

Information of Note 7 and Table 7.1, 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 viewed as non-risk, allocated to first stage of impairment and are not impaired.

As at December 31, 2018, bank portfolio includes shares of UMVB PrJSC of 10 *in thousands of UAH*. Fair value of the shares is 0 UAH, provision for the total value of the asset was established.

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

Note 8. Investment property

Table 8.1 Investment property measured at fair value in the reporting period

in thousands of UAH

Line	Item	31.12.2018	31.12.2017
1	Fair value of investment property as at the beginning of period	494 768	575 648
2	Acquisitions	-	-
3	Disposals	(25 355)	(80 880)

4	Losses from revaluation to fair value	(304)	-
5	Fair value of investment property as at the end of period	469 109	494 768

Information of Note 8 and Table 8.1, 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.

Disposal of investment property resulted from its sale.

With respect to investment properties with carrying value of 437 163 *in thousands of UAH* sales agreements with approved payment schedules were signed on 14.11.2017. Prepayments in the amount of 41 625,5 *in thousands of UAH* were received within the framework of these agreements as at 01.01.2019. Along with this, superficies agreements were signed were signed for the period till the final settlements for these properties and their transfer to the buyers, which envisage a monthly income of 366 *in thousands of UAH*, including VAT, and a compensation of the Bank's expenses in the amount of 345,4 *in thousands of UAH*, including VAT.

In accordance with the results of valuation of investment property, carried our by appraiser D. Yu. Consulting LLC (EDRPOU code 32766458), value of two investment property objects went up by 5 250 *in thousands of UAH*, while one object was devalued by 5 554 *in thousands of UAH.*

Table 8.2 Amounts disclosed in the statement of profit and loss and other comprehensive income (statement of financial performance)

in thousands of UAH

№	Income and expenses	2018	2017
1	Lease income from investment property	3 935	773
2	Direct operating expenses (including repairs and maintenance) from investment property that does not generate rental income	(2 020)	(1 090)

Table 8.3 Future minimum lease payments under non-cancellable operating leases where the Bank is the lessor

in thousands of UAH

Line	Operating lease term	31.12.2018	31.12.2017
1	Up to 1 year	3 697	3 955
2	1-5 years	16 472	21 312
3	Total	20 169	25 267

Note 9. Property, equipment and intangible assets

in thousands of UAH

Line	Item	Bindings, construction and transmitting equipment	Machines and equipment	Transport 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
1	**Carrying value as at 01.01.2017**	**75 150**	**2 632**	**770**	**1 174**	**96**	**1 704**	**6 957**	**939**	**89 422**
1.1	Historical (revalued) value	92 257	12 799	4 933	4 401	443	3 834	6 957	4 600	130 224
1.2	Depreciation and amortization at the end of reporting period	(17 107)	(10 167)	(4 163)	(3 227)	(347)	(2 130)		(3 661)	(40 802)
2	Acquisitions		2 399	631	31	50	194	737	510	4 552
3	Disposals	(737)	(40)	(344)	(45)	(6)	(46)	(6 957)	(298)	(8 473)
3.1	Depreciation and amortization write-off		40	344	45	6	46		298	779
4	Depreciation and amortization charges	(1 797)	(1 344)	(576)	(283)	(32)	(1 012)		(707)	(5 751)
5	**Carrying value as at 01.01.2018**	**72 616**	**3 687**	**825**	**922**	**114**	**886**	**737**	**742**	**80 529**
5.1	Historical (revalued) value	91 520	15 158	5 220	4 387	487	3 982	737	4 812	126 303
5.2	Depreciation and amortization at the end of reporting period	(18 904)	(11 471)	(4 395)	(3 465)	(373)	(3 096)		(4 070)	(45 774)
6	Acquisitions		1 503	11	64	3	148	2 003	878	4 610
7	Disposals		(443)	(369)	(345)	(21)	(63)		(209)	(1 450)
7.1	Depreciation and amortization write-off		443	369	345	21	56		209	1 443

Line	Item	Bindings, construction and transmitting equipment	Machines and equipment	Transport 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
8	Depreciation and amortization charges	(1 845)	(1 237)	(387)	(237)	(34)	(955)		(599)	(5 294)
9	Revaluation	18 262								18262
9.1	Historical value	23 481								23481
9.2	Depreciation and amortization	(5 219)								(5219)
10	**Carrying value as at 31.12.2018**	**89 033**	**3 953**	**449**	**749**	**83**	**72**	**2 740**	**1 021**	**98 100**
10.1	Historical (revalued) value	115 001	16 218	4 862	4 106	469	4 067	2 740	5 481	152 944
10.2	Depreciation and amortization at the end of reporting period	(25 968)	(12 265)	(4 413)	(3357)	(386)	(3 995)		(4 460)	(54 844)

As at 31 December 2018, historical (revalued) value of fully depreciated property and equipment is 21 330 *in thousands of UAH* (16,605 *in thousands of UAH* as at 31 December 2017). The Bank has no property and equipment with legally restricted usage and disposal. In 2018 property, equipment and intangible assets were not pledged.

Buildings are carried at revaluation represented by the fair value net of subsequently accumulated depreciation. At 31 December 2018, the management obtained evaluations from independent professional appraisers for the purposes of the buildingsэ fair valuation. The method used for the fair valuation of buildings includes comparison with the data of recent sales of similar buildings. Principal assumptions pertain to the state, quality and location of buildings that were compared. As at 31 December 2018, the carrying amount of buildings would have been 21 926 *in thousands of UAH* (2017р -24 937 *in thousands of UAH*).

Note 10. Other assets

Table 10.1 Other assets

in thousands of UAH

Line	Item	31.12.2018	31.12.2017
1	Other financial assets:	38 743	48 198
1.1	Receivables for transactions with payment cards	2 051	2 763
1.2	Restricted cash	250 891	257 329
1.3	Other financial assets	626	1 956
1.4	Provision for impairment of other financial assets	(214 825)	(213 850)
2	Other assets:	6 483	3 860
2.1	Receivables under asset sale	106	414
2.2	Advances for services	5 945	3 254
2.3	Other assets	709	411
2.4	Provision for other assets	(277)	(219)
3	**Total other assets**	**45 226**	**52 058**

Information of Note 10 and Table 18.1, Line 3 is used for the purposes of the statement of financial position (the balance sheet).

Other assets of the Bank do not 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 10.2 Analysis of changes in impairment provisions for other financial assets in 2018

in thousands of UAH

Line	Changes in provisions	Restricted cash	Other financial assets	Total
1	Balance as at 01.01.2018	(212 082)	(1 768)	(213 850)
2	(Increase)/decrease of impairment provisions for other financial assets in 2018	(2 213)	1 168	(1 045)
3	Bad debts written off during the period through provision	-	70	70
4	Balance as at 31.12.201	(214 295)	(530)	(214 825)

Table 10.3 Analysis of changes in impairment provisions for other financial assets in 2017

in thousands of UAH

Line	Changes in provisions	Restricted cash	Other financial assets	Total
1	Balance as at 01.01.2017	(211 862)	(1 898)	(213 760)
2	(Increase)/decrease of impairment provision for other financial assets in 2017	(220)	106	(114)
3	Bad debts written off during the period through provision	-	24	24
4	Balance as at 31.12.2017	(212 082)	(1 768)	(213 850)

Table 10.4 Credit quality analysis of other financial assets as at 31.12.2018

in thousands of UAH

Line	Item	Receivables for transactions with payment cards	Restricted cash	Other financial assets	Total
1	Neither past due not 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
3	Individually impaired debt not overdue	-	39 036	269	39 305
4	Total other financial assets including provision	2 051	250 891	626	253 568
5	Impairment provision for other financial assets	-	(214 295)	(530)	(214 825)
6	Total other financial assets less provision	2 051	36 596	96	38 743

Table 10.5 Credit quality analysis of other financial assets as at 31.12.2017

in thousands of UAH

Line	Item	Receivables for transactions with payment cards	Restricted cash	Other financial assets	Total
1	Neither past due not impaired	2 763	-	188	2 951
2	Individually impaired debt overdue for	-	211 855	1 697	213 552
2.1	less than 31 days	-	-	37	37
2.2	32-92 days	-	-	52	52
2.3	93-183 days	-	-	43	43
2.4	184-365 (366) days	-	-	65	65
2.5	over 366 (367) days	-	211 855	1 500	213 355
3	Individually impaired debt not overdue	-	45 474	71	45 545
4	Total other financial assets including provision	2 763	257 329	1 956	262 048
5	Impairment provision for other financial assets	-	(212 082)	(1 768)	(213 850)
6	Total other financial assets less provision	2 763	45 247	188	48 198

Table 10.6 Analysis of changes in impairment provision for other assets in 2018

in thousands of UAH

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

Table 10.7 Analysis of changes in impairment provision for other assets in 2017

in thousands of UAH

Line	Changes	Receivables under asset sales	Advances for services
1	Balance as at 01.01.2017	-	(17)
2	Decrease of impairment provision during the period	-	(204)
3	Write-off of bad debt through provision		2
4	**Balance as at 31.12.2017**	**-**	**(219)**

Note 11. Non-current assets held for sale and disposal groups

in thousands of UAH

Line	Item	31.12.2018	31.12.2017
	Non-current assets held for sale		
1	Fixed assets	-	80 880
2	**Total non-current assets held for sale**	**-**	**80 880**

Information of Note 11, Line 2 is used for the purposes of the statement of financial position.

Note 12. Amounts due to customers

Table 12.1 Amounts due to customers

in thousands of UAH

Line	Item	31.12.2018	31.12.2017
1	State and public organizations	-	-
1.1	Current accounts	-	-
1.2	Term deposits	-	-
2	Other legal entities	979 173	1 231 733
2.1	Current accounts	689 263	679 893
2.2	Term deposits	289 910	551 840
3	Individuals	585 961	553 748
3.1	Current accounts	314 989	272 964
3.2	Term deposits	270 972	280 784
4	**Total amounts due to customers**	**1 565 134**	**1 785 481**

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

in thousands of UAH

Line	Economic sector	31.12.2018		31.12.2017	
1	Public sector	-	-	-	-
2	Production and distribution of electricity, gas and water	451 627	28,85%	487 521	27,30%
3	Real estate transactions, lease, engineering and provision of services	11 909	0,76%	4 968	0,28%
4	Trade, car repairs, domestic appliances and personal appliances	93 573	5,98%	78 838	4,42%
5	Agriculture, hunting and forestry	13 570	0,87%	2 783	0,16%
6	Individuals	584 403	37,34%	581 588	32,57%
7	Other, including:	410 052	26,20%	629 783	35,27%
	Chemicals and chemical products	18 097	1,16%	92 245	5,17%
	Architecture and engineering; testing and research. R&D. Advertising and market studies. Other professional, research and technical activities.	7 582	0,48%	53 627	3,00%
	Metallurgy, production of finished metalware, excluding machinery and tools	177 537	11,34%	358 853	20,10%
	Financial services, insurance, related financial services and insurance	93 456	5,97%		
	Production of macjinery and tools, other vehicles	37 986	2,43%		
	Law and accounting	11 771	0,75%		
8	**Total amounts due to customers**	**1 565 134**	**100%**	**1 785 481**	**100%**

Note 13 Provisions for liabilities

Table 13.1 Changes in provisions for liabilities in 2018

in thousands of UAH

Line	Changes	Liabilities of credit nature	Total
1	**Balance as at 1 January 2018**	**9**	**9**
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)
5	**Balance as at 31 December, 2018**	**27**	**27**

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 2017

in thousands of UAH

Line	Changes	Liabilities of credit nature	Total
1	**Balance as at 1 January 2017**	**225**	**225**
2	Provision	(216)	(216)
3	Commission fee received under guarantees issued	256	256
4	Amortization of commission fee under guarantees issued, disclosed in Interim Profit and Loss and Other Comprehensive Income Statement	(256)	(256)
5	**Balance as at 31 December, 2017**	**9**	**9**

Note 14. Other liabilities

in thousands of UAH

Line	Item	31.12.2018	31.12.2017
1	Other financial liabilities	501	259
1.1	Payables under foreign currency transactions	-	-
1.2	Other financial liabilities	501	259
1.3	Derivative financial liabilities in trade portfolio	-	-
2	Other liabilities	49 821	79 010

Line	Item	31.12.2018	31.12.2017
2.1	Payables under taxes and dues, except for corporate income tax	851	874
2.2	Payables under due to Deposit Guarantee Fund	1 072	1 300
2.3	Payables to Bank employees	4 784	3 390
2.4	Payables under asset purchase/sales	41 626	72 360
2.5	Deferred income	1 147	726
2.6	Other payables	341	360
3	**Total other liabilities**	**50 322**	**79 269**

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

Note 15. Share capital and share premium

in thousands of UAH

Line	Item	Shares outstanding (thousands)	Ordinary shares (UAH thousands)	Total
1	Opening balance as at 01.01.2017	48,173	510 393	510 393
2	Closing balance as at (opening balance as at the beginning or the reporting period) 31.12.2017	48,173	510 393	510 393
3	**Closing balance as at 31.12.2018**	**48,173**	**510 393**	**510 393**

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 1.01.2017 is UAH 10,595.00 (ten thousand five hundred and ninety-five);
d) Face value of a share as at 31.12.2017 is UAH 10,595.00 (ten thousand five hundred and ninety-five).
e) Face value of a share as at 31.12.2018 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.

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

in thousands of UAH

Line	Item	2018	2017
1	**Opening balance**	**48 923**	**49 669**
2	Revaluation of investment debt securities disclosed at fair value through other comprehensive income	(620)	568
2.1	Revaluation to fair value	-	-

Line	Item	2018	2017
2.2	Sales income (expenses), reclassified into profit or loss in the reporting period	(620)	568
3	Revaluation of fixed and intangible assets	18 262	(1 212)
3.1	Revaluation to fair value	18 262	-
3.2	Realized revaluation, disclosed in retained earning		(1 212)
4.	Income tax, related to:	(3 176)	(102)
4.1	Change of provision for investment debt securities, disclosed at fair value through other comprehensive income	111	(102)
	Change of provision for revaluation of fixed and intangible assets	(3 287)	
5	Total changes of revaluation provision (other comprehensive income) less income tax	14 466	466
6	**Total revaluation provision (other comprehensive income) less income tax**	**63 389**	**48 923**

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

in thousands of UAH

Line	Item	Notes	31.12.2018 Less than 12 months	31.12.2018 Over 12 months	31.12.2018 Total	31.12.2017 Less than 12 months	31.12.2017 Over 12 months	31.12.2017 Total
	ASSETS							
1	Cash and cash equivalent	5	237 275	-	237 275	319 817	-	319 817
2	Loans and advances to customers	6	550 948	81 684	632 632	354 829	191 767	546 596
3	Investment debt securities, disclosed at fair value through other comprehensive income	7	291 466	13 559	305 025	200 497	15	200 512
4	Investment debt securities	7	320 421	-	320 421	380 390	-	380 390

Line	Item	Notes	31.12.2018 Less than 12 months	31.12.2018 Over 12 months	31.12.2018 Total	31.12.2017 Less than 12 months	31.12.2017 Over 12 months	31.12.2017 Total
	disclosed at amortized cost							
5	Investment property	8	-	469 109	469 109	-	494 768	494 768
6	Receivables under current income tax		11 073	-	11 073	11 073	-	11 073
7	Deferred tax asset	22	-	22 236	22 236	-	25 355	25 355
8	Fixed and intangible assets	9	-	98 100	98 100	-	80 529	80 529
9	Other financial assets	10	32 700	6 043	38 743	48 198	-	48 198
10	Other assets	10	6 483	-	6 483	1 177	2 683	3 860
11	Non-current assets held for sale	11	-	-	-	80 880	-	80 880
12	**Total assets**		**1 450 366**	**690 731**	**2 141 097**	**1 396 861**	**795 117**	**2 191 978**
	LIABILITIES							
13	Due to other banks		-	-	-			
14	Amounts due to customers	12	1 537 324	27 810	1 565 134	1 783 875	1 606	1 785 481
15	Provisions for liabilities	13	27	-	27	9	-	9
16	Other financial liabilities	14	501	-	501	259	-	259
17	Other liabilities	14	6 930	42 891	49 821	79 010	-	79 010
18	**Total liabilities**		**1 544 782**	**70 701**	**1 615 483**	**1 863 153**	**1 606**	**1 864 759**

Note 18. Interest income and expenses

in thousands of UAH

Line	Item	2018	2017
	Interest income for financial assets, disclosed at amortized cost		
1	Loans and receivables from customers	140 623	120 817
2	Debt securities measured at amortized cost	17 945	19 743
3	Due from other banks	8 285	1 996
4	Correspondent accounts with other banks	6 732	447
5	Total interest income for financial assets, disclosed at amortized cost	173 585	143 003
	Interest income for financial assets, disclosed at fair value through other comprehensive income		
6	Debt securities disclosed at fair value through other comprehensive income	24 723	15 843
7	Total interest income for financial assets, disclosed at fair value through other comprehensive income	24 723	15 843
8	**Total interest income**	**198 308**	**158 846**

Line	Item	2018	2017
	Interest expenses for financial liabilities disclosed at amortized cost		
9	Corporate term deposits	(46 739)	(85 137)
10	Debt securities in issue	-	(220)
11	Other borrowings	-	-
12	Individual term deposits	(14 802)	(19 330)
13	Term deposits of other banks	(1 448)	(164)
14	Current accounts	(30 791)	(25 028)
15	**Total interest expenses**	**(93 780)**	**(129 879)**
16	**Net interest income**	**104 528**	**28 967**

Information in Note 18, Lines 8 and 15, is used for the purposes of the Profit and Loss and Other Comprehensive Income (statement of financial performance).

Note 19. Fee and commission income and expenses

in thousands of UAH

Line	Item	2018	2017
	Commission income		
1	Settlement and cash transactions	43 427	34 416
2	Collection	247	255

Line	Item	2018	2017
3	Securities transactions	2 206	1 907
4	Other	13 463	16 980
5	Fiduciary management transactions	32	36
6	Guarantees issued	446	1 605
7	**Total fee and commission income**	**59 821**	**55 199**
	Fee and commission expense		
8	Settlement and cash transactions	(9 241)	(7 415)
9	**Total fee and commission expenses**	**(9 241)**	**(7 415)**
10	**Net fee and commission income**	**50 580**	**47 784**

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

Note 20. Other operating income

in thousands of UAH

Line	Item	2018	2017
1	Operational lease income	5 823	2 486
2	Sub-lease income	49	44
3	Gain on disposal of property, equipment and intangible assets	201	1 424
4	Other*	5 804	24 772
5	**Total operating income**	**11 877**	**28 726**

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

* Disclosure of line 4 for the reporting year:

No	Item	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	Repayment of bad loans previously written-off	5 241
8	Income from payment card transactions after the protest term expiry	49
9	Repayment of bad loans previously written-off	-

10	Sale of land plots	396
11	Other income	31
12	Total	5 804

* Disclosure of line 4 for the previous reporting year:

No	Item	2017
1	Penalties and fines received by the Bank	120
2	Income for the modification of the terms of financial assets recognition contracts	533
3	Income from compensation of refund value of keys	7
4	Income from making entries to and obtaining extracts from the State Registry on Encumbrances of Movable Property	41
5	Court expense reimbursements	7
6	Income from compensation for utility services cost	10
7	Repayment of bad loans previously written-off	24 019
8	Income from payment card transactions after the protest term expiry	11
9	Sale of land parcels	-
10	Other income	24
11	Total	24 772

Note 21. Administrative and other operating expenses

Table 21.1 Expenses and payments to employees

in thousands of UAH

No	Item	2018	2017
1	Salaries and bonuses	(47 079)	(39 507)
2	Payroll charges	(9 447)	(7 573)
3	Other payments to employees	(398)	(282)
4	Total personnel costs	(56 924)	(47 362)

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

Table 21.2 Depreciation and amortization charges

in thousands of UAH

Line	Item	2018	2017
1	Depreciation of fixed assets	(4 695)	(5 044)
2	Amortization of software and intangible assets	(599)	(707)
3	Total depreciation and amortization charges	(5 294)	(5 751)

Information in Table 21.2, Line 3, is used for the purposes of the Profit and Loss and Other Comprehensive Income (statement of financial performance).

Table 21.3 Other administrative and operating expenses

in thousands of UAH

Line	Item	2018	2017
1	Cost of maintenance of fixed and intangible assets, telecommunications and other related services	(23 875)	(21 769)
2	Operating lease expenses	(2 294)	(2 091)
3	Other fixed-assets related expenses		
4	Professional services	(1 534)	(4 833)
5	Marketing and promotion	(949)	(56)
6	Insurance expenses	(4 249)	(6 626)
7	Other taxes and dues, excluding inco0me tax	(4 592)	(8 793)
8	Impairment of non-current assets held for sale (or disposal groups)		
9	Other	(6 387)	(9 162)
10	**Total administrative and other operating expenses**	**(43 880)**	**(53 330)**

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

* Disclosure of line 9 for the reporting year:

No	Item	2018
1	Cost of collection and transportation of valuables	(232)
2	Cost of consulting services	(600)
3	Travel expenses	(125)
4	Entertainment	(1 329)
5	Sponsorship and charity	(240)
6	Court 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 dues	(114)
11	Other	(1 074)
12	Total:	(6 387)

* Disclosure of line 9 for the previous reporting year:

No	Item	2017
1	Cost of collection and transportation of valuables	(170)
2	Cost of consulting services	(252)
3	Travel expenses	(90)
4	Entertainment	(1 230)
5	Sponsorship and charity	(240)
6	Court costs	(154)
7	Payment under court decision	(2 374)
8	Cost of IT security testing	(3 590)
9	Cost of search of buyers for a property object	(126)
10	Membership dues	(166)
11	Other	(770)
12	Total:	(9 162)

Note 22. Income tax expenses

Table 22.1. Income tax expenses

in thousands of UAH

Line	Item	2018	2017
1	Current income tax	-	(46)
2	Changes of deferred income tax	(471)	(4 475)
3	**Total income tax expenses**	**(471)**	**(4 521)**

Information in Note 22, Line 3, is used for the purposes of the statement of profit or loss and other comprehensive income (statement of financial performance).

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

in thousands of UAH

Line	Item	2018	2017
1	Loss before income tax	186 804	(342 514)
2	Theoretical tax charge at the applicable statutory rate	(33 625)	61 653
	Adjustments of accounting profit (loss)		
3	Non-deductible expenses recognized in statutory accounting (to be specified)	(123)	(65 860)
3.1	Charity	-	(43)
3.2	Adjustment of bad debt provision	(3)	39

Line	Item	2018	2017
3.3	Non-deductible depreciation and amortization	(120)	(140)
3.4	Excess of the provision limit	-	(65 498)
3.5	Expenses not recognized in tax records	-	(218)
4	Deductible expenses not recognized in statutory accounting (to be specified)	33 277	(268)
4.1	4/8 of excess of provision over limit, calculated in line with Tax Code, as at 01.01.2018	32 749	-
4.2	Partial 2017 loss carry forward to decrease 2018 results	528	-
4.3	1/3 of the negative difference in provisions as at 31.12.2014 and allowances as at 01.01.2015 according to sub clause 21 cl. 4 Chapter XX of the Tax Code of Ukraine	-	193
4.4	2016 losses carried forward to reduce 2017 results	-	(461)
5	Other adjustments	-	(46)
6	**Income tax expenses**	**(471)**	**(4 521)**

Table 22.3 Tax implications of deferred tax asset and deferred tax liability recognition in 2018

in thousands of UAH

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 provisions (ECL) caused by application of IFRS 9	-	528	528	(528)	-	-
1.4	Securities revaluation	(55)		(55)		111	56
2.	**Net deferred tax assets (liabilities)**	**25 355**	**528**	**25 883**	**(471)**	**(3 176)**	**22 236**
3.	Deferred tax assets recognized	25 410		25 938	(471)	56	25 523

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
4.	Deferred tax liabilities recognized	(55)		(55)		(3 232)	(3 287)

Table 22.4 Tax implications of deferred tax asset and deferred tax liability recognition in 2017

in thousands of UAH

Line	Item	Balance as at 01.01.2017	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at 31.12.17
1	Tax implications of temporary differences that reduce (increase) taxation and tax losses carried forward	29 932			25 355
1.1	Property and equipment	(45)	198		153
1.2	Tax losses carried forward	29 696	(4 439)		25 257
1.3	Deductible allowances and provisions	234	(234)		-
1.4	Revaluation of securities	47		(102)	(55)
2.	**Net deferred tax assets (liabilities)**	**29 932**	**(4 475)**	**(102)**	**25 355**
3.	Deferred tax assets recognized	29 977	(4 520)	(47)	25 410
4.	Deferred tax liabilities recognized	(45)	45	(55)	(55)

Note 23. Earnings per share

in thousands of UAH

Line	Item	2018	2017
1	Profit/(loss) that attributable to ordinary equity holders of the Bank	186 333	(347 035)
2	Profit/(loss) for the year	186 333	(347 035)
3	Weighted average number of ordinary shares outstanding during the period (thousands)	48,173	48,173
4	**Net and adjusted profit/(loss) per one ordinary share (UAH)**	**3 868,00**	**(7 203,93)**

Information in Note 23, Line 4, is used for the purposes of the statement of profit or 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 2018

in thousands of UAH

		Reporting segments				
Line	Item	Corporate business	Services to individuals and SMEs	Centralized, treasury transactions and unallocated items	Elimination	Total
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

Line	Item	Reporting segments: Corporate business	Services to individuals and SMEs	Centralized, treasury transactions and unallocated items	Elimination	Total
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	**Operating income of segments**	**45 501**	**26 868**	**(2 774)**	**-**	**69 595**
14	Net loss through impairment of financial assets	162 279	(4 588)	(40 464)	-	117 227
15	Net (increase)/decrease of provision for liabilities	-	-	(18)	-	(18)
16	**Income/(loss) before taxes**	**207 780**	**22 280**	**(43 256)**	**-**	**186 804**

Table 24.2 Assets and liabilities of reporting segments as at 31.12.2018

in thousands of UAH

Line	Item	Reporting segments: Corporate business	Services to individuals and SMEs	Centralized, treasury transactions and unallocated items	Total
1	Segment assets	580 812	51 864	1 508 421	2 141 097
2	**Total assets**	**580 812**	**51 864**	**1 508 421**	**2 141 097**
3	Segment liabilities	934 601	624 632	56 250	1 615 483
4	**Total liabilities**	**934 601**	**624 632**	**56 250**	**1 615 483**
5	Capital investments	-	-	4 610	4 610
6	Depreciation and amortization	-	-	(5 294)	(5 294)

Table 24.3 Income, expense and financial performance of reporting segments in 2017

in thousands of UAH

Line	Item	Reporting segments: Corporate business	Services to individuals and SMEs	Centralized, treasury transactions and unallocated items	Elimination	Total
1	Interest income	254 331	54 467	211 701	(361 653)	158 846
2	Fee and commission income	26 303	28 775	121	-	55 199
3	Other operating income	21 034	2 377	5 315	-	28 726
4	**Total income**	**301 668**	**85 619**	**217 137**	**(361 653)**	**242 771**
5	Interest expense	(244 908)	(31 792)	(214 832)	361 653	(129 879)
6	Fee and commission expense	(22)	(5 296)	(2 097)	-	(7 415)
7	Net profit (loss) from transactions with financial instruments disclosed at fair value through profit or loss	-	-	(717)	-	(717)
8	Sale of investment securities held for sale	-	-		-	

Line	Item	Reporting segments				
		Corporate business	Services to individuals and SMEs	Centralized, treasury transactions and unallocated items	Elimination	Total
9	Net gain (loss) from foreign currency transactions	321	648	3 830	-	4 799
10	Net gain (loss) from foreign currency revaluation	-	-	2 288	-	2 288
11	Gains or losses on initial recognition of financial assets at rates above or below market	-	-	(108)	-	(108)
12	Administrative and other operating expenses	(26 917)	(32 167)	(47 359)	-	(106 443)
13	**Operating income**	**30 142**	**17 012**	**(41 858)**	**-**	**5 296**
14	Net increase of provisions for impairment of loans to customers and due from other banks	(338 819)	(6 091)	(896)	-	(345 806)
15	Net increase of provisions for impairment of receivables and other financial assets	-	-	(2 210)	-	(2 210)
16	Net increase of provisions for impairment of securities held for sale	-	-	(10)	-	(10)
17	Net (increase)/decrease of provision for liabilities	-	-	216	-	216
18	**Income/(loss) before taxes**	**(308 677)**	**10 921**	**(44 758)**	**-**	**(342 514)**

Table 24.4 Assets and liabilities of reporting segments as at 31.12.2017

in thousands of UAH

Line	Item	Reporting segments			
		Corporate business	Services to individuals and SMEs	Centralized, treasury transactions and unallocated items	Total
1	Segment assets	524 772	21 893	1 645 313	2 191 978

2	**Total assets**	**524 772**	**21 893**	**1 645 313**	**2 191 978**
3	Segment liabilities	1 170 646	609 522	84 591	1 864 759
4	**Total liabilities**	**1 170 646**	**609 522**	**84 591**	**1 864 759**
5	Capital investments	-	-	4 552	4 552
6	Depreciation and amortization	-	-	(5 751)	(5 751)

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 provision to due from customers ratio.

As at 31.12.2018, 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 analyzes 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;
- behavioral model of debtors – natural persons (applicational, behavioral 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;
- acce0ptability and adequacy of pledge, possibility to sell it;
- additional terms of a coal contract, aimed at limitation of credit risk growth in future;
- assumptions on the size of provisions 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 unfavorable 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 unfavorable 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

(in thousands of UAH)

Line	Currency	As at the reporting date 31.12.2018				**As at the reporting date 31.12.2017**			
		Monetary assets	Monetary liabilities	Derivative financial instruments	Net position	Monetary assets	Monetary liabilities	**Derivative financial instruments**	**Net positio**
1	**US dollars**	403 246	369 313	-	33 933	385 816	386 349	-	(533)
2	**Euro**	135 266	131 713	-	3 553	128 541	128 801	-	(260)
3	**British pounds**	5 163	3 252	-	1 911	3 401	3 315	-	86
4	**Other**	4 149	3 336	-	813	6 653	5 834	-	819
5	**Total**	547 824	507 614	-	40 210	524 411	524 299	-	112

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

(in thousands of UAH)

Item	As at 31.12.2018		As at 31.12.2017	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
Appreciation of USD by 40%	13 573	13 573	(213)	(213)
Depreciation of USD by 40%	(13 573)	(13 573)	213	213
Appreciation of EUR by 40%	1 421	1 421	(104)	(104)
Depreciation of EUR by 40%	(1 421)	(1 421)	104	104
Appreciation of GBP by 40%	764	764	35	35
Depreciation of GBP by 40%	(764)	(764)	(35)	(35)
Appreciation of other currencies and banking metals	325	325	328	328
Depreciation of other currencies and banking metals	(325)	(325)	(328)	(328)

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 31.12.2018			As at 31.12.2017		
		UAH	USD	EUR	UAH	USD	EUR
	Assets						
1	Cash and cash equivalents	18,78	0,20	0,81	13,47	0,00	
2	Due from other banks	17,88	0,00	0,00	12,57	0,00	
3	Loans and advances to customers	17,59	9,33	14,17	20,29	12,85	
4	Investment securities available for sale	16,22	1,68	0,00	12,95	6,26	
	Liabilities						
5	Due to other banks						
6	Amounts due to customers	8,61	2,43	1,23	8,77	3,01	1,64
6.1	current accounts	5,76	1,15	0,29	3,75	0,49	0,82
6.2	term deposits	13,48	3,52	3,48	14,79	4,28	3,53

Interest rate risk

Interest risk is the probability of losses or additional costs, or receipt of less than planned revenues resulting from unfavorable 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 (behavioral risk of options).

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

1) risl of gaps: decrease of sort-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[1], 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.

[1] Interest rate used at bank market as basis for selection of interest rate for assets / liab ilities with floating interest rate (e.g., LIBOR, EURIBOR, MosPrime, UIIR, UIRD)

Table 25.4. General analysis of interest rate risk

(in thousands of UAH)

Line	Item	On demand	Less than 1 month	1-12 months	More than one year	No interest rate risk	Total
	As at 31.12.2018						
1	Total financial assets	647 439	20 285	765 085	101 287	0	1 534 096
2	Total financial liabilities	969 334	268 907	299 584	156	27 654	1 565 635
3	Net interest gap at the year end	(321 895)	(248 622)	465 501	101 131	(27 654)	(31 539)
	As at 31.12.2017						
4	Total financial assets	943 603	48 811	311 317	191 782	0	1 495 513
5	Total financial liabilities	999 909	68 368	715 857	1 606	0	1 785 740
6	Net interest gap at the year end	(56 306)	(19 557)	(404 540)	190 176	0	(290 227)

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:

(in thousands of UAH)

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**	**Total**
Interest rate change: +1%	(3 219)	(2 486)	4 655	1 011		(39)
Interest rate change: -1%	3 219	2 486	(4 655)	(1 011)		39

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 2018

(in thousands of UAH)

Line	Item	Ukraine	OECD	Other	Total
	Assets				
1	Cash and cash 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
	Liabilities				
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	Total financial liabilities	0	-	-	0
11	Due to other banks	1 558 616	1 785	5 234	1 565 635
12	Net position on financial instruments	(150 626)	123 299	(4 212)	(31 539)
13	Credit related commitments	7 361	-	-	7 361

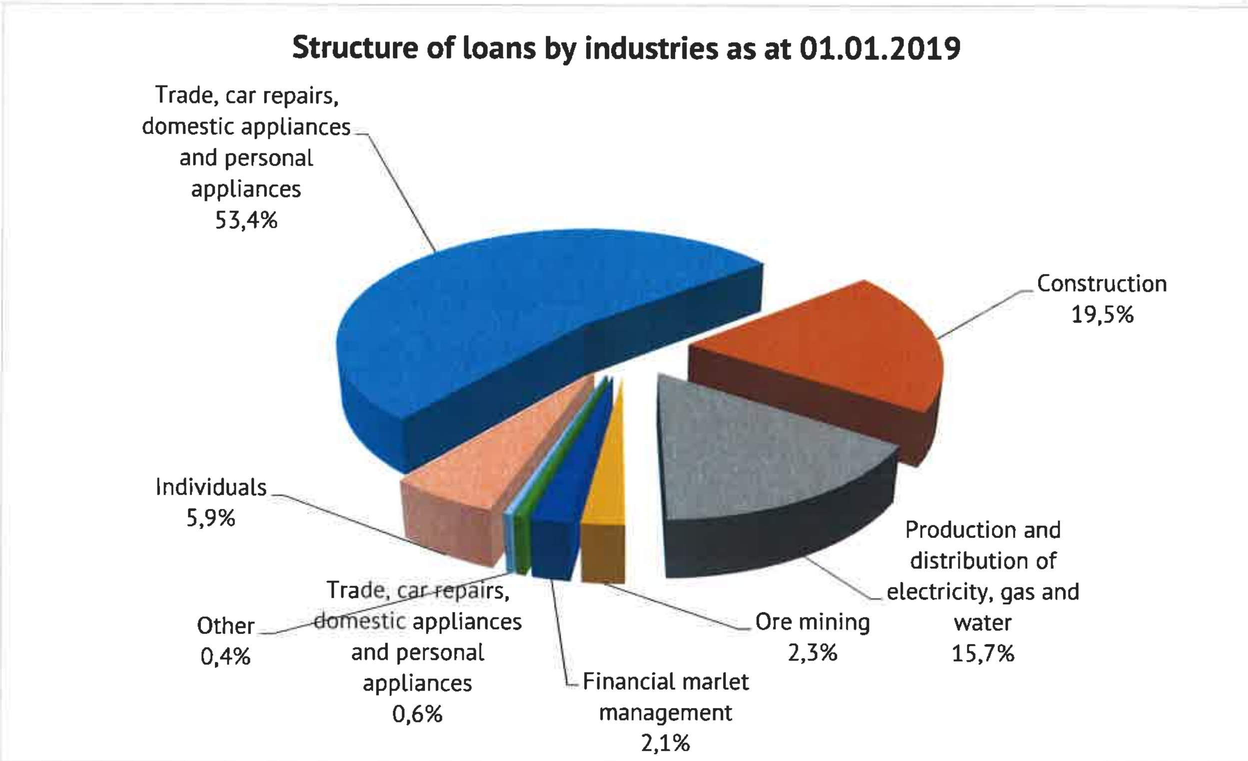
Table 25.6. Analysis of geographic concentration of financial assets and liabilities in 2017

(in thousands of UAH)

Line	**Item**	**Ukraine**	**OECD**	**Other**	**Total**
	Assets				
1	Cash and cash equivalents	200 164	114 246	5 407	319 817
2	Loans and advances to customers	546 596	-	-	546 596
3	Investment securities available for sale	200 512	-	-	200 512
4	Investment securities held to maturity	380 390	-	-	380 390
5	Other financial assets	48 198	-	-	48 198
6	Total financial assets	1 375 860	114 246	5 407	1 495 513
	Liabilities				
7	Due to other banks	-	-	-	-
8	Amounts due to customers	1 755 033	989	29 459	1 785 481
9	Other financial liabilities	259	-	-	259
10	Total financial liabilities	-	-	-	-
11	Due to other banks	1 755 033	989	29 459	1 785 740

12	**Net position on financial instruments**	(379 432)	113 257	(24 052)	(290 227)
13	Credit related commitments	323	-	-	323

Other risks concentration



As at 31.12.2018 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 53,4% 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) by:
- Comparison of assets and liabilities in every meaningful currency, including comparison of time intervals: up to 1 month, 1– 3 months, 3 – 6 months, 6 – 9 months, 9 – 12 months and over 12 months;
- 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 methods 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)*;
- Analysis of net stable financing ration (NSFR), taking into account recommendations of Basel Committee on Banking Supervision (to be introduced as of the moment of introduction of respective prudential requirements of NBU).

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 2018 the bank complied with liquidity ratios, set by NBU. Liquidity ratios as at 31.12.2018 were:

- Instant liquidity ratio (H4) was 92,18% with NBU ration of not less than 20%;
- Current liquidity ratio (H5) was 71,55% with NBU ratio of not less than 40%;
- Shirt-term liquidity ratio (H6) was 101,13% with NBU ratio of not less than 60%.

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

(in thousands of UAH)

Line	Item	On demand	Less than 1 month	1-12 months	Over 1 year	Without term	Total
	As at 31.12.2018						
1	Total financial assets	647 438	20 285	765 085	101 288	-	1 534 096
2	Total financial liabilities	969 334	268 907	299 584	156	27 654	1 565 635
3	Net interest gap at the year end	(321 897)	(248 622)	465 501	101 131	(27 654)	(3 887)
4	Cumulative liquidity gap for financial instruments	(321 897)	(570 519)	(105 018)	(3 887)	(31 541)	-
	As at 31.12.2017						
5	Total financial assets	943 603	48 811	311 318	191 781	-	1 495 513
6	Total financial liabilities	999 909	68 368	715 857	1 606	-	1 785 740
7	Net interest gap at the year end	(56 306)	(19 557)	(404 539)	190 175	-	(290 227)
8	Cumulative liquidity gap for financial instruments	(56 306)	(75 863)	(480 402)	(290 227)	(290 227)	-

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 31.12.2018

(in thousands of UAH)

Line	Item	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

Table 25.9. Maturity analysis of financial liabilities as at 31.12.2017

in thousands of UAH

Line	Item	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	1 265 066	61 441	565 968	1 675	37	1 894 187
3	Subordinated debt						
4	Other financial liabilities	259	-	-	-	-	259
5	Other credit related liabilities	323	-	-	-	-	323
6	Total potential future payments under financial liabilities	1 265 648	61 441	565 968	1 675	37	1 894 769

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 01.01.2019 the regulatory capital adequacy was 36,82%, which is 26,82% higher than the adequacy required.

As at 01.01.2019 actual regulatory capital amounted to 486 335 394,29 UAH, which is 286 335 394,29 UAH more than required by existing standards.

Note 27. Contingent liabilities of the Bank

a) As at 01.01.2019, 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) Operating lease liabilities amount to *in thousands of UAH* 1 211.

Table 27.1 Minimum future lease payments under irrevocable operating lease

in thousands of UAH

Line	Item	31.12.2018	31.12.2017
1	Up to 1 year	1 201	1 842
2	1-5 years	10	73
3	Over 5 years	-	-
4	**Total**	**1 211**	**1 915**

The Bank has one sub-lease agreement and expects to receive 37 *in thousands of UAH.*

Table 27.2 Structure of credit related commitments

in thousands of UAH

Line	Item	31.12.2018	31.12.2017
1	Unused credit lines	338 228	186 293
2	Guarantees issued	7 361	323
3	Provisions for credit related commitments	-	-
4	**Total credit related commitments less provisions**	**345 589**	**186 616**

Table 27.3 Credit-related commitments by currencies

Line	Item	31.12.2018	31.12.2017
1	Hryvnia	232 817	89 823
2	US dollars	101 922	96 470
3	Euro	3 489	-
4	Other	-	-
5	Total	338 228	186 293

The Bank has no irrevocable commitments.

Note 28. Fair value of financial instruments

Results of fair value valuation are analyzed 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 r 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 31.12.2018

in thousands of UAH

	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

	Valuation date	Level of inputs used for fair valuation			Total fair value	Total carrying amount
		Level 1	Level 2	Level 3		
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

Table 28.2 Fair value disclosure as at 31.12.2017

in thousands of UAH

	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	31.12.2017	-	99 543	-	99 543	99 543
Shares	31.12.2017	10	-	-	10	10
Saving (deposit) certificates issued by the NBU	31.12.2017	-	100 969	-	100 969	100 969
Property – buildings	17.11.2017	-	-	80 529	80 529	80 529
Investment property	14.11.2017 17.11.2017	-	-	491 709	491 709	494 768
Assets for which fair values are disclosed						
Cash and cash equivalents	31.12.2017	-	319 817	-	319 817	319 817
Loans and advances to customers	31.12.2017	-	-	475 982	475 982	546 596
Investment debt securities, disclosed at amortized cost	31.12.2017	-	380 390	-	380 390	380 390
Other financial assets	31.12.2017	-	-	48 198	48 198	48 198

	Valuation date	Level of inputs used for fair valuation			Total fair value	Total carrying amount
		Level 1	Level 2	Level 3		
Liabilities whose fair value is disclosed						
Due to customers	31.12.2017	-	1 804 601	-	1 804 601	1 785 481
Other financial liabilities	31.12.2016	-	-	259	259	259

Methods and assumptions used in fair value determination

Fair value of fi9nancial 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 2018.

in thousands of UAH

Line	Item	Amortized cost	Fair value through other comprehensive income	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	Provision for impairment of loans	(374 734)	-	(374 734)
3	Investment debt securities at fair value through other comprehensive income	-	305 025	305 025
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 29.2 Financial assets by measurement categories in 2017

in thousands of UAH

Line	Item	Amortized cost	Fair value through other comprehensive income	Total
	Assets			
1	Cash and cash equivalents	319 817	-	319 817
2	Loans and advances to customers	546 596	-	546 596
2.1	Corporate loans	1 059 370	-	1 059 370
2.2	Mortgage loans to individuals	14 002	-	14 002
2.3	Consumer loans to individuals	22 573	-	22 573
2.4	Provision for impairment of loans	(549 349)	-	(549 349)

Line	Item	Amortized cost	Fair value through other comprehensive income	Total
3	Investment debt securities, at fair value through other comprehensive income	-	200 512	200 512
4	Investment debt securities at amortized cost	380 390	-	380 390
5	Other financial assets:	48 198	-	48 198
5.1	Receivables for transactions with payment cards	2 763	-	2 763
5.2	Restricted cash	45 247	-	45 247
5.3	Other financial assets	188	-	188
6	**Total financial assets**	**1 295 001**	**200 512**	**1 495 513**

Table 29.3 Financial liabilities by measurement categories in 2018

in thousands of UAH

Line	Item	Amounts due to customers and accounts payable	Financial liabilities at fair value through profit or loss	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**

Table 29.4 Financial liabilities by measurement categories in 2017

in thousands of UAH

Line	Item	Amounts due to customers and accounts payable	Financial liabilities at fair value through profit or loss	Total
	Liabilities			
1	Amounts due to customers	1 785 481	-	1 785 481
1.1	Corporate term deposits	1 231 733	-	1 231 733
1.2	Individual deposits	553 748	-	553 748
2	Other financial liabilities	259	-	259

2.1	Other financial liabilities	259	-	259
3	**Total financial liabilities**	**1 785 740**	-	**1 785 740**

Note 30 Related party transactions

The ultimate owners of the Bank are Liovochkina Yuliya 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 0.03% of the Bank's regulatory capital.

The total amount of funds received from the related parties comprises 6,50% of the Bank's liabilities.

Table 30.1 Outstanding balances with related parties as at 31.12.2018

in thousands of UAH

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

Table 30.2 Outstanding balances with related parties as at 31.12.2017

in thousands of UAH

Line	Item	Shareholders of the Bank	Key management personnel	Associates	Other related parties
1	Due from other banks (contractual interest rate 0%)	-	-	149	-
2	Allowance for demand deposits with other banks			(55)	
3	Loans and advances to customers (contractual interest rate: 16.5% - 35%)	-	157	-	-
4	Allowances for loans outstanding	-	(21)	-	-
5	Loans and advances to customers (contractual interest rate: 0% - 15.75%)	55 878	1 444	1 283	1 209
6	Other assets	-	-	2	-

Table 30.3 Income and expenses under related-parties transactions in 2018

in thousands of UAH

Line	Item	Shareholders of the Bank	Key management personnel	Associates	Other related parties
1	Interest income	1	14	6 340	-
2	Interest expense	(1 114)	(21)	(756)	(19)
3	Changes in provision for impairment of loans to customers and due from other banks	(1)	(8)	(34 935)	-
4	Fee and commission income	151	213	153	10
5	Charges to provisions for liabilities	-	-	(90)	-

Table 30.4 Income and expenses under related-parties transactions in 2017

in thousands of UAH

Line	Item	Shareholders of the Bank	Key management personnel	Associates	Other related parties
1	Interest income	-	19	371	-
2	Interest expense	(1 815)	(46)	(11)	(28)
3	Changes in provision for impairment of loans to customers and due from other banks	-	(9)	-	-
4	Fee and commission income	41	18	101	6
5	Charges to provisions for liabilities	-	-	(55)	-

Table 30.5 Total amount of loans granted to and repaid by related parties in 2018

in thousands of UAH

Line	Item	Shareholders of the Bank	Key management personnel	Associates
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 30.6 Total amount of loans granted to and repaid by related parties in 2017

in thousands of UAH

Line	Item	Shareholders of the Bank	Key management personnel	Associates
1	Loans granted to related parties in the reporting period	-	3 063	-
2	Loans repaid by the related parties in the reporting period	-	3 190	-

Table 30.7 Compensation of key management personnel

in thousands of UAH

		2018		2017	
Line	Item	Expenses	Accruals	Expenses	Accruals
1	Current employee benefits	9 292	660	8 611	527
2	Severance payments (compensation for unused holidays)	-	-	49	-

Note 31. Subsequent events

There were no events after the balance sheet date that might have material impact on the bank's operations.

Approved for issue and signed on 19.04.2019

Chair of the Management Board ____________ V. O. Andreevska

Chief Accountant ____________ O. O. Markina

Публічне акціонерне товариство «БАНК «КЛІРИНГОВИЙ ДІМ» ідентифікаційний код 21665382 Україна м. Київ

PUBLIC JOINT STOCK COMPANY

"BANK "CLEARING HOUSE"

Management Report
2018

Content

1. Background information

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

The Bank operates through Head office and 4 branches:

- Head office (address: 5a, Borisoglibska 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).

The Bank team includes over 200 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. 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.
- 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.
- 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.
- 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.

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

- 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 and compliance. 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 2018.
- Private banking – wealthy individuals. The Bank is a stable partner for more than **1 700** premium clients, offering them exclusive servicing in specialized offices.
- Bank at work – individuals and SME, comprising over **21 000** 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 **8%**
- Reaching *administrative expenses to operating income* efficiency at the level not less than **60%**

2. Financial stability and adequacy of equity

- Maintaining sufficient adequacy of equity at the level not less than **12%.**

4. Ratings and awards

Based on 2018 performance, RURIK National Rating Agency increased credit rating level of the Bank to «uaA+» (investing class), forecast "stable", level on March 27, 2019, thus confirming high credit status and reliability of the Bank.

In 2018, RURIK NRA changed its forecast from "stable" to "positive".

Besides, the Bank was assigned deposit reliability rating at the level **"r4"**, confirming high reliability of deposits.

Financial Club financial analytic group included Bank CLEARING HOUSE Public Joint-Stock Company into Top 10 in the *Premier Banking* nomination in the *50 leading Ukrainian banks* rating.
In 2018, Financial Club financial analytic group, based on the results of annual *50 leading Ukrainian banks* rating, improved the position of the Bank by 11 points, placing it 31 in the rating.
Significant improvement of the general-rating position was followed by inclusion of the Bank into Top 10 in the *Premier Banking* nomination.

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 Bank CLEARING HOUSE Public Joint-Stock Company as the Best Bank for Premier Banking in Ukraine in 2017.**
Well-known *Global Banking & Finance Review* international financial publication recognized Bank CLEARING HOUSE Public Joint-Stock Company as *Best Bank for Premier Banking Ukraine 2017*.

Decision to award Bank CLEARING HOUSE Public Joint-Stock Company was taken by expert committee of financial analysts of *Global Banking and Finance Review*, who pointed out continuing striving of the Bank to offer high-quality services to wealthy clients.

Victory in this nomination is the evidence of recognition of high-quality banking services for premier clients, based on clients' status and high requirements to services.

Global Banking & Finance Review Awards review is the annual project of the leading international *Global Banking & Finance Review* publication with more than 2 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 Bank CLEARING HOUSE Public Joint-Stock Company is based on the provisions, set by Civil and Business Codes of Ukraine, Laws of Ukraine *On Banks and Banking, 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 Bank CLEARING HOUSE Public Joint-Stock Company, decisions of general meeting of shareholders, Supervisory Board and the Board of the Bank.

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;
- Management Board.

Control bodies of the Bank are:

- Supervisory Board;
- 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 renumeration 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.

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 tales 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 №37 of 25.04.2017, Supervisory Board of Bank CLEARING HOUSE Public Joint-Stock Company 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:

- Natalia Yu. Gorislavets - representative of a shareholder – MONIER INDUSTRIAL GROUP LLC
- Iryna V. Dyrdina – independent member of Supervisory Board
- Iryna P. Koleda - representative of a shareholder – MONIER INDUSTRIAL GROUP LLC
- Volodymyr L. Krotiuk – independent member of Supervisory Board

In accordance with decision of General meeting of shareholders №38 of 26.04.2018, in accordance with requirements of current law, namely, Law of Ukraine *On Joint Stock Companies*, and Stature of Bank CLEARING HOUSE Public Joint-Stock Company, members of supervisory boards of public joint stock companies must be re-elected every year; so, powers of the following members of Supervisory board were terminated: Viktor V. Vorobiov, Natalia Yu. Gorislavets, Iryna P. Koleda, Iryna V. Dyrdina, Volodymyr L. Krotiuk.

Supervisory Board of Bank CLEARING HOUSE Public Joint-Stock Company 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. Dyrdina – representative of shareholder – Liovochkina Yuliia Volodymyrivna
- Iryna P. Koleda - representative of a shareholder – MONIER INDUSTRIAL GROUP LLC
- Volodymyr L. Krotiuk - representative of a shareholder – MONIER INDUSTRIAL GROUP LLC
- Oleksandrr V. Kyrychenko – independent member of Supervisory Group
- 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 or 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, renumeration, risks, audit, etc.

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 of:

- Viktoria O. Andreevska – Chair;
- Natalia G. Bryzhnik – deputy Chair;
- Mykola I. Onyschenko – deputy Chair;
- Oleksandra O. Markina – Chief accountant;
- Pavlo Ye. Bassak – member of Board – head of financial monitoring function.

There were no changes in the Board during the year.

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

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 policies of regulation of processes of determination of related parties of the Bank and control over transactions with them. 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 strategy and risk-management policies, approved by Supervisory Board, provision for implementation of procedures of identification, assessment, control and monitoring of risks;

5) 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;

6) development of provisions, regulating activities of structural and separated segment of the Bank in accordance with its strategy of development;

7) provision of security of Bank's IT systems and systems, used to safeguard clients' assets;

8) 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 if risks, arising during Bank's operations, to Supervisory Board;

9) 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;

10) implementation of decisions of General meeting of shareholders, Supervisory Board, own decisions and orders;

11) provision of compliance with current laws, rules and regulations of NBU and National Committee on Securities and Stock Exchange by Bank employees;

12) 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.

Internal audit department

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

Internal audit department operates in accordance with approved internal rules and regulations of the Bank. Twice per year the department reports to NBU the results of its activities, and once a year – to Supervisory Board. By the results of 2018, work of Internal audit department is assessed as proper, being in compliance with requirements of internal rules and regulations, Statute, laws, and the results of work of the department are satisfactory.

Internal audit department:

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.

Compliance department

Bank operates in accordance with the principles of compliance with current laws and regulations, internal standards of corporate governance, meeting its obligations towards shareholders, clients, partners and personnel, providing for transparent and public financial activities and accountability, timely payment of all taxes and social protection of employees.

Principles and standards of corporate governance are presented in Code of corporate governance, approved by General meeting of shareholders of the Bank. Code of corporate governance can be reached at Bank web site:

https://www.clhs.com.ua/site/page_corp.php?lang=UA&id_part=314

Taking into account recommendations of Basel committee on banking supervision, the Bank implements the system of control and management of compliance risks of the Bank.

The Bank established compliance department – standing structural element of the Bank, which is a part of risk management system of the Bank, focused on control over compliance with current laws and regulations, internal standards of corporate governance, management of reputation risk, conflict-of-interest situations, and aimed at protection of interests of clients, partners, shareholders and employees of the Bank.

R. O Gavryck was appointed as head of compliance department.

Compliance department operates on the basis of regulations on compliance department, approved by Supervisory Board, being accountable to Supervisory Board and reporting to it every quarter.

Business relations, conduct of employees and business ethics are governed by Code of Conduct (corporate ethics of Bank CLEARING HOUSE Public Joint-Stock Company. Compliance department, together with financial monitoring department, provide for implementation and control of measures to prevent corruption and financial misuses. The Bank established a process of receipt and review of complaints. In 2018 the Bank did not get any complaints or suits regarding its financial services.

Objectives and policies of financial risks management

The Bank performs integrated assessment of material risks, inherent in Bank business: credit risk, liquidity risk, interest risk for bank book, market risk, operating risk and compliance risk. During assessment of the 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, om 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;
- 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.

Internal control system (ICS) of the Bank is an integral part of risk management system, incorporated into its operations and processes. ICS is based on the concept of three lines of defence, established by internal rules and regulations on ICS. Principles of organization and structure of ICS, as well as requirements to internal control procedures, are established by internal rules and regulations on ICS.

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.

Based on the results of integral assessment of financial/nonfinancial risks (as at 01.01.2019), the Bank complies with prudential requirements of NBU. The Bank has low aggregated risk appetite, as confirmed by stress testing by significant risks, inherent in Bank activities.

Other information on governing ang 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 2018, 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 *Ob Banks and Banking*.

Transactions with related parties are disclosed in Note 30 to 2018 annual financial statements of Bank CLEARING HOUSE Public Joint-Stock Company.

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 2018.

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

Background information of the external auditor:
- Overall experience of audit activities is 12 years;
- PKF UKRAINE LLC provides audit services to the Bank for 3 years;

- Other audit services, provided to the Bank during the year, 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);
- No cases of conflict of interests and/or combination with internal audit functions were identified;
- Rotation of auditors of banking institution within last 5 years was based on current Ukrainian law;
- No penalties were applied by Chamber of Auditors of Ukraine; there are no facts of presentation of erroneous statements of the Bank, confirmed by the auditor's opinion.

External auditor applied the following recommendations:

- On application of and compliance with requirements of art. 401 of Law of Ukraine *On Securities and Stock Exchange*
- On application of and compliance with requirements of art. 122 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.

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 advances markets.

After long period of growth, countries with developing markets entered into period of financial turbulence. In case of Ukraine, external position and fiscal stability significantly improved during recent years, although the risk 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.

In 2018, economy and banking sector were largely influenced by events of 2014 – 2015, namely:

- A part of the territory is not controlled by Ukraine, and armed conflict is going on in eastern Ukraine,
- Annexation of Republic of Crimea by Russian Federation, which was not recognized by Ukraine and most countries, materially deteriorating relations between Ukraine and Russian Federation.

A strong economic crisis caused a liquidity crisis in the banking system. [It would be discussed here below]. Additional administrative and regulatory restrictions on bank and client operations were implemented in banking legislation, including restrictions on foreign currency and cash transactions.

A deterioration of the economic situation resulted in a revision of credit quality and significant expenses on the provisions for crediting transactions. Therefore, the banks had to focus, first of all, on the search for potential sources of additional capitalization.

Local currency inflation in 2015 reached 52,2%, while in 2016 – 13,3%.

Number of active banks went down from 163 as at 31 December 2014 down to 77 as at 31 December 2018.

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

In 2018, GDP grew by 3,3% (in 2017 GDP grew by 2,5%), mostly due to increase of local demand, both consumers' and investing.

In 2017-2018, National Bank of Ukraine (NBU) removed some limitations in foreign currency controls, introduced in 2014-2016:

- Prohibition to issue local-currency loans to customers against foreign currency funds, kept at bank accounts, was removed;
- Limitation in force as of September 2016, when one customer was not allowed to get cash more than equivalent to UAH 250 thousand;
- Rules of obtaining loans from international financial institutions were simplified to improve cooperation between them and Ukrainian business and increase the inflow of debt capital into the country;
- Administrative limitations of foreign currency market were decreased (mandatory sale of foreign currency receipts went down from 65% to 50%; period for settlements under foreign-trade contracts was increased from 120 to 180 days);
- Possibility to expatriate dividends, generated by corporate rights and shares for foreign investors was improved;
- Advanced repayment of external foreign currency credits and loans was made possible.

As of beginning of 2018, the NBU increased Key policy rate several times, until it reached 18% per year as at the end of that year.

Toughening of monetary policies was the result of increase in risks of inflation and the need to keep in the average-term level, caused by several factors, namely, existence of high inflation pressure, complicated access to international financial resources for developing countries, uncertainty of effect of trade conflicts on market opportunities and stable consumers' demand.

Strict monetary policies of NBU restrained inflation pressure, in particular, through exchange rate channel. As a result, consumers' inflation started to decrease year by year.

Annual inflation rate in 2018 was 9,8%, while at the end of 2017 it was 13,7%.

Moderate devaluation of UAH in respect of USD in 2017 (-3,2% p/p) and its strengthening by 1,4% in 2018 helped to improve inflow of local-currency deposits into the banking system. E.g., UAH deposits of individuals increased in 2017 by 12,5% compared to 2,1% growth in 2016. In 2018 local-currency deposits continue to grow reaching 14,5% as of the beginning of that year.

In general, clients' portfolio in Ukrainian banks in 2018 increased by 3,8%, while the aggregated credit portfolio increased during the year by 4,2% p/p (NBU operative data). The highest growth rate was demonstrated by UAH loans to natural persons - 15,1% in 2018, confirming that consumers' loans are drivers for crediting activities of the banks.

Important factor of macroeconomic stability for Ukraine is cooperation with IMF – after receipt of third tranche within the EFF program framework in September 2016, Ukraine received fourth tranche in early April 2017 in an amount close to USD 1 billion, which, together with issue of Eurobonds by Ukrainian government for the amount of USD 3 billion helped to increase international reserves of Ukraine up to USD 18,8 billion as at 31 December 2017.

In 2018, international reserves of Ukraine increased by USD 3,1 billion due to:

- Receipt of IMF tranche – close to USD 1,4 billion;
- Financing within the framework of guarantees of World Bank and EC crediting program – close to USD 1 billion;
- Attraction of USD 0,5 billion by the government through loan securities.

Due to above, international reserves reached USD 20,8 billion as at 31 December 2018.

Banking sector started to generate profit in 2018 – net income of the banks was UAH 16,5 billion compared to UAH 28,1 billion loss in 2017.

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.

In 2018, Standard & Poor's (rating of «B-/B») and Fitch (rating of «B-») confirmed sovereign credit ratings of Ukraine with 'stable' forecast. In December, Moody's increased sovereign rating of Ukraine to Caa1 with 'stable' forecast.

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

External risk, in general, decreased for Ukraine. Major economic risk is the absence of progress in structural reforms, needed to maintain macroeconomic stability and further cooperation with IMF, having high volume of repayment of external debts in coming years.

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 2018 was the year of growth of financial sustainability and efficiency for Bank CLEARING HOUSE Public Joint-Stock Company.

The Bank keeps high level of capitalization

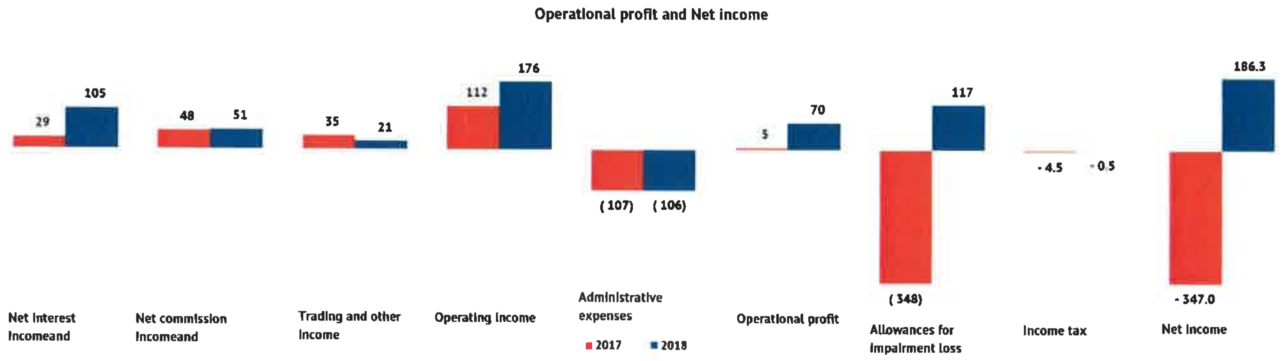
Regulatory capital of the Bank as at the end of 2018 is **UAH 486,3 mln.**, being much higher than regulatory requirements of NBU, thus providing adequacy of capital at the level of **36,82%** while the minimal level is 10%.

Increase of profitability

Bank CLEARING HOUSE Public Joint-Stock Company increased its profitability in 2018, getting net financial result of **UAH 186,3 mln.**

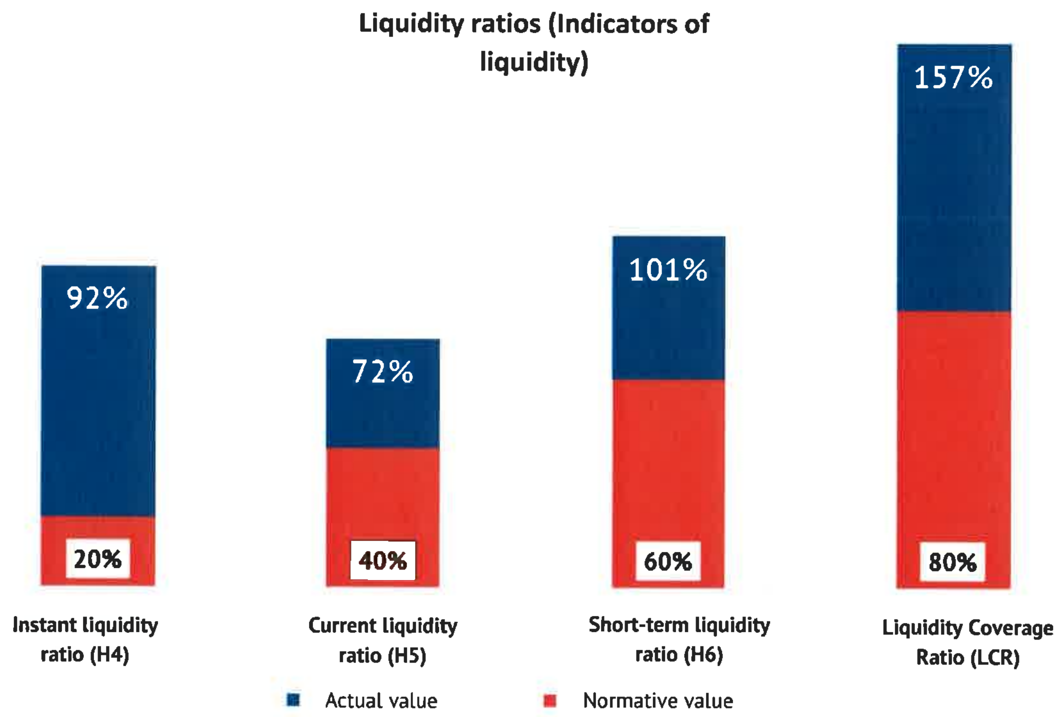
Operating income of the Bank in 2018 was **UAH 69,6 mln.**, or more than **12** times higher than 2017 comparative result.

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.



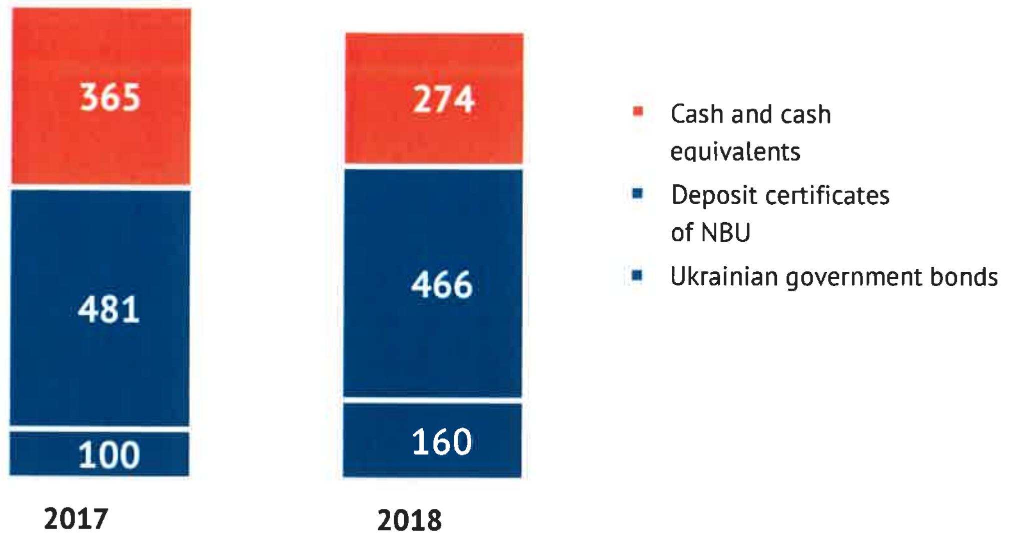
Indicators of liquidity confirm stability of Bank positions, being higher than NBU requirements.

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.



Almost **70%** 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 45 mln.**

High liquid assets, UAH mln.



Loan portfolio management

Systematic work with the debtors in 2018 made has been allowed for the Bank to collect a part of debts from NPL portfolio. Total amount collected debts for this portfolio reached **UAH 310 mln.**

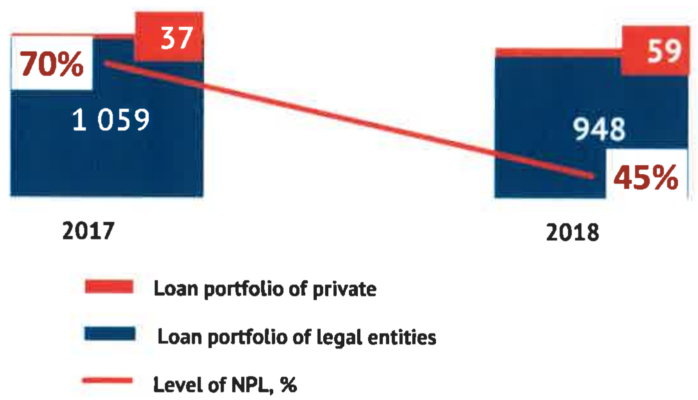
As at the end of 2018, the Bank reached level of NPL in credit portfolio of **45%**, or **25 p.p.** lower than as at 01.01.2018 and **10 p.p.** better than average for Ukrainian banking system.

Loan portfolio of new clients – legal entities increased by **UAH 255 mln.**, while total number of borrowers increased by **52%** in 2018.

In 2018, loan portfolio of private individuals was **UAH 22 mln.**, with the growth rate of portfolio of **60%**. Major input into growth of such loan portfolio was introduction of mortgage loans for purchase of properties in Kyiv new apartments. Mortgaged loan portfolio as at the end of 2018 reached **UAH 10,5 mln.**

Number of private individual borrowers increased by **15%** in 2018, reaching close to **1 200** clients.

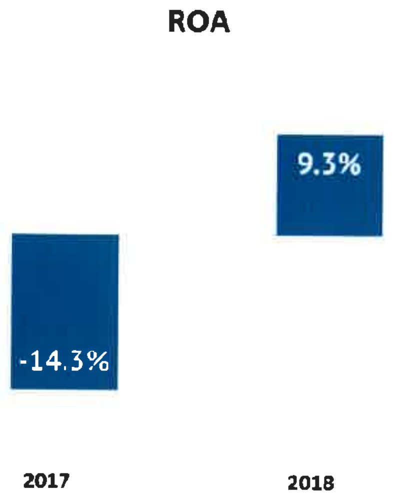
Loan portfolio, UAH mln.

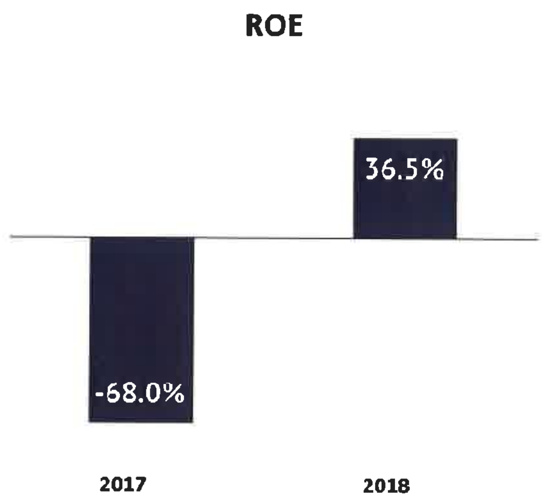


Efficiency indices grew up:

- 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 **9,3%** and **36,5%** respectively.

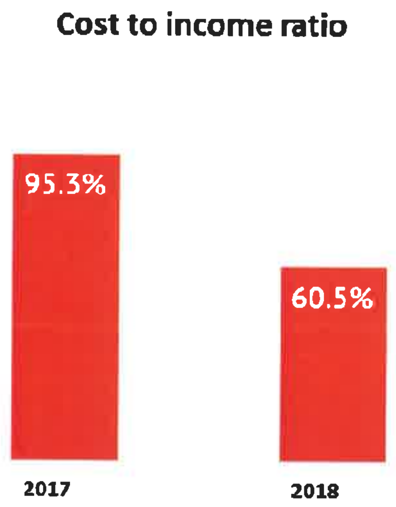


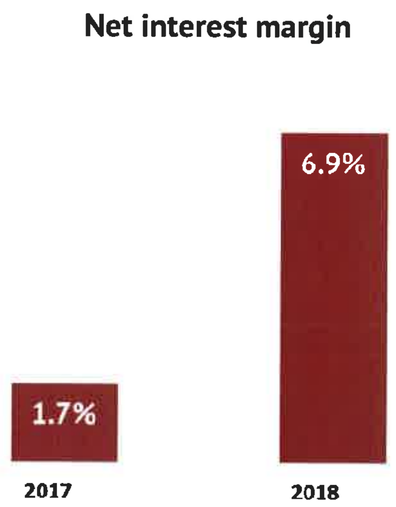


In 2018, the Bank significantly improved Cost to income ratio, reaching **60,5%** as at the end of the year.

Net interest margin reached **6,9%** by the 2018 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 private individuals.





Depository activities

Bank CLEARING HOUSE Public Joint-Stock Company has more than 20 years of positive experience of work as depository with well-established and experienced team of experts at national stock market.

Bank CLEARING HOUSE Public Joint-Stock Company 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 2018, the Bank served more than 150 thousand accounts of securities and more than 600 issues of securities of local issuers, including state ones. 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 2018, departments of Center 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 in IT vertical was focused in implementation of IFRS 9 requirements to financial statements, achieved in active cooperation with all departments of the Bank.

Integral part of work of IT department is improvement of protection if IT systems, quality of which sets the level of safe and accessible services for clients and employees of the Bank.

In 2018, the project on introduction of mobile banking services for the clients was initiated, taking into account all requirements of users to channels of interaction with banking sector.

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 2018 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.

Close to **800** corporate clients use financial services and products of the Bank (number of clients increased by **50** entities or **7%**). Number of transactions on settlements with counterparts by Bank clients in 2018 was over **430 thousand**, covering close to **UAH 80 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 2018, the Bank focused its work in Corporate sector on improvement of personalized servicing of clients and improvement of credit products. E.g., in 2018, the Bank improved procedures of crediting and developed the following programs: *Financing of Trade Transactions* and *Financing of Agricultural Producers*.

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 800 mln**. Loan portfolio of new clients in 2018 went up by more than **UAH 250 mln.**, while the number of borrowers increased by **38%**.

During the year, the Bank introduced ESCROW account, Importer tariff package for special purpose group of clients, improved Overdraft and Term deposit products, adapted basic tariffs to users' demands, thus improving Bank competitiveness on the marker of Corporate services.

Funds of the clients reached close to **UAH 1 000 mln.**

Bank CLEARING HOUSE Public Joint-Stock Company 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 2018 was more than UAH **75** mln., including non-interest income of UAH **23** mln.

Major products and services

Cash flow management:

- Opening and servicing current accounts;
- Center 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 2018 more than **1 600** wealthy clients (increase by more than **250** clients, or **17%**) preferred to cooperate with offices of Bank CLEARING HOUSE Public Joint-Stock Company, improving 2017 results by close to **20%**.

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 2018, 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 life style 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 12%.

As a result, **operating income** of Private banking business in 2018 was over UAH **33** mln., including non-interest income of UAH **21** 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 Bank CLEARING HOUSE Public Joint-Stock Company as *Best Bank for Premier Banking Ukraine 2017*.
- Financial club included Bank CLEARING HOUSE Public Joint-Stock Company into Top 10 in the *Premier Banking* nomination.

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)
- Center 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 2018, Bank products were used by more than **21 000** private individuals (number of clients increased by **2 000**, or **12%**), and close to **900** clients (number of clients increased by **100**, or **18%**), representing small and medium businesses.

Relations with clients are implemented through the following attributes:

- Family and home.
- Friends.
- Realization of goals.
- Private interests.

In 2018, the Bank improved its position in servicing acting and new clients – natural persons. In 2018 the Bank introduced new product - Visa Rewards – to increase Bank's participation in the financial life of the clients.

Non-interest income from servicing of the clients in 2018 reached close to UAH 20 mln., or UAH 7 mln. more than in 2017.

In 2018, 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 **63%**.

The Bank developed and introduced competitive product of crediting purchases of property on primary market (*My New Apartment*), acting as strategic partner in *Respublica* construction project. Mortgage portfolio of the Bank as at the end of the year reached more than UAH 10 mln.

Bank CLEARING HOUSE Public Joint-Stock Company takes advantage of its flexibility and closely monitors trends in relations between small and medium businesses (SMB) and banking system. As a result, the Bank introduced some new products for this pool of clients:

- Dynamic overdraft for SMB;
- Package for purpose groups of private entrepreneurs, grouping business and private accounts into one package.

Based on results of cooperation of the Bank and individual clients and SMB clients, loan portfolio of this segment increased by more than **7 times** during the year, while portfolio of clients' funds reached close to UAH **150** mln. (2018 growth rate was **11%)**.

Operating income of "Bank at work" business in 2018 was close to UAH **34** mln., where UAH **20** mln. is non-interest income.

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 Bank CLEARING HOUSE Public Joint-Stock Company.

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 **7%** compared to prior year. In 2018, the Bank focused on increase of efficiency of servicing payroll projects, thus making it possible to increase income, generated by this product, by **68%**. In general, in 2018, 188 companies entrusted the Bank to services their employees, which is more than **18 thousand** of natural persons (increase by **1 000** clients).

In 2018, high liquid assets grew significantly, thus making it necessary for the Bank to increase its presence on interbank market of Ukraine. The Bank uses Treasury for efficient use of available resources. In 2018, 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 19.04.2019

Chair of the Management Board V. O. Andreevska

Chief Accountant O. O. Markina

Публічне акціонерне товариство
«БАНК «КЛІРИНГОВИЙ ДІМ»
Ідентифікаційний код 21665382
м. Київ • Україна

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 accompanying financial statements of PJSC "CLEARING HOUSE" (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of 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 2018, 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 (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.

We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	**How our audit addressed the key audit matter**
Impairment of loans and advances to customers	
The recognition and measurement of expected credit losses ('ECL') is complex and involves the use of significant judgment and estimation, including in the formulation and incorporation of multiple forward-looking economic conditions	The controls management established to support their ECL calculations were tested during our audit procedures. We also assessed whether the impairment methodology used by the Bank is in line with

Key audit matter	How our audit addressed the key audit matter
into the ECL estimates to meet the measurement objectives of IFRS 9. In determining ECL, management is required to exercise judgment in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The accuracy of the assumptions used in the models, including the macroeconomic scenarios, impacts the level of impairment provisions. Management exercises judgment in making estimations that require the use of assumptions which are subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions. We identified the issue of impairment of loans and advances to customers as key audit matter due to the materiality of the loan balances, the complexity and subjective nature of the ECL calculation. We refer to the financial statements Note 3 for information on principal accounting policies, notes 5, 6, 10 and 27 for disclosures and detailed information on the methods and models used and the level of the impairment allowances for loans and advances to customers.	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. Due to first time adoption of IFRS 9 in the audited period, we have focused on assessing the Bank's assumptions and the expert adjustments applied in the model taking into account the empirical data and the existing credit and monitoring processes. For significant loans and advances assessed for impairment on an individual basis we applied our professional judgement for selection the sample taking into account different risk criteria: for selected loans and advances we checked the stage classification with assessing factors that affect the credit risk; for selected impaired loans and advances (Stage 3 and purchased or originated credit-impaired financial assets (POCI)) we tested the assumptions used in the ECL calculation, particularly expected scenarios and probabilities assigned to them and the timing and amount of expected cash flows, including cash flows from repayments and realisation of collaterals. For individually insignificant loans and advances which are assessed for impairment on a portfolio basis we performed such procedures as testing the reliability of key data inputs and related management controls, examination of key management's judgements and assumptions, including the macro-economic scenarios and the associated probability weights, analyzing of impairment coverage of credit portfolio and its changes.

Fair value measurement of investment property, fixed assets (real property) and non-current assets held for sale

The valuation of investment property, fixed assets and non-current assets held for sale is important for our audit, due to the materiality of such property and the subjective nature of the valuations. 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. According to IFRS 5 assets held for	We have performed procedures for assessing the risks of material misstatement in the Bank's accounting estimates based on our testing procedures and determined that the fair value of relevant assets as at 31 December 2018 is consistent with the valuation reports of independent appraisers. We have performed procedures to determine the quality and objectivity of independent real estate valuation experts, the appropriateness of

Key audit matter	How our audit addressed the key audit matter
sale are measured at the lower of the carrying amount and fair value less costs to sell. The process of revaluation of the investment property, fixed assets and non-current assets held for sale is performed on a regular basis, in which each property is valued by an independent real estate valuation expert. Annually the Bank performs an external evaluation of such assets. The valuation of the investment property is disclosed in Note 8, fixed assets in note 9 and non-current assets held for sale in note 11.	the parameters used and the correct recording of the revaluation.

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 those charged with governance.

Responsibilities of Management and the Supervisory Board for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

REPORT ON OTHER LEGISLATION AND REGULATORY REQUIREMENTS

Report on 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 Ukraine Law "About banks and banks activities", paragraph 3.3 "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 2018 about:

- correspondence (reliable disclosure) of the amount of assets and liabilities of the bank by maturity buckets in the form of statistical reporting about structure of assets and inabilities by buckets, that is prepared by the Bank for applying to National Bank of Ukraine as of January 1st of the year following the reporting;

- 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 2018 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 taken into account.

Besides it should be taken into consideration, 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.

Performing the requirements of paragraph 3.3 "Regulations about the order of providing by banks to National bank of Ukraine audit reports for results of annual audit of financial statements", concerned the analysis of statistic form 631 "Report about structure of assets and liabilities by periods", (approved by NBU Board Resolution No.129 of 01 March 2016) (with changes and amendments) the following conclusions can be reached.

During the audit inconsistencies in the presentation of assets and liabilities by maturity buckets were not identified.

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, including those related to the change in the regulatory framework, 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

We assess the risk associated with operations with bank related parties as requiring constant control by the Bank's management, even considering the implementation of the action plan to bring the Bank's maximum exposure to bank credit risk ratio (H9) in accordance with the requirements of the regulatory acts of the National Bank of Ukraine on the last day of the accounting year.

- adequacy of Banks' capital based on asset's quality

At the December 31, 2018, 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 (01 file), is UAH 486 335 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 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*, approved by Decree of National Bank of Ukraine № 373 of 24.10.2011, 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*, approved by Decree of National Bank of Ukraine № 373 of 24.10.2011. Bank 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 of the Bank is responsible for Corporate governance report and its preparation in accordance with p. 3 of art. 40^1 of Law of Ukraine *On Securities and Stock Market* and art. 12^2 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. 40^1 of Law of Ukraine *On Securities and Stock Market* and art. 12^2 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 shareholder 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).

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, 2018, is UAH 510 393 thousand (510 392 935,00 UAH), thus complying with constituent documents. Stated capital was inputted by monetary funds. The Bank does not have any redeemed shares as at the balance sheet date.

- 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 as of 01.01.2019 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 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 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 *Subjects of Audit Activities, Having the Right to Perform Statutory Audits of Financial Statements of Public-Interest Entities* section of Register of auditors and subjects of audit activities. 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.

e) address of the legal entity and factual place of business:
- 4th floor, 52 letter B, B. Khmelnitskogo 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

b) beginning and closing date of the audit:
- Date of beginning: 29.11 2018
- Date of closing: 24.04 2019

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 2018 by resolution of the Supervisory Board dated 21 September 2018. We have been auditing the Bank's financial statements without interruption since the financial year ended 31 December 2016., i.e. for three consecutive years.

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, including:

1) *Judgements and assumptions regarding Loans and advances to customers*

We identified the issue as key audit matter and disclosed respective information in *Key Audit Matter* section of our report.

2) *Judgements and assumptions regarding Fair value measurement of investment property, fixed assets (real property) and non-current assets held for sale*

We identified the issue as key audit matter and disclosed respective information in *Key Audit Matter* section of our report

3) *Fraud risk*

We did not identify any factors, subject to significant risk of fraud.

Based on the result of our audit, we did not identify material misstatements, which may materially influence the financial statements).

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, 2018, Sviatoslav Biloblovskiy are independent from the Bank.

We and other members of PKF International network, as well as other undertakings 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.

I.O. Kashtanova

Director of PKF UKRAINE LLC

S.V. Biloblovskiy

Engagement partner on the audit

(Audit certificate No. 0072)

24 April 2019
Kyiv, Ukraine