

Translation from the Ukrainian original

**JOINT STOCK COMPANY  
“DEUTSCHE BANK DBU”**

**Annual financial statements in accordance with IFRS**

***for the year ended 31 December 2018  
and independent auditor's Report***

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## **INDEPENDENT AUDITOR'S REPORT**

*To the Shareholders and the Board of Directors  
of JOINT STOCK COMPANY "DEUTSCHE BANK DBU"*

### **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

#### **Opinion**

We have audited the annual financial statements of the Joint-Stock Company "Deutsche Bank DBU" (hereinafter – the Bank), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including the 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 December 31, 2018, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (hereinafter – IFRSs).

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (hereinafter – 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 ethical requirements that are applicable in Ukraine to our audit of the financial statements, such as the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (hereinafter – IESBA Code), and we also have fulfilled our other ethical responsibilities in accordance with these requirements.

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

#### **Key Audit Matter**

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the financial statements in the current period. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

#### *Measurement of expected credit losses for loans provided to borrowers-legal entities*

Measurement of allowances for expected credit losses for loans provided to borrowers-legal entities is a key audit matter considering the volume of these operations in the Bank's activity and that in 2018 the Bank has applied new International Standard of Financial Statements 9 "Financial Instruments" (hereinafter – IFRS 9), which requires measurement of expected credit losses to be based on scenario analysis considering not only past events, current conditions but also future economic forecasts, which is to a greater extent subject to professional judgment of the Bank's management, and therefore, the use of certain judgments and assessments can cause different level of credit losses.

Loans provided to borrowers-legal entities and expected credit losses as at December, 31, 2018 are disclosed in Notes 7 to the financial statements. To measure expected credit losses the Bank applied approach based on financial models for determination of significant increase in credit risk, probability of default and loss given default using macroeconomic indicators and scenario analysis. More detailed information on expected credit losses is disclosed in the Note 4 to the financial statements.

Our audit procedures included analysis of credit losses measurement methodology used by the Bank to prepare the financial statements in accordance with IFRS 9, and review of algorithm of utilization of input data for credit losses measurement. Considering the fact that the majority of the Bank's loans and loan commitments were provided to borrowers-legal entities incorporated in Ukraine by high-ranked international companies, which are clients of групи Deutsche Bank group (hereinafter – the Group), and the default probability assessment was based on the models with indicators calculated on the Group level as well, we analyzed if the methodology and data used in these models were relevant and appropriate and the key assumptions applied were reasonable. We also assessed whether the disclosure in the financial statements were appropriate.

### **Emphasis of Matter**

We draw attention to Note 2 to the financial statements disclosing information about the presence of uncertainty, the outcome of which depends on future events that are not under direct control of the Bank but may affect its financial statements in the future. The indicated uncertainty is risks caused by internal and external political and economic factors, which cannot be objectively predicted as at the date of the report. We do not modify our opinion with regard to this matter.

### **Other Information**

Management of the Bank is responsible for other information. Other information comprises:

- Management Report, which was prepared and approved by the Chairman of the Board of the Bank based on the requirements of Chapter IV of the Resolution of the Board of the National Bank of Ukraine «Regulation on the Procedure of Preparation and Disclosure of Financial Statements of Banks #373 dated 24.11.2011 (hereinafter – Resolution of NBU #373), and which is not the financial statements of the Bank and does not contain our Independent Auditor's Report thereon. Our opinion on the financial statements does not apply to the Management Report and we do not conclude with any level of assurance on it as a whole. In connection with our audit of the financial statements, our responsibility is to read the Management Report and review on:
  - consistency of the Management Report with the Financial Statements of the Bank for 2018;
  - compliance of the Management Report with the requirements of the legislation;
  - the existence of material misstatements in the Management Report.

We have not identified inconsistency of the Management Report with the Financial Statements of the Bank for 2018 we also did not identified incompliance of the Management Report with the requirements of the legislation regarding its preparation. We did not find material misstatements in the Management Report.

- Annual reporting data of the issuer, which must be completed by the Bank based on the requirements of Articles 40 and 40<sup>1</sup> of the Law of Ukraine "On Securities and the Stock Market" (hereinafter – Law #№3480–IV) and the requirements of the Regulation on Disclosure of Information by the Issuers approved by the NSSMC dated 03.12.2013 #2826 (hereinafter – Resolution #2826), and which is not the financial statements of the Bank and does not contain our Independent Auditor's Report thereon. As expected, Annual reporting data of the issuer will be completed after the date of our Independent Auditor's Report. Our opinion on the financial statements does not apply to the Annual reporting data of the issuer and we do not conclude with any level of assurance on Annual reporting data of the issuer, except for matters disclosed in the Corporate Governance Report and requires the auditor to express an



opinion thereon, as foreseen by pp. 5-9 of the part titled “Corporate Governance Report” of the p.3 Article 40<sup>1</sup> of the Law #3480–IV. Annual reporting data of the issuer must be filed by the bank within terms specified by articles 39 and 39<sup>1</sup> of the Law #3480–IV, before April 30 of the year that follows the reporting year. As at the date of this Independent Auditor’s Report we have not prepared the report, which would have comprised the opinion regarding the matters foreseen by pp. 5-9 of the part titled “Corporate Governance Report” of p. 3 article 40<sup>1</sup> of the Law #3480–IV. In connection with our audit of the financial statements, our responsibility is to read the Annual reporting data of the issuer and consider whether there is a material inconsistency between the Annual reporting data of the issuer and the financial statements or our knowledge obtained during the audit, or whether the Annual reporting data of the issuer otherwise appears to be materially misstated. When we read the Annual reporting data of the issuer and if we come to the conclusion that it contains the material misstatement, we will be obliged to inform you accordingly.

### **Responsibilities of the Bank’s 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 the 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, matter 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 is 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 the 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 scepticism 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 of the Bank;
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that the 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 those charged with governance regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 LEGAL AND REGULATORY REQUIREMENTS**

*(The Law of Ukraine "On audit of the financial statements and auditing" N2258-viii dated December 21, 2017)*

The information in this section of the Independent Auditor's Report is provided in accordance with paragraphs 3 and 4 Article 14 of the Law of Ukraine "On Audit of the Financial Statements and Auditing" No. 2258-VIII dated December 21, 2017.

We were appointed to conduct a statutory audit of the Bank's financial statements by the Supervisory Board resolution No55 dated September 13, 2018; the total duration of the audit engagement without interruptions, taking into account extension of the mandate that took place and the re-appointments, is 3 years that ended December 31, 2018.

### **Audit estimates**

Our statement regarding identification and our assessment of risks of material misstatement of financial statements due to fraud or error is contained in *Auditor's Responsibility for the Audit of the Financial Statements* section of this Independent Auditor's Report.

### ***Description and assessment of risks of material misstatement in the financial statements***

In planning our audit we determined that the audit of the Bank's financial statements is accompanied by a high audit risk, based on the Bank's business risk and inherent accounting risk assessment. Information regarding the risk assessment of material misstatement due to fraud is disclosed below in *Main limitations regarding the risks of material misstatement in the financial statements* section of this chapter of this Independent Auditor's Report.

According to our audit estimates, the business risk includes:



- unstable economic conditions which are not typical for the most other countries' economies despite certain signs of recovery such as slowdown of inflation rates, reducing in devaluation rates of hryvnia with regard to main foreign currencies, increase of international reserves of the National Bank of Ukraine and overall recovery of business activity;
- financial risks inherent to bank activity;
- operational risks and risks to information security;
- market risks and other economic and politic uncertainties, the result of which depends on events that are not under control of the Bank.

Herewith the Bank applies conservative business model and provides its services mostly to the international corporate client of the Group in Ukraine. The main purpose of the Bank's activity is making profit by providing full range of banking services. The Bank's activity is profitable; profit is distributed to the Bank's reserves, for dividends payment and for the Bank's development.

During the audit we identified the higher accounting risk in connection to the matter described in *Key Audit Matter* section of our Independent Auditor's Report.

***References to information in the financial statements for describing and assessing the risk of material misstatement in the financial statements***

Business risk is described in note 2 to the financial statements.  
Accounting risk is provided in *Key Audit Matter* section.

***Description of responses taken to address identified risks of material misstatement in the financial statements***

Based on identified and assessed risks of material misstatement of the financial statements, we conducted the following audit procedures, we:

- increased the level of professional scepticism (i.e., increased our attention to the documentation and the need to confirm the explanations or statements of the Bank's management);
- assigned appropriate personnel to carry out the statutory audit, including, in accordance with the RSM International Audit Manual, a second partner and a quality control reviewer;
- increased sample size and scope of analytical procedures;
- investigated whether there were any significant and / or unusual operations that took place close to the year end;
- assessed the appropriateness of the applied accounting policies and the reasonableness of the accounting estimates and relevant disclosures in the financial statements made by the Bank's management;
- assessed the overall presentation, structure and content of the financial statements, including disclosures, as well as whether the underlying operations and events are presented the financial statements in the way to achieve their reliable presentation in the financial statements;
- analysed conclusion on the acceptability to use the assumption of the Bank's management regarding going concern as the basis for accounting based on the audit evidence obtained. The period of assessment of continuous activity covered a period of at least twelve months from the date of approval of the financial statements;
- analysed information on whether there is a significant uncertainty about events or conditions that would put into question the Bank's ability to continue as going concern.

***Main limitations regarding the risks of material misstatement in the financial statements***

The main limitation is the risk of fraud. In accordance with the requirements of IAS 240, in planning of our

audit, we considered the Bank's disposition to fraud, taking into account the business environment, as well as the means and methods of control established and supported by management, as well as the character of the transactions, assets and liabilities presented in the accounting.

In planning our audit, we made inquiries to the Bank's management regarding whether they have knowledge of any actual, suspected or alleged fraud affecting the Bank's. In response to such inquiries the management provided a written assessment of the risk of fraud in the Bank, according to which the risk of fraud is low.

However, the primary responsibility for prevention and detection of fraud rests with the management of the Bank, which shall not rely on the audit to avoid its responsibilities, as fraud may include conspiracy, forgery, deliberate omission, incorrect statements or override of internal control, which may not be detected as a result of the limitations inherent of an audit. The inherent audit limitations are described in the *Auditor's Responsibility for the Audit of the Financial Statements* section of this Independent Auditor's Report.

#### **Audit Effectiveness in Detecting Violations**

By the results of our audit we did not identify any material weaknesses in internal control. Separate recommendations regarding accounting made for subsequent periods were below the materiality level, which was defined by us taking into account the tolerance for undetected misstatements in the amount of UAH 6,003 thousand.

We applied the tolerance for possible undetected misstatements, based on the inherent audit limitations by reducing the performance materiality to an acceptable level. The inherent limitations of the audit are described in the *Auditor's Responsibility for the Audit of the Financial Statements* section of this Independent Auditor's Report.

#### **Consistency of Independent Auditor's Report with additional report for the Audit Committee**

The Bank did not establish the Audit Committee of the Supervisory Board; the functions of the Audit Committee are performed by the Supervisory Board. This Independent Auditor's Report is brought in line with the Additional report to the Supervisory Board, which was prepared in accordance with the requirements of Article 35 of the Law of Ukraine "On Audit of the Financial Statements and Auditing".

#### **Providing services prohibited by law and independence of the key audit partner and audit firm from the Bank during the audit**

We have not provided services prohibited by law to the Bank, as it was stipulated by Articles 6 and 27 of the Law of Ukraine "On audit of financial statements and audit activity".

Statement of our independence from the Bank, including the key audit partner is disclosed in the *Basis for Opinion* and *Auditor's Responsibility for the Audit of the Financial Statements* paragraphs of this Independent Auditor's Report.

#### **Information about other services provided to the Bank or its controlled entities, except for statutory audit services**

Except for statutory audit services, information of which is not disclosed in Management Report or financial statements for 2018 we have provided other services to the Bank, including:

- review of the Management Report prepared in accordance with Regulation #373;



- assets quality and adequacy of collateral review for loan transactions in accordance with Technical Assignment for diagnostic study of asset quality of banks and bank system of Ukraine in 2019 approved by the NBU Resolution #97- pm dated February 5, 2019, which was developed on the basis of the requirements of the Board of NBU Resolution #141 dated December 22, 2017, as amended;
- limited assurance engagement regarding Corporate Governance Report, as required by Article 40<sup>1</sup> of the Law #3480-IV.

During the reporting period there were no subsidiaries or other legal entities under control of the Bank.

#### **Clarifications on the scope of the audit and the limitations inherent to an audit**


The description of scope of the audit is disclosed in *Auditor's Responsibility for the Audit of Financial Statements* paragraph of this Independent Auditor's Report.

Because of the limitations inherent to an audit as well as limitations inherent to internal control system, there is an unavoidable risk that some significant misstatements may not be detected even if the audit is properly planned and performed in accordance with the ISAs.

#### **Basic information about the audit firm:**

- *Full name* - Limited Liability Company "AUDIT FIRM "RSM UKRAINE";
- *Place of registration and actual location* - 04080, 47 Nizhnyoyurkivska Str., Kyiv and 03151, 37/19 Donetska Str., Kyiv, respectively;
- *Information on including in the Register* – under #0084 (s/n5) in the Register of Auditors and Audit Entities; and under s/n 3 in the Section "Auditors eligible to carry out statutory audit of financial statements"); and under s/n 2 in the Section "Auditors eligible to conduct statutory audit of financial statements of public companies".

The key partner for the audit resulting in this Independent Auditor's Report is Olga Panchenko.

A handwritten signature in blue ink, appearing to read "T. Bernatovych".

Tatyana Bernatovych  
Managing partner

A handwritten signature in blue ink, appearing to read "O. Panchenko".

Olga Panchenko  
Key audit partner

Registration number  
In the Register of Auditors and Audit Entities eligible to  
conduct statutory audit of financial statements of public  
companies  
101199

Registration number  
In the Register of Auditors and Audit Entities eligible to  
conduct statutory audit of financial statements of public  
companies  
100722

37/19 Donetska Str., Kyiv, Ukraine  
April 16, 2019

(in thousands of UAH)

	Note	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>ASSETS</b>			
Cash and cash equivalents	5	726 361	1 137 952
Due from other banks	6	928 521	417 561
Loans and advances to customers	7	1 848 792	514 802
Receivables on current income tax		10	-
Deferred tax asset	19	1 278	932
Fixed assets	8	11 514	12 944
Intangible assets	8	554	578
Other assets	9	2 909	2 895
<b>Total assets</b>		<b>3 519 939</b>	<b>2 087 664</b>
<b>LIABILITIES</b>			
Due to customers	10	3 132 954	1 706 565
Current income tax liabilities		3 937	2 381
Provision for credit-related commitments	11	54	88
Other liabilities	12	17 471	19 227
<b>Total liabilities</b>		<b>3 154 416</b>	<b>1 728 261</b>
<b>EQUITY</b>			
Share capital	13	301 839	301 839
Retained earnings and other reserves		63 684	57 564
<b>Total equity</b>		<b>365 523</b>	<b>359 403</b>
<b>Total liabilities and equity</b>		<b>3 519 939</b>	<b>2 087 664</b>

Approved for issue and signed

16 April 2019

\_\_\_\_\_  
Bernd Wurth  
Chairman of the Board

\_\_\_\_\_  
Olexiy Rybenko  
Chief Accountant

Prepared by Nesterenko P.E.  
Deputy Chief Accountant  
tel. (044) 461-15-18

Statement of financial position should be read in conjunction with the notes on pages 7-49, which are forming a part of these financial statements.

<i>(in thousands of UAH)</i>	<i>Note</i>	<b>2018</b>	<b>2017</b>
Interest income	15	278 161	164 737
Interest expense	15	(141 760)	(60 111)
<b>Net interest income</b>		<b>136 401</b>	<b>104 626</b>
Net decrease of impairment loss	6,7,9,11	(2 389)	1 160
<b>Net interest income less impairment</b>		<b>134 012</b>	<b>105 786</b>
Net fee and commission income	16	18 165	20 810
Net trading income	17	7 454	7 988
Other operating income		-	893
<b>Total non-interest income</b>		<b>25 619</b>	<b>29 691</b>
Salaries and employee benefits		(47 421)	(43 719)
Administrative and other operating expenses	18	(58 056)	(44 194)
<b>Total non-interest expense</b>		<b>(105 477)</b>	<b>(87 913)</b>
<b>Profit before tax</b>		<b>54 154</b>	<b>47 564</b>
Income tax expense	19	(11 867)	(9 493)
<b>Profit for the year</b>		<b>42 287</b>	<b>38 071</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>42 287</b>	<b>38 071</b>
<b>Earnings per share from continuing operations:</b>			
Basic and diluted earnings per share, UAH	20	0.18	0.17

Aproved for issue and signed

16 April 2019

\_\_\_\_\_  
 Bernd Wurth  
 Chairman of the Board

\_\_\_\_\_  
 Olexiy Rybenko  
 Chief Accountant

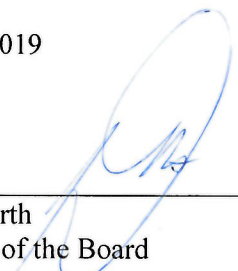
Prepared by Nesterenko P.E.  
 Deputy Chief Accountant  
 tel. (044) 461-15-18

Statement of financial position should be read in conjunction with the notes on pages 7-49, which are forming a part of these financial statements.

<i>(in thousands of UAH)</i>	<i>Note</i>	<b>Share capital</b>	<b>Reserve and other funds</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Balance as at 01 January 2017</b>		<b>228 666</b>	<b>13 853</b>	<b>112 796</b>	<b>355 315</b>
Profit for the year		-	-	38 071	38 071
Total comprehensive income		-	-	38 071	38 071
Transfer of profit to reserve funds		-	5 640	(5 640)	-
Dividends		-	-	(33 983)	(33 983)
Increasing face value of shares		73 173	-	(73 173)	-
<b>Balance as at 31 December</b>		<b>301 839</b>	<b>19 493</b>	<b>38 071</b>	<b>359 403</b>
<b>Balance as at 1 January 2018</b>		<b>301 839</b>	<b>19 493</b>	<b>38 071</b>	<b>359 403</b>
Profit for the year		-	-	42 287	42 287
Total comprehensive income		-	-	42 287	42 287
Transfer of profit to reserve funds		-	1 904	(1 904)	-
Dividends	21	-	-	(36 167)	(36 167)
<b>Balance as at 31 December</b>		<b>301 839</b>	<b>21 397</b>	<b>42 287</b>	<b>365 523</b>

Aproved for issue and signed

16 April 2019

  
 Bernd Wurth  
 Chairman of the Board

  
 Olexiy Rybenko  
 Chief Accountant

Prepared by Nesterenko P.E.  
 Deputy Chief Accountant  
 tel. (044) 461-15-18



(in thousands of UAH)

	Note	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		54 154	47 564
Adjustments for:			
Depreciation and amortization	8	3 220	2 744
Net increase/(decrease) of provisions for impairment of assets	6,7,9,11	2 336	(1 179)
Amortisation of discount /(premium)		(47)	(8)
(Increase)/decrease of accrued income		(1 064)	(3 278)
(Decrease)/increase of accrued expenses		8 323	2 602
Unrealized exchange differences		(181)	102
<b>Net monetary gain from operating activities before changes in operating assets and liabilities</b>		<b>66 741</b>	<b>48 547</b>
Changes in operating assets and liabilities:			
Net decrease/(increase) in deposits in other banks	5	(189 841)	(417 478)
Net decrease/(increase) in loans and advances to customers	7	(1 331 330)	(303 470)
Net decrease/(increase) in other assets	9	(1 975)	(727)
Net increase /(decrease) in due to customers	10	1 437 978	(437 386)
Net increase /(decrease) in other liabilities	12	(1 277)	5 914
<b>Net cash flows from (used in) operating activities before income tax</b>		<b>(19 704)</b>	<b>(1 104 600)</b>
Income tax paid		(10 658)	(5 087)
<b>Net cash flows from (used in) operating activities</b>		<b>(30 362)</b>	<b>(1 109 687)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of fixed assets	8	(1 481)	(7 398)
Acquisition of intangible assets	8	(284)	(345)
<b>Net cash flows from investing activities</b>		<b>(1 765)</b>	<b>(7 743)</b>
<b>CASH FLOWS FROM FINANCIAL ACTIVITIES</b>			
Dividends paid	21	(36 167)	(36 571)
<b>Net cash flows from (used in) financial activities</b>		<b>(36 167)</b>	<b>(36 571)</b>
Effect of the official exchange rate changes on cash and cash equivalents		(20 095)	46 912
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(88 389)</b>	<b>(1 107 089)</b>
Cash and cash equivalents at the beginning of the year <sup>1</sup>	5	1 051 059	2 158 148
<b>Cash and cash equivalents at the end of the year <sup>1</sup></b>	5	<b>962 670</b>	<b>1 051 059</b>

Aproved for issue and signed  
16 April 2019

Bernd Wurth  
Chairman of the Board

Prepared by Nesterenko P.E.  
Deputy Chief Accountant  
tel. (044) 461-15-18

Olexiy Rybenko  
Chief Accountant

<sup>1</sup> Cash and cash equivalents do not include term deposit certificates of NBU

## **1 Background**

### **a) Main activities**

Public Joint Stock Company DEUTSCHE BANK DBU (hereinafter - the Bank) was registered as an open joint stock company in 2009. In 2010, the Bank was re-registered as a public joint stock company. In 2018 the Bank was re-registered as a joint stock company.

The Bank specializes in attraction of deposits and maintenance of customers' accounts, granting loans and providing guarantees, cash and settlement transactions, transactions with securities, and foreign exchange operations. In 2018 as a result of considering the Bank's application, the National Securities and Stock Market Commission cancelled a license to conduct professional activity in the stock market (which were effective based on the decision № 1084 dated 24 July 2015): on brokerage activity according to the decision № 274 dated 26 April 2018 and on dealership activity according to the decision № 616 dated 11 September 2018. The Bank's operations are regulated by the National Bank of Ukraine. The Bank is a member of Individuals' Deposits Guarantee Fund (certificate № 207 dated 12 October 2009).

As at 31 December 2018, the Bank is operating through its Head Office and has no branches.

The Bank is registered at Lavra Street 20, Kyiv, Ukraine.

### **б) Ultimate controlling party**

Deutsche Bank AG, a corporation, created and acting according to the laws of the Federal Republic of Germany, owns 100 % of the Bank's share capital. Deutsche Bank AG is a direct parent company of the Bank and its ultimate controlling party. Deutsche Bank AG prepares and publishes its consolidated financial statements prepared in accordance with IFRS.

The Bank's management does not own any shares in the Bank. Details of transactions with related parties are disclosed in note 26.

## **2 Operating environment**

Economy of Ukraine did not experience significant disturbances in 2018. According to the National Bank of Ukraine, in 2018 GDP grew by 3.3% y/y, which is the highest rate over the last 7 years. Consumer inflation slowed down to 9.8% (from 13.7% in 2017), which is the lowest rate over the last 5 years. In 2018, the NBU raised its discount rate four times from 14.5% to 18% per annum. These measures of the regulator were aimed at the consumer inflation containment and bringing it to the target amounts.

The National Bank of Ukraine predicted GDP growth in 2019 of 2.5% (2.9% for 2020) at inflation rate of 6.3%. Forecast of the international reserves of Ukraine by the end of 2019 is \$20.6 billion.

On 2019 through 2021 falls the peak of national debt reimbursements. The total amount of payments for national debt planned in 2019 is around UAH 417 billion. (equivalent of USD 14.2 billion), including payments in foreign currency - about USD 9 billion. Accordingly, Ukraine will need additional external financing. In this context, continued cooperation with the IMF will be extremely important.

2018 was a successful year for the banking system. Banking sector received a record profit of UAH 21.7 billion. Net profit of profitable banks amounted to UAH 34.4 billion, losses of unprofitable banks was UAH 12.7 billion. Operating income increase by 27.5% y/y, primarily due to the growth in net interest and commission income, while expenses increased by 27.6% y / y. Operating profit before provisions increased by 25.4% y/y. Operational performance was steady: CIR was 58.9%. In 2018, deductions in reserves in the banking sector were twice lower than a year earlier and amounted to UAH 23.7 billion.

Over the past several years, the NBU has been focusing on stabilizing the banking sector. In 2018, the NBU will continue to unify the regulatory requirements of the Basel Recommendations and European Directives. The planned introduction of a new liquidity norm - LCR, which aims to increase banks' resilience to outflows.

Independent auditors conduct an analysis of the assets quality in all financial institutions. And the NBU, in its turn, conduct stress testing of banks. Since 2018 Ukraine has also introduced a credit register.

The Bank's operations are steadily profitable. The profit is distributed to the Bank's reserve funds, is used for the increase of the authorized capital and to pay dividends. The Bank meets the regulatory requirements for the capital adequacy ratio, which significantly exceeds the established norm. The Bank ensures the timely involvement and support of a sufficient level of capital required to support its current activities, to support strategic development intentions and to provide protection against risks arising in banking activities.

One of the key areas of work is the extension of the client base. The Bank is engaged in attracting new clients.

Deutsche Bank AG. as a parent bank supports for the strategic conditions of the Bank's development.

There are no the Bank's assets that would not have been recognized in the Statement of Financial Position as at 31 December 2018 in accordance with IFRS.

Although management believes that it is taking appropriate measures to support the Bank's stable operations, in the current circumstances, further political instability and potential macroeconomic shocks may have a negative impact on the Bank's performance and financial position, the nature and consequences of which are currently not feasible. These financial statements, prepared on a going concern basis, reflect the current assessment of management personnel on the impact of operating conditions in Ukraine on operational activities and the financial position of the Bank. Future performance conditions may differ from the management's estimates.

### **3 Basis of preparation**

#### **a) Statement of compliance**

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

#### **b) Basis of measurement**

These financial statements are prepared on the historical cost basis, except for assets and liabilities as stipulated by the accounting policy set out below when such measurement basis is used as amortised cost or fair value.

#### **c) Functional and presentation currency**

The functional and presentation currency is the Ukrainian hryvnia (UAH).

Unless stated otherwise, these financial statements are presented in UAH, rounded to the nearest thousand.

#### **d) Use of estimates and judgments**

The preparation of the financial statements in conformity with IFRS requires management to make a number of judgements, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

### **4 Significant accounting policies**

The accounting policies set out below are consistently applied to all periods presented in these financial statements, except as stated otherwise.

**a) Foreign currency transactions**

Transactions in foreign currencies are translated to hryvnias at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to hryvnias at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The UAH is not a convertible currency outside Ukraine and, accordingly, any conversion of UAH amounts to USD should not be construed as a representation that UAH amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or any other exchange rate.

The principal UAH exchange rates used in the preparation of these financial statements are as follows:

Currency	31 December 2018	31 December 2017
USD	27.69	28.07
EURO	31.71	33.50

**b) Cash and cash equivalents**

For the purpose of statement of financial position cash and cash equivalents include notes and coins on hand, unrestricted balances held with the NBU (including mandatory reserves) and deposit certificates issued by NBU. For the purpose of the statement of cash flows cash and cash equivalents include notes and coins on hand, unrestricted balances held with the NBU (including mandatory reserves) and deposit certificates issued by NBU (overnight), correspondent accounts with other banks.

**c) Financial instruments**

On 01 January 2018 International Standard of Financial Reporting 9 (IFRS 9) *Financial Instruments* entered into force, which replaced IFRS 9 international Accounting Standard 39 (IAS 39) *Financial Instruments: Recognition and Measurement*. IFRS 9 implementation program adopted in the Bank, including classification and measurements, depreciation method, model for calculating expected credit losses, measurement of provisions according to IFRS 9 and hedge accounting are detailed below (section q) – Transition to new and revised standards).

**d) Non-financial assets**

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**e) Provisions for credit-related commitments.**

In the normal course of business, the Bank enters into credit-related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.



Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Where some or all of the expenditure required settling a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the Bank settles the obligation. The reimbursement in the amount not exceeding the amount of provision is recognised in other financial assets.

In the statement of profit or loss and other comprehensive income, the expense relating to a provision is presented net of the amount recognised for a reimbursement.

## **f) Fixed assets**

### **(i) Owned assets**

Fixed assets comprise additions of fixed assets and repairs of property and equipment, furniture and office equipment. Fixed assets are initially recognised at cost less accumulated depreciation and impairment losses.

Expenses incurred in connection with repairs of property and equipment are recognised in profit or loss in the period when they are incurred unless they meet the capitalization recognition criteria.

Where an item of property, equipment assets comprises major components having different useful lives, they are accounted for as separate items of fixed assets.

Gains less losses from disposal of fixed assets are recognised in profit or loss.

### **(ii) Leased assets**

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Assets obtained under a lease that is not a finance lease are not recognized in the statement of financial position.

The Bank classifies lease transactions as operational leasing (rent) if none of following criteria, separately or in combination, are not fulfilled:

- at the end of the term of the lease (rent) property rights or other rights on the asset are transferred to the lessee;
- the lessee has the right to purchase the asset at a price that is much lower than the fair value at the date of realization of this right, and at the inception of the lease (rent) there is reasonable certainty that this right will be realized;
- the term of the lease (rent) is a bigger part of term of the useful life of the asset even if that title will not be not transferred;
- at the beginning of the term of the lease (rent) the present value of minimum lease (rent) payments must be not less than the fair value of the leased asset (rent);
- leased assets (rent) are specialized, i.e. only the lessee can use them without major modifications.

The object of operating lease is not recognized in the balance sheet of the lessee. Payments for leases are recognized as an expense on the straight line basis over the lease term.

The bank does not disclose financial leasing transactions due to absence of such operations.

**(iii) Depreciation**

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of specific assets. Depreciation commences from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated annual depreciation rates are as follows:

Machinery and equipment	10-25%
Fixtures and fittings (furniture)	10-20%
Other non-current tangible assets	8.3-20%

**(iv) Impairment**

Recognition of impairment of fixed assets and intangible assets is carried out in accordance with Instruction for accounting of fixed assets and intangible assets of banks of Ukraine N 480 dated 20 December 2005. The decision on the recognition of impairment and / or revision of terms of useful life is taken by continuously-operating (inventory) commission on the basis of revision of fixed assets or intangible assets.

**g) Intangible assets**

Intangible assets, acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Estimated annual amortisation rate is 33%.

**h) Share capital**

Contributions to share capital are recognised at historical cost. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**i) Dividends**

The ability of the Bank to declare and pay dividends is subject to the rules and requirements of the Ukrainian legislation.

Dividends in relation to ordinary shares are reflected as a reduction to retained earnings as and when declared.

**j) Taxation**

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **k) Earnings per share**

The Bank presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

#### **l) Income and expense recognition**

Income and expenses are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in profit less losses on financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other commissions and other income and expenses are recognised in profit or loss in the period when underlying services were performed.

Dividend income is recognised in profit or loss on the date of dividends declaration.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease payments made.

#### **m) Employee benefits**

Pensions are provided by the State through the mandatory contributions, which are made by the Bank and employees based on the earnings of the employees. The expenditure on these contributions is recognised in the profit or loss when contributions are due and is included in "Salaries and employee benefits".

#### **n) Offsetting**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

#### **o) Segment reporting**

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy.

For geographical allocation of assets and liabilities refer to note 22 (e).

**p) Related party transactions**

According to IAS 24 "Related Party Disclosures", parties are considered to be related, when: one of the party has the ability to control the other party; is under common control; or can exercise significant influence in making financial and operating decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form. Terms of transactions with related parties are set at the time of the transaction.

Relationships between related parties are in particular relationships: parent bank and its subsidiaries; bank-investor and his associates; bank and private individuals who have control or have significant influence over the bank and relationships of bank with close family members of each such individual; bank and its managers and other persons belonging to key management personnel and close family members of such persons.

Related parties to the Bank are members of the Supervisory Board, Management Board and their family members, other key management personnel, entities that are under common control. Key management personnel are: Chairman and members of the Supervisory Board, the Management Board; Chairmen of the Credit Committee, Tariff Committee, ALCO; Chief Accountant; Head of the Department of Internal Audit. The Bank assesses credit risks of lending to related parties and manages them based on ratios established by the National Bank of Ukraine.

In the normal course of business, the Bank provides loans and advances to customers, attracts deposits and conducts other operations with related parties.

**q) Transition to new and revised standards**

For the preparation of these financial statements, the following list of new or revised standards was first made mandatory for the fiscal year beginning on 1 January 2018.

- IFRS 15, Revenue from Contracts with Customers. The new standard that supersedes IAS 11, IAS 18 and their interpretations (IAS-31 and IFRIC 13, 15, and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (eg the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract, etc.).

- IFRS 9 Financial instruments.

From 1 January 2018 the Bank has implemented International Financial Reporting Standard (IFRS 9) *Financial Instruments*, which replaced International Accounting Standard 39 *Financial instruments: Recognition and Measurement* (IAS 39). IFRS 9 introduces new requirements for classification and measurements of financial assets, requires the amendments to reporting on issued debt commitments measured at fair value, replaces the IAS 39 rules for impairment of financial assets and changes hedge accounting requirements.

Taking into account the characteristics of the Bank's financial assets as at 31 December 2017, namely, the short-term nature of a loan portfolio (all loans were issued within a one year period), the absence of default and material deterioration of the borrower's financial position for any of these loans, the introduction of IFRS 9 as at 1 January 2018 did not result in changes in allowances for expected credit losses. The rules for transitioning to IFRS 9 do not require a retrospective application to prior periods.



### ***i) IFRS 9 implementation program***

The Bank implemented the IFRS 9 implementation program in co-ordination with the implementation program of this standard at the Deutsche Bank Group level. Overall program implementation management was carried through the Finance Department, with involvement of the Risk Management Department representatives, Business and IT departments. The ECL is managed jointly by the Financial and Risk Management Departments.

As a result of transition to IFRS 9, the following significant accounting policies replace the related accounting policies that meet IAS 39. These changes come into effect on 1 January 2018.

### ***ii) Classification and measurement under IFRS 9***

In accordance with IFRS 9, the classification of financial assets should be based on both the business model used to manage financial assets and the contractual cash flow characteristics of the financial asset (also known as the SPPI test). In the transition from IAS 39 to IFRS 9, there are no changes in the classification and measurement of financial liabilities.

#### ***Business model***

IFRS 9 foresees three business models for an entity:

- Hold to Collect, where financial assets are held to obtain contractual cash flows.
- Hold to Collect and Sell, where financial assets are held for the purpose of obtaining contractual cash flows or for sale of financial assets.
- Other business model, where financial assets held for trading intent or financial assets that do not meet the criteria of the first two models («Hold to Collect» or «Hold to Collect and Sell»).

Assessment of a business model involves the use of judgment based on facts and circumstances as at the date of assessment.

#### ***Solely payments of principle and interest (SPPI test)***

If a financial asset is held either to obtain a contractual cash flow (Hold to Collect) or to obtain a contractual cash flow or for sale (Hold to Collect and Sell), then an assessment to determine whether contractual cash flows are solely payments of principal and interest on principle amount outstanding at initial recognition is required to determine the appropriate classification category of cash flows.

Contractual cash flows, that are SPPI on the principle amount outstanding is determined by the basic lending agreement. Interest is a consideration for the time value of money and the credit risk associated with principal amount outstanding during the particular period of time. It can also include a consideration for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding a financial asset for a particular period of time; and a profit margin that is consistent with a basic lending arrangement.

#### ***Financial assets classified at amortized cost***

A financial asset is classified and subsequently measured at amortized cost (unless designated under the fair value option) if the financial asset is held in a Hold to Collect business model and contractual cash flows are SPPI.

Under this measurement category, a financial asset is measured at fair value at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any impairment allowance.

#### ***Financial assets at fair value through other comprehensive income***

A financial asset is classified and measured at fair value through other comprehensive income (FVOCI) (unless designated under the fair value option) if the financial asset is held in Hold to Collect and Sell business model, and contractual cash flows are SPPI.

Under FVOCI, a financial asset is measured at its fair value with any movements being recognized in other

comprehensive income (OCI) and is assessed for impairment in accordance with the new model of expected credit loss (ECL). The effect of foreign currency translation for FVOCI assets is recognized in profit or loss, as well as the interest component (by using the effective interest rate method). The amortization of premiums and accretion of discount are recorded in net interest income. Realised gains and losses are reported in net gains (losses) on financial assets at FVOCI financial assets.

### ***Financial assets at fair value through profit or loss***

Any financial asset held for trading or which does not meet the Hold to Collect or Hold to Collect and Sell business models criteria shall be assigned as Other business model and is measured at fair value through profit and loss (FVTPL).

In addition, any instrument for which the contractual cash flow characteristics are not SPPI must be measured at fair value through profit or loss (FVTPL), even if held in Hold to Collect or Hold to Collect and Sell business models.

Financial instruments are included in Other business model and held for trading if they have been originated, acquired or incurred principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Trading assets include debt and equity securities, derivatives held for trading purposes and trading loans.

At initial recognition, the Bank may irrevocably recognize a financial asset (that would otherwise be measured subsequently at amortized cost or FVOCI), as measured at FVTPL, if such designation eliminates or significantly reduces a recognition and measurement inconsistency (sometimes referred to as "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains or losses on a different basis.

### ***iii) Impairment method under IFRS 9***

The impairment requirements of IFRS 9 apply to all debt instruments that are measured at amortized cost or at FVOCI and to off-balance lending commitments such as loan commitments and financial guarantees (collectively referred to as "Financial assets"). This contrasts to the IAS 39 impairment model, which was not applicable to loan commitments or financial guarantee contracts as these were instead covered by International Accounting Standard 37, Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

The determination of impairment losses and allowances moves from an incurred credit loss model (in which credit losses are recognized when a defined loss event occurs under IAS 39) to an expected credit loss model under IFRS 9, where provisions are recorded at initial recognition of a financial asset based on expected potential credit losses at the time of initial recognition.

In accordance with IFRS 9, the Bank first evaluates individually whether objective evidence of impairment exists of for loans that are individually significant. Then, loans that are not individually significant, and loans that are significant. It then collectively assesses loans that are not individually significant and loans, which are significant, but for which there is no objective evidence of impairment available under the individual assessment.

For loans granted to legal entities the Bank determines expected credit losses under IFRS 9 on an individual basis.

#### **Staged approach to determining expected credit losses**

IFRS 9 introduces a three-staged approach to impairment for financial assets. This approach is summarized as follows:

- Stage 1: The Bank recognizes a credit loss allowance at an amount equal to 12 months expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not significantly increased after initial recognition.

- Stage 2: The Bank recognizes a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those financial assets, which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of expected credit loss based on lifetime probability of default for the financial asset that represents the probability of default occurring over the remaining lifetime of the financial asset. Allowance for credit losses are higher at this stage because of an increase in credit risk and the effect of a longer time horizon being considered compared to 12 months in Stage 1.
- Stage 3: The Bank recognizes a credit loss allowance at an amount equal to lifetime expected losses reflecting a 100% probability of default, via the recoverable cash flows for the asset. This approach applies to those financial assets that are credit-impaired. The Bank's definition of a default is aligned with the regulatory definition. The treatment of loans in Stage 3 remains substantially the same as the treatment of impaired loans under IAS 39, except for the homogeneous portfolios as discussed below.

Financial assets that are credit-impaired upon initial recognition are categorized within Stage 3 with a carrying value already reflecting the lifetime expected credit losses. The accounting treatment for these purchased or originated credit-impaired assets (POCI) is disclosed below.

#### Credit-impaired financial assets in Stage 3

The Bank has aligned its definition of credit-impaired assets under IFRS 9 with regulatory requirements.

The determination of whether the financial asset is credit impaired focuses exclusively on default risk, without taking into consideration the effects of credit risk mitigations such as collateral or guarantees. Specifically, a financial asset is credit impaired and in Stage 3 when:

- The Bank considers the obligor unlikely to pay its credit obligations to the Bank; or
- Contractual payments of either principal or interest by the obligor are past due by more than 90 days.

For financial assets considered to be credit impaired, the ECL allowance covers the amount of loss the Bank is expected to suffer. The estimation of the allowance is made on a case-by case basis for non-homogeneous portfolios, or by applying portfolio based parameters to individual financial assets in these portfolios via the model for homogeneous portfolios.

Forecasts of future economic conditions are considered when calculating ECLs. The lifetime expected losses are estimated based on the probability-weighted present value of the difference between 1) the contractual cash flows that are due to the Bank under the contract; and 2) the cash flows that the Bank expects to receive.

A financial asset can be classified as in default but without an allowance for credit losses (i.e. no impairment loss is expected). This may be due to the value of collateral.

#### Purchased or originated credit impaired financial assets in Stage 3

A financial asset is considered purchased or originated credit-impaired if there is objective evidence of impairment at the time of initial recognition (i.e., rated in default by Credit Risk Management department). Such defaulted financial assets are termed POCI (purchased or originated credit-impaired). Typically the purchase price or fair value at origination embeds expectations of lifetime expected credit losses and therefore no separate credit loss allowance is recognized on initial recognition. Subsequently, POCI financial assets are measured to reflect lifetime expected credit losses, and all subsequent changes in lifetime expected credit losses (whether positive or negative) are recognized in the income statement as a component of the provision for credit losses. POCI financial assets can only be classified in Stage 3.

#### Modification

The Bank recalculates the gross carrying amount of the financial asset and recognizes income or expense from modification if the underlying contractual terms of the financial asset are revised by the agreement of the parties, or any other modification occurs, which does not result in derecognition of the initial financial asset.

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

The Bank includes transaction costs in the carrying amount of the modified financial asset depreciated during its lifetime. The Bank recognizes the difference between the gross carrying amount under initial terms and the gross carrying amount under revised or modified terms through profit or loss from their modification.

#### **Derecognition**

The Bank derecognizes an initial financial asset and recognizes a new financial asset if the revised or modified cash flows under the contract result in derecognition of an initial financial asset.

At the date of the modification the Bank recognizes a new financial asset at fair value plus transaction costs associated with origination of a new financial asset (except for a new asset that is measured at fair value through profit or loss) and determines an expected credit losses for 12 months.

The Bank recognizes cumulative changes in expected credit losses over the lifetime of a financial asset if the modification results in a new financial asset, which is credit impaired on initial recognition. At each reporting date, the Bank recognizes the results of changes in expected loan losses over the lifetime of a financial asset, which is credit impaired on initial recognition (including positive changes) through profit or loss as expenses / income for the formation / disbursement of estimated provisions.

Income from disbursement of estimated provisions is recognized even if the amount of the previously formed provision for such a financial asset is exceeded. At the date of derecognition of an initial financial asset, the Bank recognizes gain or loss from derecognition, which is the difference between the carrying amount of an initial financial asset and the fair value of a new financial asset.

#### **Interest income calculation**

For financial assets in Stage 1 and Stage 2 the Bank calculates interest income by applying effective interest rate to the gross carrying amount (i.e., without deduction for expected credit losses). Interest income for financial assets in Stage 3 is calculated by applying the effective interest rate to the amortized cost (i.e., the gross carrying amount less the credit loss allowance).

#### ***iv) Model description for expected credit loss calculation***

##### **Stage determination**

At initial recognition, financial assets, which are not purchased or originated credit impaired (POCI), are reflected in Stage 1. If there is a significant increase in credit risk, the financial assets is transferred to Stage 2. Significant increase in credit risk is determined by using rating-related and process-related indicators. In contrast, the assignment of a financial instrument to Stage 3 is based on the status of the obligor being in default.

On an ongoing basis, as long as the condition for indicators on increase in credit risk is fulfilled and the financial asset is not recognized as defaulted, the asset will remain in Stage 2. If the indicator condition is any longer fulfilled and the financial asset is not defaulted, the asset transfers back to Stage 1. In case of a default the financial asset is allocated to Stage 3. In the case that a previously defaulted financial asset ceases to be classified as defaulted, it transfers back to Stage 1 or Stage 2.

##### **Expected lifetime of a financial asset**

The expected lifetime of a financial asset is a key factor in determining the lifetime expected credit losses. Lifetime expected credit losses represent default events over the expected life of a financial asset. The Bank measures expected credit losses considering the risk of default over the maximum contractual period (including any borrower's extension options), over which it is exposed to credit risk

## Forward-looking information

Under IFRS 9 the allowance for credit losses is based on reasonable and supportable forward looking information obtainable without undue cost or effect, which takes into consideration past events, current conditions and forecasts of future economic conditions.

The general use of forward looking information, including macro-economic factors, as well as adjustments taking into account extraordinary factors, are monitored by Risk Management department.

## Basis of inputs and assumptions and the estimation techniques

The Bank uses three main components to measure expected credit losses (ECL): Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Bank has leveraged existing parameters used for determination of capital demand under the Basel Internal Ratings Based Approach and internal risk management practices as much as possible to calculate expected credit losses (ECL). In order to calculate lifetime expected credit losses, the Bank's calculation includes deriving the corresponding lifetime PDs from migration matrices that reflect economic forecasts.

The expected credit loss calculation for Stage 3 distinguishes between transaction in homogenous and non-homogenous portfolios, and purchased and originated credit-impaired transactions (POCI). For transactions that are in Stage 3 and in a homogeneous a similar approach as for Stage 1 and Stage 2 transaction is taken. Since a Stage 3 transaction is defaulted, the probability of default is equal 100%. To incorporate the currently available information, the LGD parameters are modelled to be time-dependent, thus capture the time dependency of the borrower's recovery expectation after default.

The one-year PD for counterparties is derived from the Group rating systems. The Deutsche Bank Group assigns a probability of a default (PD) to each relevant counterparty, based at the 21-grade rating scale.

The counterparty ratings assigned are derived based on internally developed rating models, which specify consistent and distinct customer-relevant criteria and assign a rating grade based on a specific set of criteria as given for a certain customer. The set of criteria is generated from information sets relevant for the respective customer segments including general customer behaviour, financial and external data. The methods in use range from statistical scoring models to expert-based models taking into account the relevant available quantitative and qualitative information. Expert-based models are usually applied for counterparties in the exposure classes "Central government and central banks", "Institutions", and "Corporates", with the exception of those "Corporates" segments for which sufficient data basis is available for statistical scoring models. For the latter, as well as for the retail segment, statistical scoring or hybrid models combining both approaches are commonly used. Quantitative rating methodologies are developed based on applicable statistical modelling techniques, such as logistic regression.

One-year PDs are extended to multi-year PD curves using conditional transition matrices. The first step in the estimation process is the calculation of through-the-cycle matrices, which are derived from a multi-year rating history. For the next two years, economic forecasts are available. These forecasts are used to transform the through-the-cycle matrices into point-in-time rating migration matrices. Macroeconomic forecasts are used for adjusting the distribution of the respective macroeconomic factors and, consequently, the rating migration matrices that define migration and default probabilities. The actual calculation of the adjusted migration matrices is based on the simulation of a high number of scenarios that are drawn from the distribution of the macroeconomic factors, i.e., the simulation scenarios are selected using statistical techniques and are randomly scattered around the macroeconomic forecast.

Loss given default (LGD) is defined as the likely loss intensity in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. Conceptually, LGD estimates are independent of a customer's probability of default. The LGD models ensure that the main drivers for losses (i.e., different level of quality of collateralization and customer or product types, or seniority of facility) are reflected in specific LGD factors. In our LGD models we assign collateral type specific parameters to the collateralized exposure (collateral value after application of haircuts). Moreover, the LGD for un collateralized exposure cannot be below the LGD assigned to collateralized.

The Exposure at Default (EAD) over the lifetime of a financial asset is modelled taking into account expected

repayment profiles. We apply specific Credit Conversion Factors (CCF) in order to recalculate the EAD value. Conceptually, the EAD is defined as the expected amount of the credit exposure to counterparty at the time of its default. In instances where a transaction involves an unused limit, a percentage share of this unused limit is added to the outstanding amount in order to appropriately reflect the expected outstanding amount in case of a counterparty default. This reflects the assumption that for commitments the utilization at the time of default might be higher than the utilization under IAS 39. When a transaction involves an additional contingent component (i.e., guarantees), a further percentage share is applied as part of the CCF model in order to estimate the amount of guarantees drawn in case of default. The calibrations of such parameters are based on statistical experience as well as internal historical data and consider counterparty and product type specifics.

#### ***v) Collateral for financial assets considered in the impairment analysis***

IFRS 9 requires cash flows expected from collateral and other credit enhancement to be reflected in the ECL calculation. The following key aspects with respect to collateral and guarantees are reviewed in this section:

- Eligibility of collateral, i.e. which collateral records should be used in the ECL calculation;
- Collateral evaluation, i.e. what collateral (liquidation) value should be used; and
- Projection of the available collateral amount over the life of a transaction.

##### **Eligibility and evaluation of collateral**

The treatment and reflection of collateral for IFRS 9 purposes is in line with general risk management principles, policies and processes in the Bank. Hence the eligibility and reflection of collateral must be based on the existing well-established processes and methodologies as applied for credit loss allowance calculation under IAS 39. That means at the reporting date the same collateral records and collateral (liquidation) values will be used for the IFRS 9 ECL calculation as used for the IAS 39 model.

Eligibility and evaluation of collateral is based on the risk management standards governed by the Deutsche Bank Group's Credit Risk Management policies. Valuation results are generally reviewed at least annually or on an event-based basis, usually in connection with the annual credit review or the rating process.

##### **Valuation process**

The valuation of a collateral is considered under a liquidation scenario. Liquidation value is equal to the expected proceeds of collateral monetization / realization in a base case scenario, wherein a fair price is achieved through careful preparation and orderly liquidation of the collateral. Collateral can either move in value (dynamic value) or not (static value). The dynamic liquidation value generally includes a safety margin or a haircut value to address liquidity or marketability aspects.

The Bank assigns a liquidation value to eligible collateral, based on, among other things:

- the market value and / or lending value, notional amount or face value of a collateral as a starting point;
- the type of collateral; the currency mismatch (if any) between the secured exposure and the collateral; and a maturity mismatch (if any);
- the market liquidity or volatility in relation to agreed termination clauses;
- the correlation between the performance of the borrower and the value of the collateral, e.g. in the case of the pledge of a borrower's own shares or securities of the borrower (in this case, generally, full correlation leads to no liquidation value); the quality of physical collateral and the potential for litigation; and
- a determined collateral type specific haircut (0-100%) reflecting collection risk (i.e. price risks over the average liquidation period and processing/utilization/ sales costs) as specified in the respective policy.



Collateral haircut settings are typically based available historic internal and /or external data (expert opinions may also be used, where appropriate). When data is not sufficiently available or inconclusive, more conservative haircuts than otherwise used must be applied. Haircut settings are reviewed at least annually.

#### v) *Hedge accounting*

IFRS 9 incorporates new hedge accounting rules that intend to better align hedge accounting with risk management practices. Generally, some restrictions under IAS 39 have been removed and a greater variety of hedging instruments and hedge items become available for hedge accounting. IFRS 9 includes an accounting policy choice to defer adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. Since the Deutsche Bank Group has decided to exercise this accounting policy choice and did not adopt IFRS 9 hedge accounting as of January 1, 2018, the Bank has taken the same decision. Subsequent changes will be implemented in parallel with adopting changes by the Deutsche Bank Group.

### **New and revised standards in issue by the IFRS Board but not entered into force for the financial year beginning on January 1, 2018**

#### New standards

- IFRS 16 Leases (issued in January 2016) is a new standard effective for all annual periods beginning on or after 1 January 2019, which replaces IAS 17 and its interpretations. The main amendment is introducing a uniform accounting model for lessees that requires recognizing assets and liabilities under all lease agreements, except for cases when lease term is 12 months or less or in case of a low value leased asset. Significant amendments are introduced in the accounting of a lessee, including elimination of differences between operating and financial lease. However, accounting of a lessor remains practically unchanged and the differences between operating and financial lease is retained. This standard is not expected to have a significant impact on the annual financial statements of the Bank.

## **5 Cash and cash equivalents**

Cash and cash equivalents are as follows:

<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Cash	565	546
Balances with the NBU (including for mandatory reserves)	99 877	28 779
Deposit certificates of the NBU	625 919	1 108 627
<b>Total cash and cash equivalents</b>	<b>726 361</b>	<b>1 137 952</b>

According to the Resolution of the Board of the National Bank of Ukraine "On Approval of the Regulation on the Procedure for Establishment and Storage of Mandatory Reserves by Banks of Ukraine and Branches of Foreign Banks in Ukraine" No. 806 dated December 11, 2014, the Bank forms and maintains mandatory reserves at the correspondent account with the National Bank of Ukraine in accordance with the established norms that are in force in the relevant periods. The amount of mandatory reserve as at 31 December 2018 amounted to UAH 118,468 thousand (as at 31 December 2017 amounted to UAH 68,548 thousand). As the Bank was entitled to fully use the amounts on the correspondent accounts with the National Bank of Ukraine, they were classified as cash and cash equivalents as at 31 December 2018 and 31 December 2017.

Cash and cash equivalents for the Statement of cash flows are as follows:

<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Cash	565	545
Balances with the NBU	99 877	28 779
Correspondent accounts with other banks	387 228	311 735
Deposit certificates of NBU overnight	475 000	710 000
<b>Total</b>	<b>962 670</b>	<b>1 051 059</b>

Due to other banks in settlements and term deposit certificates of NBU are presented in the Statement of cash flows as follows:

<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Due to other banks in settlements	541 827	105 985
Term deposit certificates of NBU	150 000	396 000
<b>Total</b>	<b>691 827</b>	<b>501 985</b>

## 6 Due from other banks

As of 31 December Due from other banks are as follows:

<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Correspondent accounts</b>		
banks in OECD countries	913 056	417 363
banks in non OECD countries	15 998	325
Ukrainian banks	-	31
<b>Total cash and cash equivalents due from other banks</b>	<b>929 054</b>	<b>417 719</b>
Provision for impairment	(533)	(158)
<b>Total cash and cash equivalents due from other banks less provision for impairment</b>	<b>928 521</b>	<b>417 561</b>

The following table represents an analysis of credit quality of due from other banks by rating agency designation based on Standard and Poor's ratings (S&P) or their equivalent:

<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Correspondent accounts</b>		
banks rated from BBB- to BBB+	913 056	417 363
unrated banks	15 998	356
<b>Total due from other banks</b>	<b>929 054</b>	<b>417 719</b>

The movement in provision for impairment as at 31 December 2018 and 31 December 2017 is as follows:

<i>(in thousands of UAH)</i>	<b>Due from other banks</b>	<b>Total</b>
<b>Balance as at 01 January 2017</b>	<b>532</b>	<b>532</b>
Increase/(decrease) of provision for impairment	(374)	(374)
<b>Balance as at 31 December 2017</b>	<b>158</b>	<b>158</b>
Increase/(decrease) of provision for impairment	375	375
<b>Balance as at 31 December 2018</b>	<b>533</b>	<b>533</b>

Correspondent account due from unrated Bank is represented by balances due from the related party as at 31 December 2018 and as at 31 December 2017.

As at 31 December 2018, cash and cash equivalents due from one bank amount to UAH 841,925 thousand or 90.6% of the total cash and cash equivalents (31 December 2017: 384,655 thousand or 92.1% accordingly).

## 7 Loans and advances to customers

Loans and advances to customers are as follows:

<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Corporate loans	1 849 975	514 861
Provision for impairment	(1 183)	(59)
<b>Total loans less provisions</b>	<b>1 848 792</b>	<b>514 802</b>

Analysis of changes in provisions for loans for 2018 and 2017 is as follows:

<i>(in thousands of UAH)</i>	<b>Loans to corporate clients</b>
<b>Balance as at 01 January 2017</b>	<b>26</b>
Increase/(decrease) of provision for impairment	33
<b>Balance as at 31 December 2017</b>	<b>59</b>
<b>Impact of transition to IFRS 9</b>	<b>-</b>
<b>Balance as at 01 January 2018</b>	<b>59</b>
Increase/(decrease) of provision for impairment	1 124
<b>Balance as at 31 December 2018</b>	<b>1 183</b>

Loan structure by sectors of economic activities is as follows:

<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>%</b>	<b>31 December 2017</b>	<b>%</b>
Trade	1 412 766	76.37%	448 259	87.06%
Production	437 209	23.63%	66 602	12.94%
<b>Gross loans and advances to customers</b>	<b>1 849 975</b>	<b>100.00%</b>	<b>514 861</b>	<b>100.00%</b>

Information on collateral as at 31 December 2018:

<i>(in thousands of UAH)</i>	<b>Corporate loans</b>
Unsecured loans	264 268
Loans collateralised by:	
investment banks guarantees	1 585 707
<b>Gross loans and advances to customers</b>	<b>1 849 975</b>

Collateral that the Bank accepts include guarantees of the parent bank and of entities under common control

Information on collateral as at 31 December 2017:

<i>(in thousands of UAH)</i>	<b>Corporate loans</b>
Unsecured loans	179 907
Loans collateralised by:	
investment banks guarantees	334 954
<b>Gross loans and advances to customers</b>	<b>514 861</b>

Analysis of credit quality of loans as at 31 December 2018 is as follows:

<i>(in thousands of UAH)</i>	<b>Corporate loans</b>
<b>Not past due:</b>	
Large borrowers	1 849 975
Provision for impairment	(1 183)
<b>Net loans</b>	<b>1 848 792</b>

Analysis of credit quality of loans as at 31 December 2017 is as follows:

<i>(in thousands of UAH)</i>	<b>Corporate loans</b>
<b>Not past due:</b>	
Large borrowers	514 861
Provision for impairment	(59)
<b>Net loans</b>	<b>514 802</b>

Effect of collateral value on credit quality as at 31 December 2018:

<i>(in thousands of UAH)</i>	<b>Carrying amount</b>	<b>Expected cash flow from collateral</b>	<b>Effect of collateral</b>
<i>(in thousands of UAH)</i>	1 849 975	1 585 707	264 268
Corporate loans	(1 183)	-	(1 183)
Provision for impairment	<b>1 848 792</b>	<b>1 585 707</b>	<b>263 085</b>

Effect of collateral value on credit quality as at 31 December 2017:

*(in thousands of UAH)*

	<b>Carrying amount</b>	<b>Expected cash flow from collateral</b>	<b>Effect of collateral</b>
Corporate loans	514 861	334 954	179 907
Provision for impairment	(59)	-	(59)
<b>Total loans less provisions</b>	<b>514 802</b>	<b>334 954</b>	<b>179 848</b>

During the years ended 31 December 2018 and 31 December 2017, the Bank has not received any assets as a result of imposition on foreclosure.

## 8 Fixed and intangible assets

A summary of movements in fixed and intangible assets for the year ended 31 December 2018 is as follows:

<i>(in thousands of UAH)</i>	<b>Machinery and equipment</b>	<b>Instruments, fixtures and furniture</b>	<b>Other non- current tangible assets</b>	<b>Intangible assets</b>	<b>Capital investments</b>	<b>Total</b>
<b>Historical cost</b>						
01 January 2017	6 528	1 941	1 532	2 593	-	12 594
Additions	4 738	76	1 538	345	1 046	7 743
31 December 2017	11 266	2 017	3 070	2 938	1 046	20 337
Additions	1 052	46	1 430	220	64	2 812
Disposal	-	-	-	-	(1 046)	(1 046)
31 December 2018	12 318	2 063	4 500	3 158	64	22 103
<b>Depreciation</b>						
01 January 2017	(1 476)	(389)	(97)	(2 109)	-	(4 071)
Depreciation charge	(1 970)	(318)	(205)	(251)	-	(2 744)
31 December 2017	(3 446)	(707)	(302)	(2 360)	-	(6 815)
Depreciation	(2 304)	(323)	(285)	(308)	-	(3 220)
01 January 2017	(5 750)	(1 030)	(587)	(2 668)	-	(10 035)
<b>Net carrying amount:</b>						
01 January 2017	5 052	1 552	1 435	484	-	8 523
31 December 2017	7 820	1 310	2 768	578	1 046	13 522
31 December 2018	6 568	1 033	3 913	490	64	12 068

The Bank has no property and equipment restricted by law as to their ownership, use and disposal, pledged property, equipment and intangible assets; temporarily unused property and equipment, as well as property and equipment withdrawn from use. There are no intangible assets subject to restrictions of ownership rights, and there are no self-constructed intangible assets. During the reporting period there are no increases or decreases resulted from revaluations, as well as from impairment losses recognised or reversed directly in equity.

Property, equipment and intangible assets are accounted for at the original (historical) cost.

As at 31 December 2018, historical cost of fully depreciated property and equipment amounts to UAH 916 thousand.

As at 31 December 2017, historical cost of fully depreciated property and equipment amounted to UAH 824 thousand.

## 9 Other assets

Other assets are as follows:

<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Prepayments for goods and services	3 507	1 441
Accounts receivable from taxes and mandatory payments other than income tax	197	361
Accrued fee and commission income	156	1 180
Accounts receivable from payments to employees	6	-
<b>Total other assets</b>	<b>3 866</b>	<b>2 982</b>
Provision for impairment	(957)	(87)
<b>Total other assets less provision for impairment</b>	<b>2 909</b>	<b>2 895</b>

Analysis of changes in provisions for other assets for 2018 and 2017 is as follows:

<i>(in thousands of UAH)</i>	<b>Prepayments for services</b>	<b>Other assets</b>	<b>Total</b>
<i>Balance as at 01 January 2017</i>	<b>301</b>	<b>65</b>	<b>366</b>
Increase/(decrease) of provision for impairment	(293)	32	(260)
Write-off of bad debts	-	(19)	(19)
<b>Balance as at 31 December 2017</b>	<b>8</b>	<b>78</b>	<b>87</b>
Increase/(decrease) of provision for impairment	898	26	923
Write-off of bad debts	-	(53)	(53)
<b>Balance as at 31 December 2018</b>	<b>906</b>	<b>51</b>	<b>957</b>

## 10 Due to customers

Due to customers are as follows:

<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Entities</b>		
Current accounts	1 395 486	1 019 436
Term deposits	1 737 468	687 129
<b>Total due to customers</b>	<b>3 132 954</b>	<b>1 706 565</b>

Current accounts include accounts payable on transactions with customers.

Due to customers distributed by sectors of economic activities as at 31 December 2018 are as follows:

<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>%</b>
Trade	1 452 750	46,37%
Processing industry	940 162	30,01%
Financial and insurance activity	335 238	10,70%
Professional, scientific and technical activities	129 462	4,13%
Administrative and support services	128 798	4,11%



<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>%</b>
Information and telecommunications	98 195	3,13%
Transport	24 061	0,77%
Construction	23 735	0,76%
Other	553	0,02%
<b>Total due to customers</b>	<b>3 132 954</b>	<b>100.00%</b>

Due to customers distributed by sectors of economic activities as at 31 December 2017 are as follows:

<i>(in thousands of UAH)</i>	<b>31 грудня 2017 р.</b>	<b>%</b>
Trade	652 216	38.22%
Processing industry	490 981	28.77%
Transport	15 042	0.88%
Production of alcohol and beverages products	237 366	13.91%
Information and telecommunications	10 619	0.62%
Professional, scientific and technical activities	264 132	15.48%
Administrative and support services	13 358	0.78%
Other	22 851	1.34%
<b>Total due to customers</b>	<b>1 706 565</b>	<b>100.00%</b>

As at 31 December 2018, due to customers in the amount of UAH 543,888 thousand is pledged as security for import letters of credit.

As at 31 December 2018, account balances of 10 largest customers amount to 2,278,837 thousand, or 72.7% of the total amounts due to customers (31 December 2017: 1,219,281 thousand, or 71.4% respectively).

As at 31 December 2018, account balances of one largest customer amount to UAH 602,202 thousand, or 26.4% of the total amounts due to customers (31 December 2017: 188,071 thousand, or 11.0% respectively).

## 11 Provision for credit-related commitments

Changes in provisions for credit-related commitments for 2018 are as follows:

<i>(in thousands of UAH)</i>	<b>Credit related commitments</b>
<b>Balance as at 01 January 2018</b>	<b>88</b>
Increase/(decrease) of provision for impairment	(34)
<b>Balance as at 31 December 2018</b>	<b>54</b>

Changes in provisions for credit-related commitments for 2017 were as follows:

<i>(in thousands of UAH)</i>	<b>Credit related commitments</b>
<b>Balance as at 01 January 2017</b>	<b>646</b>
Increase/(decrease) of provision for impairment	(558)
<b>Balance as at 31 December 2017</b>	<b>88</b>

Provisions for credit-related commitments consist of provisions for granted guarantees and letters of credit.

## 12 Other liabilities

Other liabilities are as follows:

<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Accounts payable for administrative and IT services	8 590	4 061
Accounts payable at settlements with the Bank's employees	5 762	5 433
Accounts payable for taxes and mandatory payments other than income tax	1 461	432
Accrued expenses for others services	1 578	1 076
Deferred income	80	-
Other liabilities*	-	8 225
<b>Total other liabilities</b>	<b>17 471</b>	<b>19 227</b>

\* Other liability as at 31 December 2017 in the amount of UAH 8,225 thousand is the balance of account #3720 "Amounts to clarification".

## 13 Share capital

<i>(in thousands of UAH)</i>	<b>Number of shares outstanding</b>	<b>Ordinary shares price</b>
<b>Balance as at 01 January 2017</b>	<b>228 666</b>	<b>228 666</b>
Increase in nominal value of shares	-	73 173
<b>Balance as at 31 December 2017</b>	<b>228 666</b>	<b>301 839</b>
<b>Balance as at 31 December 2018</b>	<b>228 666</b>	<b>301 839</b>

As at 31 December 2018, the authorised and paid in capital amounted to UAH 301,839,254.64 (three hundred one million eight hundred thirty nine thousand two hundred fifty four hryvnias 64 kop.) The bank issued 228,666,102 of ordinary registered shares of nominal value of UAH 1.32 (one hryvnia 32 kop.) per share.

The holders of ordinary shares are entitled to receive dividends as declared, and are entitled to one vote per share at annual and general meetings of the Bank.

In accordance with Ukrainian legislation, the distributable reserves are limited to the balance of retained earnings recorded in the financial statements, which is prepared in accordance with the NBU regulatory requirements.

## 14 Maturity analysis of assets and liabilities

Maturity analysis of assets and liabilities as at 31 December 2018 is as follows:

<i>(in thousands of UAH)</i>	<i>Note</i>	<b>Less than 12 months</b>	<b>Over 12 months</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	5	726 361	-	726 361
Due from other banks	6	928 521	-	928 521
Loans and advances to customers	7	1 848 792	-	1 848 792
Accounts receivable from current income tax		10	-	10

(in thousands of UAH)	Note	Less than 12 months	Over 12 months	Total
Deferred tax asset	18	1 278	-	1 278
Fixed assets	8	164	11 350	11 514
Intangible assets	8	100	454	554
Other assets	9	2 909	-	2 909
<b>Total assets</b>		<b>3 508 135</b>	<b>11 804</b>	<b>3 519 939</b>
<b>LIABILITIES</b>				
Due to customers	10	3 132 954	-	3 132 954
Current income tax liability		3 937	-	3 937
Provision for credit related commitments	11	54	-	54
Other liabilities	12	17 471	-	17 471
<b>Total liabilities</b>		<b>3 154 416</b>	<b>-</b>	<b>3 154 416</b>

Maturity analysis of assets and liabilities as at 31 December 2017 is as follows:

(in thousands of UAH)	Note	Less than 12 months	Over 12 months	Total
<b>ASSETS</b>				
Cash and cash equivalents	5	1 137 952	-	1 137 952
Due from other banks	6	417 561	-	417 561
Loans and advances to customers	7	514 802	-	514 802
Deferred tax asset	18	932	-	932
Fixed assets	8	15	12 929	12 944
Intangible assets	8	46	532	578
Other assets	9	2 895	-	2 895
<b>Total assets</b>		<b>2 074 203</b>	<b>13 461</b>	<b>2 087 664</b>
<b>LIABILITIES</b>				
Due to customers	10	1 706 565	-	1 706 565
Current income tax liability		2 381	-	2 381
Provision for credit related commitments	11	88	-	88
Other liabilities	12	19 227	-	19 227
<b>Total liabilities</b>		<b>1 728 261</b>	<b>-</b>	<b>1 728 261</b>

Due to the fact that substantially all financial instruments are fixed rated contracts, these remaining contractual maturity dates also represent the interest rate repricing dates.

The above amounts represent the carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

## 15 Interest income and expenses

Interest income and expenses for the year ended 31 December are as follows:

<i>(in thousands of UAH)</i>	<u>2018</u>	<u>2017</u>
<b>Interest income:</b>		
Deposits in other banks	1 645	3 082
NBU deposit certificates	61 592	112 555
Loans and advances to customers	214 924	49 100
<b>Total interest income</b>	<u>278 161</u>	<u>164 737</u>
<b>Interest expense:</b>		
Term deposits of other banks	(855)	(36)
Corporate current accounts	(6 157)	(2 451)
Corporate term deposits	(134 748)	(57 624)
<b>Total interest expenses</b>	<u>(141 760)</u>	<u>(60 111)</u>
<b>Net interest income</b>	<u>136 401</u>	<u>104 626</u>

## 16 Fee and commission income and expenses

Fee and commission income and expenses for the year ended 31 December are as follows:

<i>(in thousands of UAH)</i>	<u>2018</u>	<u>2017</u>
Fee and commission income	24 054	23 702
Fee and commission expenses	(5 889)	(2 892)
<b>Net fee and commission income</b>	<u>18 165</u>	<u>20 810</u>

<i>(in thousands of UAH)</i>	<u>2018</u>	<u>2017</u>
<b>Net fee and commission income:</b>		
Cash and cash transactions	1 068	1 385
Foreign currency transactions for customers	20 127	19 049
Loans	-	142
Guarantees issued/received	(3 842)	(1 082)
Other	812	1 316
<b>Net fee and commission income</b>	<u>18 165</u>	<u>20 810</u>

## 17 Trading income

Trading income and expense for the year ended 31 December are as follows:

<i>(in thousands of UAH)</i>	<u>2018</u>	<u>2017</u>
<b>Trading income:</b>		
Gains/losses from trading in foreign currency	7 636	8 090
Gains/losses from foreign currency revaluation	(181)	(102)
<b>Net trading income</b>	<u>7 454</u>	<u>7 988</u>

## 18 Administrative and other operating expenses

Administrative and other operating expenses for years ended 31 December, are as follows:

(in thousands of UAH)

	2018	2017
IT expenses	6 543	6 737
Operating lease and maintenance of property and equipment	13 535	12 736
Consultancy, legal and other professional services	21 696	13 978
Telecommunication expenses	3 001	2 631
Operating expenses	264	205
Other employee expenses except for salaries and benefits	1 234	566
Taxes and other mandatory payments, other than income tax	9 177	4 901
Representative expenses	2 045	2 020
Marketing	206	67
Other expenses	355	353
<b>Total administrative and other operating expense</b>	<b>58 056</b>	<b>44 194</b>

## 19 Taxation

The statutory income tax rate in 2018 and thereafter is 18 %.

The components of income tax expense for the year ended 31 December are as follows:

(in thousands of UAH)

	2018	2017
Current tax expense	(12 213)	(9 936)
Deferred tax expense	346	443
<b>Total income tax expense</b>	<b>(11 867)</b>	<b>(9 493)</b>

### a) Reconciliation of effective tax rate

Reconciliation of accounting profit and income tax for the year ended 31 December is as follows:

	31 December 2018	%	31 December 2017	%
<b>Profit before tax</b>	<b>54 154</b>	<b>100%</b>	<b>47 564</b>	<b>100%</b>
Income tax at the applicable tax rate	(9 748)	18%	(8 562)	18%
Non-deductible income and expenses	(2 119)	3,9%	(931)	2,0%
<b>Total income tax expenses</b>	<b>(11 867)</b>	<b>21,9%</b>	<b>(9 493)</b>	<b>20,0%</b>

### b) Deferred income tax asset

The temporary difference between the carrying amounts of assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax asset as at 31 December 2018 and as at 31 December 2017.

Movements in recognised deferred tax assets and liabilities during the year ended 31 December 2018 are as follows:



<i>(in thousands of UAH)</i>	<b>Balance as at the beginning of the year</b>	<b>Recognise d in profits/ losses</b>	<b>Recognised in other comprehensiv e income</b>	<b>Balance as at the end of the year</b>
Accrued income (expenses)	900	196	-	1 096
Provision for credit related commitments	16	(6)	-	10
Other assets	16	156	-	172
<b>Net deferred tax asset (liability)</b>	<b>932</b>	<b>346</b>	<b>-</b>	<b>1 278</b>

Movements in recognised deferred tax assets and liabilities during the year ended 31 December 2017 are as follows:

<i>(in thousands of UAH)</i>	<b>Balance as at the beginning of the year</b>	<b>Recognise d in profits/ losses</b>	<b>Recognised in other comprehensiv e income</b>	<b>Balance as at the end of the year</b>
Provisions for impairment of assets	(30)	30	-	-
Accrued income (expenses)	337	563	-	900
Provision for credit related commitments	116	(100)	-	16
Other assets	66	(50)	-	16
<b>Net deferred tax asset (liability)</b>	<b>489</b>	<b>443</b>	<b>-</b>	<b>932</b>

## 20 Earnings per share

Calculation of basic earnings per one share, as presented below, is based on profit for the year, owned by holders of ordinary shares and the average weighted number of outstanding shares totalling to 228,666 thousand for years ended 31 December 2018 and 2017. The Bank has no potential ordinary dilutive shares.

<i>(in thousands of UAH)</i>	<b>2018</b>	<b>2017</b>
Profit for the period owned by holders of the Bank's ordinary shares	42 287	38 071
Average number of outstanding shares for the period (thousand shares)	228 666	228 666
<b>Basic and diluted earnings per ordinary share (UAH)</b>	<b>0.18</b>	<b>0.17</b>

## 21 Dividends

In 2017 according to shareholders' decision the Bank directed the amount of UAH 33,983 thousand for distribution of dividends for 2016 financial year.

In 2018 according to shareholders' decision the Bank directed the amount of UAH 36,167 thousand for distribution of dividends for 2017 financial year.

The movement in dividends is as follows:

(in thousands of UAH)

**Dividends**

**Balance as at 1 January 2017**

Dividends on decision to pay during the year

Dividends paid

Tax paid on dividends

**Balance as at 31 December 2017**

Dividends on decision to pay during the year

Dividends paid

Tax paid on dividends

**Balance as at 31 December 2018**

**For ordinary shares**

	2 588
	33 983
	(34 872)
	(1 699)
	-
	36 167
	(34 359)
	(1 808)
	-

## 22 Risk management

Risk management is fundamental to the banking business and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to credit exposures, market risk (including risk of changes in foreign exchange rates and interest rates), liquidity risk, operational risk, compliance risk and reputational risk.

The Bank's risk management system provides for continuous risk analysis to make timely and adequate managerial decisions to mitigate risks and reduce associated losses.

The risk management system is based on dividing responsibilities between the bank units (departments) using the three security lines model.

Risks are managed in an integrated manner and are evaluated in terms of the risk management strategy of the Bank and the risk appetite related to each identified risk, which are reviewed and approved by the Supervisory Board on an annual basis.

The risk management policies aim to identify, analyze, evaluate, monitor, control, report and minimize all the risks faced by the Bank, and assess the capital adequacy of the Bank.

The system of risk limits set in the Bank is reviewed on a periodic basis, or, in the event of significant changes in the external or internal conditions of the Bank's operation.

### (a) Credit risk

Credit risk is the risk of a financial loss if a customer or counterparty fails to meet its contractual obligations. The Bank developed policies and procedures, which regulate credit transactions and credit risk management (both for on-balance sheet and off-balance sheet exposures), the main ones are the Credit policy, the Policy of credit risk management, Regulation on credit risk calculation in accordance with NBU Resolution No.351, Regulation on recognising the impaired financial assets in accordance with IFRS 9. The credit policies are reviewed and approved by the Supervisory Board.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual customer and counterparty default risk, country risk, and industry risk).

The Credit policy and the Policy of credit risk management establishes:

- general credit limits, which are followed by the bank to reduce credit risk;
- procedures for review and approval of loan applications;
- methodology for assessment of borrowers' solvency;
- methodology for evaluation of collateral value;

- requirements to loan documentation;
- procedures for continuous monitoring of credit-related risks and other credit risks.

The Bank maintains the high quality of the loan portfolio, including IFRS 9 requirements, which became the basis of the Bank's successful transitions from the incurred losses model to the expected credit losses model to calculate allowances for expected credit losses. This model requires the Bank's management to apply judgments to evaluate the effect of changes in various economic factors on the amount of expected credit losses and their probability caused by this effect.

The maximum exposure to on-balance sheet credit risk is generally represented by carrying amounts of financial assets in the statement of financial position.

During 2018 the Bank complied with the credit risk ratios. As at 31.12.2018 the ratios were as follows (according to the form 611): N 7 = 20.13%; N 8 = 105.65%; N 9 = 1.81%.

Analysis of changes in provisions for loans for the years ended 31 December 2018 and 31 December 2017 is as follows:

<i>(in thousands of UAH)</i>	<b>Corporate loans</b>	<b>Due from other banks</b>	<b>Credit related commitments</b>	<b>Prepayments for services</b>	<b>Other assets</b>	<b>Total</b>
<b>Balance as at</b>						
<b>1 January 2017</b>	26	532	646	301	65	1 570
Increase/(decrease) of provision for impairment	33	(374)	(558)	(293)	32	(1 160)
Write off of bad debt	-	-	-	-	(19)	(19)
<b>Balance as at</b>						
<b>31 December 2017</b>	59	158	88	8	78	391
Increase/(decrease) of provision for impairment	1 124	375	(34)	898	26	2 389
Write off of bad debt	-	-	-	-	(53)	(53)
<b>Balance as at</b>						
<b>31 December 2018</b>	1 183	533	54	906	51	2 727

## (b) Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates, interest rates and the value of financial instruments will result in losses or affect income. Market risk arises from open currency and trade positions and interest gaps.

## (c) Currency risk

The risk of financial losses and probability of lower cost of capital associated with changes in the exchange rates and prices for precious metals, which are unfavorable for existing open currency positions, is an important type of risk, which arises in the course of banking activity.

Basic methods and models for currency risk management are defined in policy on currency risk management in JSC "Deutsche Bank DBU".

The amount of potential financial losses depends on the size of open currency positions and the size of changes of corresponding foreign exchange rates. The analysis of the impact of projected changes in exchange rates on the financial result of the bank is made using VaR model (Value at Risk). The process of currency

risk management at the Bank involves daily monitoring of compliance with the maximum possible amount of open currency positions based on a tolerable dimension of capital at risk to established limits of open currency positions, analysis of volatility of exchange rates and the value of the currency risk under normal and stressed conditions.

The following table shows currency risk analysis:

(in thousands  
of UAH)

	31 December 2018			31 December 2017		
	Monetary assets	Monetary liabilities	Net position	Monetary assets	Monetary liabilities	Net position
USD	71 088	71 209	(121)	49 388	49 296	92
EURO	843 037	840 929	2 108	369 753	373 230	(3 477)
<b>Total</b>	<b>914 125</b>	<b>912 138</b>	<b>1 987</b>	<b>419 141</b>	<b>422 526</b>	<b>(3 385)</b>

As at December 31, 2018 the 50% hryvnia depreciation against these currencies would result in an increase in post-tax and equity losses for the amount indicated below. This analysis is based on the end-of-year position and the assumption that all other variables, such as interest rates, are unchanged.

(in thousands of UAH)

	2018		2017	
	Profit or loss	Equity	Profit or loss	Equity
50% appreciation of USD against UAH	(50)	(50)	38	38
50% appreciation of EUR against UAH	864	864	(1 425)	(1 425)

Conversely, a 50% strengthening of the hryvnia against the currencies would have led to the same amount of profit, but the probability of this assumption is very low.

#### (d) Interest rate risk

Interest rate risk is the actual or potential risk to earnings or capital arising from adverse changes in interest rates. This risk affects both the Bank's profitability and economic value of its assets, liabilities and off-balance sheet instruments.

The main forms of interest rate risk are:

- risk of changing of interest rate in condition of maturity mismatch of assets and liabilities;
- yield curve risk – arise from unfavorable changes in inclination and shape of the yield curve.

Basic principles of interest rate risk management are defined in policy for interest rate risk management in JSC Deutsche Bank DBU.

Interest rate risk management includes management of both assets and liabilities of the Bank. A feature of this process is the limited administrative capacity. Asset management is limited by:

- the liquidity requirements and credit risk of portfolio of bank's assets;
- price competition from other banks, which limits freedom in choosing bank loan pricing.
- The client's credit appetites for financing within a specific time period.

On the other hand, the liabilities management is complicated by:

- concentration of resources between clients and individual products;
- availability of hedging products in the interbank market;
- price competition for existing funds from other banks and non-bank credit institutions.

Therefore, the main objective of interest rate risk management is to minimize this risk within the planned profitability considering its liquidity position.



The amount of potential financial losses depends on the amount of open interest positions - the gaps between assets and liabilities by terms.

Analysis of the impact of changes in interest rates with different maturities on the financial result of the Bank is made using a VaR model (Value at Risk) and sensitivity to interest rate risk.

The process of interest rate risk management involves daily monitoring of open gaps and Sensitivity limit and Stress VaR.

The Bank has no floating interest rate instruments. The Bank does not account for fixed rate financial instruments at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December:

	2018			2017		
	Average effective interest rate,			Average effective interest rate,		
	%			%		
	UAH	USD	EUR	UAH	USD	EUR
<b>Interest bearing assets</b>						
Cash and cash equivalents	-	1.88%	0.06%	-	0.84%	-
NBU deposit certificates	15.31			12.11		
	%	-	-	%	-	-
Loans and advances to customers	18.34			12.56		
	%	-	-	%	-	-
<b>Interest bearing liabilities</b>						
Overnight loans, due to banks	17.53					
	%					
Due to customers:						
Current accounts	4.54%	-	-	4.72%	-	-
	15.43					
Term deposits	%	-	-	9.71%	-	-

The Bank does not have any floating rate instruments. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

#### (e) Other price risk

The Bank has no other price risks for disclosure in the financial statements.

#### (f) Geographical risk

Geographical concentration of financial assets and liabilities as at 31 December 2018 is as follows:

(in thousands of UAH)	Ukraine	OECD countries	Other countries	Total
<b>ASSETS</b>				
Cash and cash equivalents	726 361	-	-	726 361
Due from other banks	-	912 533	15 988	928 521
Loans and advances to customers	1 848			1 848
	792	-	-	792
Other assets	6	101	49	156
	2 575			3 503
<b>Total financial assets</b>	159	912 635	16 036	830

<i>(in thousands of UAH)</i>	<b>Ukraine</b>	<b>OECD countries</b>	<b>Other countries</b>	<b>Total</b>
<b>LIABILITIES</b>				
	3 132			3 132
Due to customers	954	-	-	954
Provision for credit related commitments	49	5	-	54
	<b>3 133</b>			<b>3 133</b>
<b>Total financial liabilities</b>	<b>003</b>	<b>5</b>	<b>-</b>	<b>008</b>
<b>Net balance sheet position on financial instruments</b>	<b>(557 844)</b>	<b>912 630</b>	<b>16 036</b>	<b>370 822</b>

Geographical concentration of financial assets and liabilities as at 31 December 2017 is as follows:

<i>(in thousands of UAH)</i>	<b>Ukraine</b>	<b>OECD countries</b>	<b>Other countries</b>	<b>Total</b>
<b>ASSETS</b>				
	1 137			1 137
Cash and cash equivalents	952	-	-	952
Due from other banks	31	417 205	325	417 561
Loans and advances to customers	514 802	-	-	514 802
Other assets	158	967	55	1 180
	<b>1 652</b>			<b>2 071</b>
<b>Total financial assets</b>	<b>943</b>	<b>418 172</b>	<b>380</b>	<b>495</b>
<b>LIABILITIES</b>				
	1 706			1 706
Due to customers	565	-	-	565
Provision for credit related commitments	88	-	-	88
Other liabilities	8 225	-	-	8 225
	<b>1 714</b>			<b>1 714</b>
<b>Total financial liabilities</b>	<b>878</b>	<b>-</b>	<b>-</b>	<b>878</b>
<b>Net balance sheet position on financial instruments</b>	<b>(61 935)</b>	<b>418 172</b>	<b>380</b>	<b>356 617</b>

*Other risk concentrations.*

Concentration risk is not an isolated form of banking risk, but the generalized, which includes elements of banking risks such as: credit risk, market risk, liquidity risk, operational and technological risk, geographical risk, as a result of focusing on separate types of transactions or certain sources of funding.

The common characteristic that identifies each concentration risk is the possibility of incurring potential losses that could significantly impair the Bank's financial position and result in the inability of current operations as a result of the concentration of business with certain persons in certain types of instruments, assets, liabilities, regions and countries.

**(g) Liquidity risk**

Liquidity risk is an existing or potential risk, which arises from the failure of the Bank to meet its obligations in due time, without incurring financial losses.

Basic principles of liquidity risk management are defined in policy on liquidity risk management of JSC "Deutsche Bank DBU".

The Bank pays special attention to operational risk management of liquidity risk, which is based on the generating a cash flow schedule, taking into account highly liquid assets, and adhering to the current norms of the liquidity coverage ratio (LCR).

The Bank uses the following basic methods of liquidity management:

- Calculation of cash flows within one month. The calculation includes liquid assets and current liabilities (current customer accounts are divided into stable and unstable part), 100% of cash flows on term loans and deposits, overdrafts to be repaid on the 30th day.
- Short-term liquidity coverage ratio - LCR;
- Stress testing. For all currencies, the Bank should be able to survive in a harsh combined market conditions and overcome a specific stressful liquidity-related condition for a minimum initial period of up to 8 weeks, while maintaining an appropriate net liquidity buffer.

Assets and liabilities and liquidity are managed by Asset and Liability Committee (ALCO), which analyses assets and liabilities by maturity and provide recommendations on how to avoid liquidity gaps. In addition, ALCO analyses liability cost and return on assets, controls compliance with NBU's regulations and provisioning requirements, and prepares recommendations on proper asset and liability management. ALCO is responsible for cash flow optimisation and payment discipline, coordinates corporate forecast system, etc.

Liquidity risk is a major financial risk, and Bank's stable financial position depends on the efficiency of liquidity risk management. To manage liquidity risk, the Bank analyses asset and liability structure, liquidity status, both for all currencies collectively and for individual currencies of Bank's transactions. In addition, the Bank controls its compliance with the NBU's requirements to provisioning of amounts due from banks (N4 - immediate liquidity ratio, N5 - current liquidity ratio, N6 - short-term liquidity ratio), and internally developed requirements. Efficient liquidity management is performed using special techniques, such as analysis of assets and liabilities by maturities and cash flow projections.

Monitoring of adherence to limits is performed daily based on limit adherence reports.

During 2018 the Bank complied with requirements on liquidity ratios. As at 31.12.2018 the ratios were as follows (according to form 611): N4 = 131.66%; N5 = 110.52%; N6 = 136.14%.

The undiscounted cash flows from financial liabilities, including future interest payments, by maturity as at 31 December 2018 is as follows:

<i>(in thousands of UAH)</i>	<b>On demand and less than 1 month</b>	<b>From 1 month to 1 year</b>	<b>Total</b>	<b>Carrying amount</b>
Due to customers:				
Corporates	3 116 336	16 618	3 132 954	3 132 954
Provision for credit related commitments	-	54	54	54
<b>Total potential future payments under financial liabilities</b>	<b>3 116 336</b>	<b>16 672</b>	<b>3 133 008</b>	<b>3 133 008</b>

The undiscounted cash flows from financial liabilities, including future interest payments, by maturity as at 31 December 2017 is as follows:

<i>(in thousands of UAH)</i>	<b>On demand and less than 1 month</b>	<b>From 1 month to 1 year</b>	<b>From 1 to 5 years</b>	<b>Total</b>	<b>Carrying amount</b>
<b>Due to customers:</b>					
Corporates	1 694 300	10 088	2 177	<b>1 706 565</b>	<b>1 706 565</b>
Provision for credit related commitments	-	88	-	<b>88</b>	<b>88</b>
<b>Total potential future payments under financial liabilities</b>	<b>1 694 300</b>	<b>10 176</b>	<b>2 177</b>	<b>1 706 653</b>	<b>1 706 653</b>

#### (h) Operational risk

Operational risk is defined as the probability of losses that result from inappropriate or false progress of internal processes, employee actions and systems and / or external factors.

The main principles of liquidity risk management are determined by the Policy on operational risk management at JSC "Deutsche Bank DBU".

The operational risk management system is defined as a set and sequence of stages of identification, assessment, minimization, subsequent monitoring, reporting and calculation of operational risk indicators, and implemented through the following tasks:

- organization and methodological support for the Bank's operational risk mapping system;
- organization of internal control system, including updating of the Bank's control plan and methodological support;
- organization and methodological support for operational data collection system;
- organization, methodological support and maintenance of the action plans base.

## 23 Capital management

The Bank's principal objective in capital management is to maintain a strong capital base to perform efficient operations and ensure strategic development of the banking business while complying with NBU's requirements to capital management. Capital management is an integral part of Bank's assets and liabilities management. The Bank ensures that its capital adequacy is maintained on a required level through planning and control mechanisms. The Bank monitors capital adequacy ratio on a daily basis.

Regulatory capital adequacy ratio calculated in accordance with the NBU requirements is 85.08% (31 December 2017: 132.83%) while the minimum requirement for capital adequacy ratio is 10%.

Regulatory capital of the Bank is as follows (according to form 611, excluding corrective postings per year):

<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Primary capital</b>		
Share capital actually paid	301 839	301 839
<b>Disclosed reserves, formed or increased by retained earnings:</b>	21 397	19 493
General reserves and reserve funds formed under the laws of Ukraine	21 397	19 493
<b>Reduction of capital</b>	<b>(554)</b>	<b>(578)</b>
Intangible assets less depreciation	(490)	(578)
Capital investments in intangible assets	(64)	-
<b>Primary capital (1-tier capital)</b>	<b>322 682</b>	<b>320 754</b>
Calculated profit for current year	42 882	43 695
Profit of previous years	-	-
Uncovered credit risk	(81 621)	(12 143)
<b>Additional capital (2-tier capital)</b>	<b>(38 739)</b>	<b>31 552</b>
<b>Total regulatory capital</b>	<b>283 943</b>	<b>352 306</b>

## 24 Contingencies

### a) Litigations

As at 31 December 2018 the Bank has no litigations in progress.

The Bank recognised no provisions for potential losses from litigations.

### b) Taxation contingencies

The Ukrainian tax system is relatively new and can be characterised by numerous taxes and frequently changing legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Tax regulations are often unclear, open to wide interpretation, and in some instances are conflicting. Instances of inconsistent opinions between local, regional and national tax authorities and between the NBU and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enabled by law to impose significant penalties and interest charges. These facts create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems.

Management believes that it has complied with all existing tax legislation and has provided adequately for tax liabilities based on its interpretations of applicable Ukrainian tax legislation, official pronouncements and court decisions. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessments has been made in these financial statements.

### c) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are presented as follows (including a rent during the whole period of operating lease agreements validity):

<i>(in thousands of UAH)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Less than 1 year	8 022	10 650
From 1 to 5 years	3 663	1 656
<b>Total</b>	<b>11 685</b>	<b>12 306</b>



#### d) Credit commitments

As at the reporting date, the Bank did not have any pledged assets and assets subject to restrictions associated with the possession, use and disposal of assets.

(in thousands of UAH)

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Revocable:</b>		
Undrawn credit lines	2 224 917	3 229 805
<b>Total revocable liabilities</b>	<b>2 224 917</b>	<b>3 229 805</b>
<b>Irrevocable:</b>		
Guarantees issued	55 275	14 392
<b>Total irrevocable liabilities</b>	<b>55 275</b>	<b>14 392</b>
<b>Total</b>	<b>2 280 192</b>	<b>3 244 197</b>

The structure of loan commitments is as follows:

Credit related commitments by currency are as follows:

(in thousands of UAH)

	<b>31 December 2018</b>	<b>31 December 2017</b>
UAH	150 025	305 107
USD	774 173	928 097
EURO	1 355 994	2 010 993
<b>Total</b>	<b>2 280 192</b>	<b>3 244 197</b>

## 25 Fair value of financial instruments

#### a) Classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

(in thousands of UAH)

	<b>Loans and receivables</b>	<b>Other assets/liabilit ies at amortised cost</b>	<b>Carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents	726 361		726 361	726 361
Due from other banks	928 521		928 521	928 521
Loans and advances to customers	1 848 792		1 848 792	1 848 792
Other assets	156		156	156
<b>Total assets</b>	<b>3 503 830</b>	<b>-</b>	<b>3 503 830</b>	<b>3 503 830</b>
Due to customers		3 132 954	3 132 954	3 132 954
Provision for credit related commitments		54	54	54
<b>Total liabilities</b>	<b>-</b>	<b>3 133 008</b>	<b>3 133 008</b>	<b>3 133 008</b>

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

<i>(in thousands of UAH)</i>	<b>Loans and receivables</b>	<b>Other assets/liabilit ies at amortised cost</b>	<b>Carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents	1 137 952		1 137 952	1 137 952
Due from other banks	417 561		417 561	417 561
Loans and advances to customers	514 802		514 802	514 802
Other assets	1 180		1 180	1 180
<b>Total assets</b>	<b>2 071 495</b>	<b>-</b>	<b>2 071 495</b>	<b>2 071 495</b>
Due to customers		1 706 565	1 706 565	1 706 565
Provision for credit- related commitments		88	88	88
Other liabilities		8 225	8 225	8 225
<b>Total liabilities</b>	<b>-</b>	<b>1 714 878</b>	<b>1 714 878</b>	<b>1 714 878</b>

As at 31 December 2018 and 2017, the fair values of all financial assets and liabilities are estimated to approximate their carrying values due to their short-term nature and/or market interest rates at period end.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

#### **b) Fair value hierarchy**

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

These two types of inputs have created the following three-level fair value hierarchy:

*Level 1* - quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments and traded derivatives, such as futures.

*Level 2* - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

*Level 3* - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available.

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2018:

(in thousands of UAH)

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value</b>	<b>Carrying value</b>
Cash and cash equivalents		726 361		726 361	726 361
Due from other banks		928 521		928 521	928 521
Loans and advances to customers			1 848 792	1 848 792	1 848 792
Other assets			156	156	156
<b>Total assets</b>	<b>-</b>	<b>1 654 882</b>	<b>1 848 948</b>	<b>3 503 830</b>	<b>3 503 830</b>
Due to customers		3 132 954		3 132 954	3 132 954
Provision for credit related commitments			54	54	54
<b>Total liabilities</b>	<b>-</b>	<b>3 132 954</b>	<b>54</b>	<b>3 133 008</b>	<b>3 133 008</b>

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2017:

(in thousands of UAH)

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value</b>	<b>Carrying value</b>
		1 137			
Cash and cash equivalents		952		1 137 952	1 137 952
Due from other banks		417 561		417 561	417 561
Loans and advances to customers			514 802	514 802	514 802
Other assets			1 180	1 180	1 180
		<b>1 555</b>			
<b>Total assets</b>	<b>-</b>	<b>513</b>	<b>515 982</b>	<b>2 071 495</b>	<b>2 071 495</b>
		1 706			
Due to customers		565		1 706 565	1 706 565
Provision for credit- related commitments			88	88	88
Other liabilities			8 225	8 225	8 225
		<b>1 706</b>			
<b>Total liabilities</b>	<b>-</b>	<b>565</b>	<b>8 313</b>	<b>1 714 878</b>	<b>1 714 878</b>

### *Fixed rate financial instruments*

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2018:

Type of instrument	Fair value	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Loans and advances to customers	1 848 792	Discounted cash flow	Risk adjusted discount rate	Interest rates 13.00%-25.00%	The reduction in interest rates leads to an increase in fair value

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2017:

Type of instrument	Fair value	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Loans and advances to customers	514 802	Discounted cash flow	Risk adjusted discount rate	Interest rates 12.00%-18.00%	The reduction in interest rates leads to an increase in fair value

During the years ended 31 December 2018 and 2017, no fair value gains or fair value losses were recognised in profit or loss or other comprehensive income on loans to customers.

During the years ended 31 December 2018 and 2017, there were no transfers into and out of Level 3 of the fair value hierarchy.

## 26 Related party transactions

The Bank grants loans and advances, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party when making financial and operational decisions.

The Bank assesses credit risks associated with loans to related parties and manages these credit risks in accordance with the normative requirements of the NBU.

Terms of transactions with related parties are established at the time of the transaction. In accordance with IAS 24 Related Party Disclosures, related parties comprise:

- the parent company - the ultimate controlling party of the Bank is Deutsche Bank AG (Germany) which holds 100% shares;
- entities under common control of Deutsche Bank AG;
- key management personnel and their immediate family members, members of the Supervisory Board, the Board, and their immediate family members.

As at 31 December 2018 and 31 December 2017, the Bank has no subsidiaries, associates, or joint ventures where the Bank has control relationship.

Balances with related parties as at 31 December 2018 are as follows:

<i>(in thousands of UAH)</i>	<b>Parent company</b>	<b>Entities under common control</b>	<b>Key management personnel</b>
Due from other banks	841 925	87 129	-
Other assets	-	2 155	6
Provision for impairment of accounts receivable	-	(876)	-
Other liabilities (on demand, denominated in EUR)	1 742	6 848	-
Provisions for off-balance sheet liabilities	-	5	-

As at 31 December 2018 balances due from banks related to transactions with related parties represent call deposits.

As at 31 December 2018 balances due from banks related to transactions with related parties by currency are as follows:

<i>(in thousands of UAH)</i>	<b>Parent company</b>	<b>Entities under common control</b>
USD	-	71 131
EURO	841 914	-
RUB	-	15 998
Other	11	-
<b>Total</b>	<b>841 925</b>	<b>87 129</b>

Other rights and commitments on transactions with related parties as at 31 December 2018 are as follows:

<i>(in thousands of UAH)</i>	<b>Parent company</b>	<b>Entities under common control</b>
Guarantees received	-	1 632 253
Guarantees issued	-	46 546



Income and expenses on transactions with related parties for the year ended 31 December 2018 are as follows:

*(in thousands of UAH)*

	<b>Parent company</b>	<b>Key management personnel</b>	<b>Entities under common control</b>
Interest income	22	-	1 073
Interest expense	(157)		
Gains less losses from dealing in foreign currencies	-	-	4 234
Commission income	-	-	330
Commission expense	(181)	-	(5 672)
Administrative and other operating expenses	(4 386)	(20 687)	(6 811)

Related party transaction balances as at 31 December 2017 are as follows:

*(in thousands of UAH)*

	<b>Parent company</b>	<b>Entities under common control</b>
Due from other banks	384 655	33 033
Other assets	934	506
Other liabilities (on demand, denominated in EUR)	326	4 054

As at 31 December 2017 balances due from banks related to transactions with related parties represent call deposits with interest rate 0.55%.

As at 31 December 2017, balances due from banks related to transactions with related parties by currency are as follows:

*(in thousands of UAH)*

	<b>Parent company</b>	<b>Entities under common control</b>
USD	16 647	32 708
EURO	367 997	-
RUB	-	325
other	11	-
<b>Total</b>	<b>384 655</b>	<b>33 033</b>

Other rights and commitments on transactions with related parties as at 31 December 2017 are as follows:

*(in thousands of  
UAH)*

	<b>Parent company</b>	<b>Entities under common control</b>
Guarantees received	-	335 796
Guarantees issued	-	842

Income and expenses on transactions with related parties for the year ended 31 December 2017 are as follows:

<i>(in thousands of UAH)</i>	<b>Parent company</b>	<b>Key management personnel</b>	<b>Entities under common control</b>
Interest income	845	-	1 113
Gains less losses from dealing in foreign currencies	-	-	1 335
Commission income	-	-	161
Commission expense	(126)	-	(2 723)
Administrative and other operating expenses	(1 051)	(20 376)	(4 169)

Payments to key management personnel for the reporting periods are as follows:

*(in thousands of UAH)*

	<b>As at and for the year ended 31 December 2018</b>		<b>As at and for the year ended 31 December 2017</b>	
	<b>Expenses</b>	<b>Accrued liability</b>	<b>Expenses</b>	<b>Accrued liability</b>
Payments to key management personnel	20 687	1 723	20 376	2 582

## 27 Subsequent events

The new regulation of the foreign exchange market came into force on 7 February 2019, providing for a series of relaxing measures (more than 20), which will significantly simplify running business and improve the investment climate of Ukraine. By introducing the new currency regulation system, the National Bank of Ukraine facilitate transition from the system of total currency control of each foreign currency transaction to the risk-based supervision approach, which is built on the principle "more risks more attention, fewer risks less attention". Banks will be able to ease the oversight for most business operations that are not doubtful. In addition, banks can withdraw small payments abroad of up to UAH 150 thousand from their currency supervision, which will reduce time and administrative costs, and will ease the burden on the banks' financial monitoring departments. The National Bank's final goal is to eliminate all existing restrictions and transit to the principle of free capital movement.

On March 31, 2018, Ukraine had the first round of the president elections. None of the candidates could get more than 50% of the votes and the the second round of elections was announced as a result. Thus, the uncertainty about the future political course of the country remains, especially in areas that are within the the President's competence.

There were no other events after 31 December 2018 and before the date of approval of these financial statements that could affect the economic decisions of users.