

Translation from Ukrainian original

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

IFRS annual financial statements

***For the year ended 31 December 2019,
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, 2019, and the statement of profit or loss and other 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, 2019, 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 under the International Standard of Financial Statements 9 "Financial Instruments" (hereinafter – IFRS 9) the measurement of expected credit losses is 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, 2019 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 methodology 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 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 27 to the financial statements disclosing information that in the first quarter of 2020, a coronavirus epidemic began to spread worldwide, which the World Health Organization announced a pandemic in March 2020. The severe quarantine measures imposed by the majority of leading and developing countries have led to a sharp recession in global and Ukrainian economy. It is now extremely difficult to predict the course of events, the depth and timelines of economic crisis. Management believes that the Bank is well positioned to face the economic downturn due to conservative risk management strategy (for details, see Note 22, Risk Management). The Bank's priorities are to ensure its operation as a going concern and to protect its employees and clients. As at the beginning of 2020, the Bank's strategy remained unchanged. However, given the growing risks in the banking system of Ukraine, management is exploring the need to revise its strategy in the light of new economic realities.

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 2019;
 - 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 2019 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 40¹ 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 as amended (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 40¹ of the Law #3480–IV. Annual reporting data of the issuer must be filed by the bank within terms specified by articles 39 and 39¹ 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 401 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 4 years that ended December 31, 2019.

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.

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 2019 we have provided other services to the Bank, including:

- review of the Management Report prepared in accordance with Regulation #373;
- the first stage of assessing resilience of the Bank in accordance with Technical Assignment for the assessing resilience of banks and bank system of Ukraine in 2020 approved by the NBU Resolution #105- pm dated February 7, 2020, 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 40¹ 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 "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 1 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.


Tatyana Bernatovych
Managing partner



Registration number
In the Register of Auditors and Audit Entities
101199


Olga Panchenko
Key audit partner

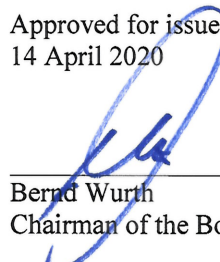
Registration number
In the Register of Auditors and Audit Entities
100722


37/19 Donetska Str., Kyiv, Ukraine
April 14, 2020

(in thousands of UAH)

	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	5	1 752 218	726 361
Due from other banks	6	479 610	928 521
Loans and advances to customers	7	475 450	1 848 792
Receivables on current income tax		-	10
Deferred tax asset	19	1 087	1 278
Fixed and right-of-use assets	8	37 150	11 514
Intangible assets	8	1 400	554
Other assets	9	1 440	2 909
Total assets		2 748 355	3 519 939
LIABILITIES			
Due to customers	10	2 328 163	3 132 954
Current income tax liabilities		2 286	3 937
Provision for credit-related commitments	11	110	54
Lease liabilities		26 243	-
Other liabilities	12	21 511	17 471
Total liabilities		2 378 313	3 154 416
EQUITY			
Share capital	13	301 839	301 839
Retained earnings and other reserves		68 203	63 684
Total equity		370 042	365 523
Total liabilities and equity		2 748 355	3 519 939

Approved for issue and signed
14 April 2020


Bernd Wurth
Chairman of the Board


Oleksii Rybenko
Chief Accountant

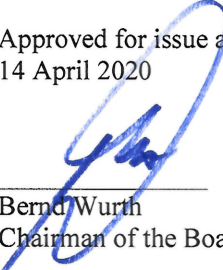
Prepared by Nesterenko P.E.
Deputy Chief Accountant
tel. (044) 461-15-18


Statement of financial position should be read in conjunction with the notes on pages 7-52, which are forming a part of these financial statements.

Joint Stock Company "Deutsche Bank DBU"
Financial statements as at and for the year ended 31 December 2019
Statement of profit or loss and other comprehensive income for the year ended 31 December 2019

<i>(in thousands of UAH)</i>	<i>Note</i>	2019	2018
Interest income	15	301 075	278 161
Interest expense	15	(165 070)	(141 760)
Net interest income		136 005	136 401
Net (increase)/decrease of expected credit losses	6,7,9,11	2 085	(2 389)
Net interest income less impairment		138 090	134 012
Net fee and commission income	16	17 991	18 165
Net trading income	17	9 674	7 454
Other operating income		852	-
Total non-interest income		28 517	25 619
Salaries and employee benefits		(48 328)	(47 421)
Administrative and other operating expenses	18	(60 150)	(58 056)
Total non-interest expense		(108 478)	(105 477)
Profit before tax		58 129	54 154
Income tax expense	19	(13 437)	(11 867)
Profit for the year		44 692	42 287
Other comprehensive income		-	-
Total comprehensive income		44 692	42 287
Earnings per share from continuing operations:			
Basic and diluted earnings per share, UAH	20	0.20	0.18

Approved for issue and signed
14 April 2020


Bernd Wurth
Chairman of the Board

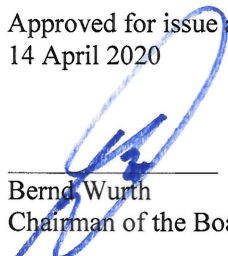

Oleksii Rybenko
Chief Accountant

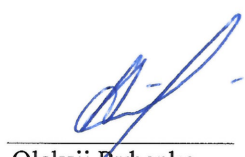
Prepared by Nesterenko P.E.
Deputy Chief Accountant
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Statement of profit or loss and other comprehensive income should be read in conjunction with the notes on pages 7-52, which are forming a part of these financial statements.

<i>(in thousands of UAH)</i>	<i>Note</i>	Share capital	Reserve and other funds	Retained earnings	Total
Balance as at 01 January 2018		301 839	19 493	38 071	359 403
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		-	-	(36 167)	(36 167)
Balance as at 31 December 2018		301 839	21 397	42 287	365 523
Balance as at 1 January 2019		301 839	21 397	42 287	365 523
Profit for the year		-	-	44 692	44 692
Total comprehensive income		-	-	44 692	44 692
Transfer of profit to reserve funds		-	2 114	(2 114)	-
Dividends	21	-	-	(40 173)	(40 173)
Balance as at 31 December 2019		301 839	23 511	44 692	370 042

Approved for issue and signed
14 April 2020


Bernd Wurth
Chairman of the Board


Oleksii Rybenko
Chief Accountant

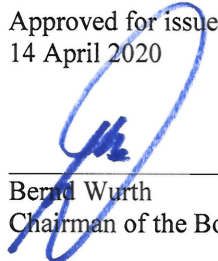
Prepared by Nesterenko P.E.
Deputy Chief Accountant
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Statement of changes in equity should be read in conjunction with the notes on pages 7-52, which are forming a part of these financial statements.

(in thousands of UAH)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		58 128	54 154
Adjustments for:			
Depreciation and amortization	8	3 498	3 220
Depreciation of right-of-use assets		7 305	-
	6, 7, 9,		
Net increase/(decrease) of provisions for expected credit losses	11	(2 085)	2 336
Amortisation of discount /(premium)		17	(47)
(Increase)/decrease of accrued income		2 028	(1 064)
(Decrease)/increase of accrued expenses		(4 725)	8 323
Exchange difference for lease liabilities		(594)	-
Unrealized exchange differences		1 391	(181)
Net monetary gain from operating activities before changes in operating assets and liabilities		64 963	66 741
Changes in operating assets and liabilities:			
Net decrease/(increase) in deposits in other banks	5	(306 949)	(189 841)
Net decrease/(increase) in loans and advances to customers	7	1 368 353	(1 331 330)
Net decrease/(increase) in other assets	9	2 151	(1 975)
Net increase /(decrease) in due to customers	10	(679 571)	1 437 978
Net increase /(decrease) in other liabilities	12	6 611	(1 277)
Net cash flows from (used in) operating activities before income tax		455 558	(19 704)
Income tax paid		(14 886)	(10 658)
Net cash flows from (used in) operating activities		440 672	(30 362)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets	8	(2 696)	(1 481)
Acquisition of intangible assets	8	(1 161)	(284)
Net cash flows from (used in) investing activities		(3 857)	(1 765)
CASH FLOWS FROM FINANCIAL ACTIVITIES			
Dividends paid	21	(40 173)	(36 167)
Principle paid on lease liabilities		(6 591)	-
Net cash flows from (used in) financial activities		(46 764)	(36 167)
Effect of the official exchange rate changes on cash and cash equivalents		(73 236)	(20 095)
Net increase (decrease) in cash and cash equivalents		316 815	(88 389)
Cash and cash equivalents at the beginning of the year ¹	5	962 670	1 051 059
Cash and cash equivalents at the end of the year¹	5	1 279 485	962 670

Approved for issue and signed
14 April 2020


Bernd Wurth
Chairman of the Board

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


Oleksii Rybenko
Chief Accountant

¹ Cash and cash equivalents do not include term deposit certificates of NBU

Statement of cash flows should be read in conjunction with the notes on pages 7-52, which are forming a part of these financial statements.

1 Background

a) Main activities

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 of private type.

The Bank is operating on the basis of the National Bank of Ukraine (NBU) license issued on 11 December 2018. The Bank's main activities include attraction of deposits and maintenance of customers' accounts, granting loans and providing guarantees, cash and settlement transactions, transactions with securities, and foreign currency exchange operations. The Bank's operation is 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 2019, the Bank is operating through its Head Office and has no branches.

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

6) 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

In 2019, real GDP growth at the NBU estimation was 3.3% y/y. Significant underlying factors included increasing private consumption against the backdrop of rising incomes and improving consumer sentiment, as well as high growth rates of investment. Another record harvest of grain and oilseeds has been a significant driver of GDP growth and export. According to the year results showed flat industry indicators due to unfavourable external price conditions and weak price competitiveness impact. Economy growth in 2019 has led to increased demand for labour, which reduced unemployment rate.

In 2019, consumer inflation slowed down to 4.1% (from 9.8% in 2018), showing the lowest level in six years. The NBU reached a medium-term inflation target of $5\% \pm 1$ p.p., which has been declared since 2015. The inflation decrease to target rate in 2019 was a result of the NBU's consistent monetary policy for achieving price stability together with balanced fiscal policy. The final factor in rapid inflation slowdown was strengthening hryvnia exchange rate caused by foreign currency surplus in the market throughout the largest part of last year. The increased foreign currency supply was driven by high volumes of foreign currency earnings sales by exporters and foreign investors' keen interest of in the government bonds denominated in hryvnia. During 2019, the continuous macroeconomic stability supported by attractive yields, the portfolio of government bonds denominated in hryvnia owned by non-residents grew by USD 4.3 billion.

The current account deficit narrowed significantly in 2019 (to 0.7% of GDP). Due to capital inflow secured by public sector and increase in real sector involvement in the second half of the year, the NBU's gross reserves grew to their highest levels since the end of 2012 (\$ 25.3 billion at the end of 2019 or 3.8 months of future imports).

During 2019, the NBU Board gradually reduced its discount rate to 13.5%.

In 2019, the banking sector made a profit of UAH 59.6 billion. Revenues grew by 19.5% y/y, primarily due to an increase in net interest and commission income, while expenses increased by 1.4% y/y. In 2019,

payments to the reserves in the banking sector were twice lower than in the previous year and amounted to UAH 11.8 billion.

In December 2019, the NBU changed the minimum requirements for banks' mandatory reserves and set a zero rate for reserves in hryvnia. New approaches to mandatory reserves, which will come into force on 10 March 2020, are focused on reducing dollarization of bank deposits and helping reduce the cost of hryvnia credit resources.

In general, the NBU cancelled more than thirty currency restrictions during 2019.

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 2019 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 hryvnia (UAH).

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

d) Use of estimates and judgments

Preparation of the financial statements in accordance with IFRS requires management to make a number of judgements, estimates and assumptions that impact reporting assets and liabilities and 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 2019	31 December 2018
USD	23.69	27.69
EURO	26.42	31.71

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

i) 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).

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.

ii) Impairment method under IFRS 9

The impairment requirements of IFRS 9 apply to all debt instruments that are measured at amortized cost or FVOCI and to off-balance lending commitments such as loan commitments and financial guarantees (collectively referred to as "Financial assets").

The determination of impairment losses and allowances moves from an incurred credit loss model 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).

iii) 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 and 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.

iv) 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.

Eligibility 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 1 January 2018, the Bank has taken the same decision. Subsequent changes will be implemented in parallel with adopting changes by the Deutsche Bank Group.

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 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) 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%

(iii) Impairment

Recognition of impairment of fixed assets and intangible assets is carried out in accordance with IAS 36 *Impairment of Assets*. 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 (d).

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 2019.

- 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.

With implementation of IFRS 16 *Leases* the Bank is required to recognise in the balance sheet a right-of-use for leased assets and liabilities on lease.

The Bank does not recognise right-of-use assets and liabilities on lease in the following cases:

- for short-term leases (12 months or less);

- lease of low value leased objects (equivalent of EUR 6 thousand or less).

In the above cases the Bank recognises cost of lease in expenses on the straight line basis throughout the lease term.

At signing a lease agreement the Bank, as a lessor or as a lessee, needs to determine whether the agreement contain a lease. If a lease arrangement provides a lessee with a right to use a leased object for an agreed term in exchange of a lease payments in favour of a lessor, this arrangement is recognized as a lease. The right-of-use the leased object means that two conditions are met simultaneously:

- the right of the lessee to receive practically all economic benefits from the use of the identified asset;
- the right to manage the use of the identified asset.

The Bank does not recognize VAT as part of a lease payment because VAT does not provide for its exchange for the right-of-use the specified asset. Therefore, VAT is recognized either in the Bank's income or loss or through tax credit.

To determine lease liability of a lessee the Bank discounts cash flows by applying the borrowing rate to the currency specified in the agreement, which is referred to for calculating lease payment.

Where the currency of lease fee denomination differs from the currency of the lease payment, the difference arising between the actual amount paid and contractual amount is recognized in other operating income / expenses.

The Bank defines a lease term as a term that does not provide for early termination of lease agreement plus the period from after that date to the lease agreement expiry date, if there the lessee is reasonably certain not to exercise the lease agreement early termination option, plus possible periods after the lease agreement expiry date, if the lessee is reasonably certain not to exercise to extend the lease agreement.

At the lease commencement date, the Bank recognizes in the balance sheet an asset in the form of a right-of-use asset, measured at cost, which includes:

- the amount equal to the lease liability at its initial recognition;
- lease payments made at or before the lease commencement date, less of and lease incentives received;
- initial direct costs;
- an estimate of costs incurred by the lessee in dismantling and removing the underlying asset at the lease commencement date.

At the same time, the Bank recognizes in the balance sheet the lease liability in the amount of present value of future lease payments, discounted using the contractual interest rate or the borrowing rate of the Bank for the relevant term and in the relevant currency. Future lease payments include:

- fixed payments, less incentives received;
- variable lease payments;
- expected residual value guarantees;
- the exercise price of a purchase option (if the lessee is reasonably certain to exercise that option);
- payment of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Bank subsequent measures lease liability at amortised cost. Lease liability is increased by interest accrued on lease liability and is reduced by lease payments.

The right-of-used asset is measured subsequently at cost less any depreciation and any accumulated impairment losses. The right-of-used (RoU) asset is depreciated on a straight line basis throughout the lease term. The depreciation period begins on the month that follows the month RoU asset is recognised on the Bank's balance sheet.

IFRS 16 separates the concepts of lease reassessment and lease modification. Reassessment is applied only when change in cash flows was expected by contractual terms at the lease agreement signing date.

In case of reassessment of the lease term or a purchase option the Bank remeasures right-of-use asset using the revised discount rate.

In case of reassessment of expected residual value guarantees or variable lease payments linked to a change in an index or a rate used to determine future lease payments, the Bank remeasures RoU assets using unchanged discount rate.

In case of reassessment of variable lease payments linked to a change in an index or a rate and relate to the current period, or reassessment of variable lease payments not linked a change in an index or a rate, the Bank recognises difference through profit or loss.

In contrast, a lease modification is a change in lease that was not the part of the original terms and conditions of a lease agreement at its signing date.

In case of change in the lease scope by adding the new RoU for one or more underlying lease objects at the market price the Bank recognises a separate lease agreement.

In case of change in the lease scope by adding the new RoU for one or more lease objects at the price, other than the market price and for any other modifications the Bank does not recognise a separate lease agreement, but makes adjustments to RoU asset and lease liability.

In case of reducing the lease scope the Bank does not recognise a separate lease agreement and makes adjustments to RoU asset and lease liability and the result of lease termination in part or in full is recognised through profit or loss.

In first application the Bank applied modified retrospective approach. At the date of first application the Bank recognised in the statement of financial position the right-of-use asset and lease liability for two leased office buildings and two leased office vehicles based on underlying lease agreements.

The table below reconciles operating leases disclosed under IAS 17 in the financial statements for the year ended December 31, 2018 and the lease liability recognised according to IFRS 16 as at January 1, 2019:

	<i>(in thousands of UAH)</i>
Future minimum lease payments under operating lease agreements under IAS 17	11 685
Future contractual lease payments (in addition to minimum payments)	29 182
Total future lease payments	40 867
VAT and other taxes on lease liability	(6 662)
Lease liability before discounting	34 205
Effect of discounting	(777)
Lease liability under IFRS 16	33 428

The Bank does not have any agreement where it acts as a lessor.

- Amendments to IFRS 9 – *Prepayment Features with Negative Compensation*.

According to IFRS 9 financial instrument can be measured at amortised cost or at fair value through other comprehensive income precluding that contractual cash flows are "solely payments of principal and interest"(SPPI criterion) and is qualified within the appropriate business model that allows for such classification. Amendments to IFRS 9 clarify that financial asset passes SPPI criterion regardless of which event or circumstance that cause the early termination of the contract and irrespective which party pays or receives reasonable compensation for early termination of the contract.

- Amendments to IFRS 9 – *Modification or Exchange of Financial Liabilities that do not Result in Derecognition*.

In the Basis for Conclusions to the Amendment, the IASB also clarifies that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability when a modification (or exchange) does not result in derecognition are consistent with those applied to the modification of a financial asset that does not result in derecognition. In other words, the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss.

The IASB made this comment in the Basis for Conclusions to the Amendment as it felt that the existing requirements in IFRS 9 provided an adequate basis for entities to account for modifications and exchanges of financial liabilities and that no formal amendment to IFRS 9 was needed in respect of this issue.

The IASB states specifically that this clarification relates to the application of IFRS 9. As such, it would not appear that this clarification needs to be applied to the accounting for modification of liabilities under IAS 39 *Financial Instruments: Recognition and Measurement*. Any entities which have not applied this accounting under IAS 39 are therefore likely to have a change of accounting on transition. As there is no specific relief, this change would need to be made retrospectively.

Amendments to IFRS 9 did not have effect on the financial statements of the Bank.

- Amendments to IAS 19 *Employee Benefits* - Plan Amendment, Curtailment or Settlement.

These amendments consider the accounting for plan amendments, curtailments and settlements during the reporting period. These amendments clarify that if plan amendment, curtailment and settlement occurs during the reporting period the entity should use updated assumption to determine service cost and net interest for the remainder of the period after the plan amendment, curtailment and settlement on the basis of actuary assumptions and discount rates used for remeasurement of net liability (asset) of a fixed compensation plan.

Amendments to IFRS 9 did not have effect on the financial statements of the Bank.

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

These amendments clarify that the entity applies IFRS 9 for long-term interests in associate or joint venture for which equity method is not applied, but which, in fact, invest par of the net investment in associate or joint venture (long-term investment). It means that expected credit losses method under IFRS 9 is applied for these long-term investments.

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

Amendments do not have effect on the financial statements of the Bank.

- Interpretation IFRIC 23 *Uncertainty over Income Tax Treatments*

If there is an uncertainty as to the taxlaw requirements with regard to one or another treatment or specific circumstances, the main criterion is: whether the approach applied by the entity will be accepted by tax authority.

If the answer is positive, the entity should reflect in the financial statements the amount consistent with the tax return and consider the need to disclose the uncertainty. If the answer is negative, the amount reported in the financial statements will be different from the amount in the tax return, as it is estimated based on the uncertainty involved.

To account for this uncertainty, one of the following two estimation methods is used, whichever is best to predict the resolution of the uncertainty:

- the most likely amount method; or
- the expected value method.

The clarification also requires that the judgments and estimates made by the entity should be reassessed whenever circumstances change - for example, as a result of tax examination or other actions taken by tax authorities, subsequent changes in tax rules, or after a period within which the tax authority has the right to examine and challenge the tax treatment has expired.

The amendments do not have any impact on the Bank's financial statements.

- Annual Improvements to IFRS Standards (2015 - 2017 Cycle).

IFRS 3 Business Combination.

Sometimes, an entity that is a participant in a joint operation (as defined in IFRS 11 *Joint Arrangements*) obtains control of that joint operation. The amendment to IFRS 3 clarifies that if and when an entity subsequently obtains control, it remeasures its previously held interest in joint operation at the acquisition date. An entity recognizes any difference between the fair value at the joint operation acquisition date and the previous carrying amount as gain or loss.

This improvement is effective for the periods beginning on or after 1 January 2019, early application is permitted. The amendments should be applied prospectively.

IFRS 11 Joint Arrangements.

Improvements to IFRS 11 relate to situations where an entity is a party to a joint arrangement that constitutes a joint operation (as defined in IFRS 11) - but importantly, does not maintain joint control over the joint operation - and subsequently obtains joint control. The amendment clarifies that if and when an entity subsequently obtains joint control, the previously held interest should not be remeasured.

These amendments are effective for the periods beginning on or after 1 January 2019. The amendments should be applied prospectively.

IAS 12 Income Taxes.

In some jurisdictions, the amount of income tax payable by an entity depends on the dividend paid to equity holders. The amendment to IAS 12 specifies that tax consequences (if any) of dividends (i.e. distribution of profits to equity holders in proportion to their shares) should be recognized:

- ▶ simultaneously with recognizing a liability to pay such dividends; and
- ▶ in profit or loss, other comprehensive income or statement of changes in equity, depending on where the entity in the past recognized the transactions or events that generated the accumulated distributable profit to pay dividends.

This improvements apply to the periods beginning on or after 1 January 2019, early application is permitted. Improvement is effective on or after the earliest comparative period presented.

IAS 23 Borrowing Costs.

The amendment to IAS 23 clarifies that when a qualifying asset specially financed by borrowings are ready for intended use or sale, borrowing costs incurred on special borrowings can no longer be capitalized as part of that qualifying asset value. But these borrowings are included in the general borrowings pool. Therefore, from that date, the rate applicable to these borrowings is included in determination of capitalization rate applicable to general borrowings.

The amendment is applicable to the periods beginning on or after 1 January 2019, early application is permitted. Entities are required to apply this amendment only to borrowing costs incurred at the beginning of the annual reporting period, when the amendment is first applied, or at a later date.

Annual improvements did not have effect on the financial statements of the Bank.

New and revised standards and interpretations mandatory for the periods beginning on or after 1 January 2020

The Bank has not applied the following issued but not yet effective IFRSs and Interpretations to IFRSs and IASs:

- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to the definition of material.

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. Amendments to IAS 1 and IAS 8 are intended to improve the understanding of the definition of materiality in IAS 1 but are not intended to change the underlying concept of materiality in the standards. The definition of materiality in IAS 8 has been replaced by a reference to IAS 1. The previous version of the term stated that a materiality judgement should only take into account the reasonably expected impact on the economic decisions made by the users of the financial statements. The new definition also states that "information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of the general purpose financial statements make on the basis of those financial statements, which provide the financial information about a specific reporting entity". Also the new definition refers to the "primary" users of the financial statements. The current term refers to the "users" but does not specify its characteristics and this can be interpreted as if the entity considered all possible users of financial statements when deciding what information should be disclosed. The amendments are applicable for the periods beginning on or after 1 January 2020, early application is permitted. The amendment is not expected to have an impact on the Bank's financial statements.

- A revised *Conceptual Framework for preparation of the financial statements*.

The IASB revised the Conceptual Framework for the Preparation of Financial Statements (hereinafter referred to as the "Conceptual Framework") in March 2018. It provides a comprehensive set of approaches to financial reporting, standard setting, guidance on consistent accounting policies for those who prepare financial statements, and assistance to others in their efforts to understand and interpret standards. The Conceptual Framework incorporates some new approaches, provides updated definitions and recognition criteria for assets and liabilities, and clarifies some important concepts. The Revised Conceptual Framework is not a standard, and none of the approaches takes precedence over the definitions contained in any standard or any requirements of the standard. The purpose of the Conceptual Framework is to assist the IFRS Board in the development of standards, to assist consistent accounting policy makers when there are no appropriate standards, and to assist all parties to understand and interpret the standards. Changes to the Conceptual Framework may affect the application of IFRSs in situations where no standard applies to a particular transaction or event.

For entities that develop an Accounting policy based on the Conceptual Framework, the changes take effect for annual periods beginning on or after January 1, 2020. It is expected that the revised Conceptual Framework will not have a material impact on the Bank's financial statements.

- IFRS 17 *Insurance Contracts*

IFRS 17 creates a single accounting model for all insurance contracts. IFRS 17 requires an entity to evaluate insurance contracts using up-to-date estimates and assumptions that reflect cash flow conditions and take into account any uncertainty relating to insurance contracts. An entity's financial statements will reflect the time value of money in the estimated payments required to meet the requirements. Insurance contracts should only be assessed on the basis of the obligations arising from the contracts. An entity should recognize income from the provision of insurance services, not after receiving awards. This standard supersedes IFRS 4 Insurance Contracts and is effective for annual periods beginning on or after 1 January 2021, with early application permitted. The standard is not expected to have an impact on the Bank's financial statements.

- Amendments to IFRS 10 *Consolidated Financial Statements* and to IAS 28 *Investments in Associates and Joint Ventures* – Sales of Contributions of Assets between an Investor and its Associate/ Joint Venture.

These amendments consider the conflict between the requirements of IFRS 10 and IAS 28 for recognizing the loss of control of a subsidiary resulting from its sale or contribution to an associate or joint venture. These amendments clarify that the gain or loss resulting from a sale or contribution of assets that constitute a business, as defined by IFRS 3, in the transaction between an investor and its associate or joint venture is recognised in full. However, the gain or loss resulting from a sale or contribution of assets that does not constitute a business, is recognised only to the extent of unrelated investor's interests in the associate or joint venture.

The IASB deferred the effective date of this amendment for an indefinite term, but early application is permitted. The amendment is not expected to have an impact on the Bank's financial statements.

- Amendments to IFRS 3 *Business Combination*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

The amendments are applicable for the periods beginning on or after 1 January 2020, early application is permitted. The amendment is not expected to have an impact on the Bank's financial statements.

- Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: recognition and measurement* and IFRS 7 *Financial Instruments: Disclosures*

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 to address the implications for certain hedge accounting requirements related to the uncertainties arising from the market-wide reform of several interest rate benchmarks (referred to as 'IBOR reform'). As a result of the IBOR reform, there may be uncertainties about: a) the interest rate benchmark designated as a hedged risk and/or b) the timing or amount of the benchmark-based cash flows of the hedged item or the hedging instrument, during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an 'RFR'). The amendments modify certain hedge accounting requirements under IAS 39 or IFRS 9 to provide temporary reliefs from the potential effect of uncertainty, during the transition period. These reliefs are related mainly to the highly probable requirement for the cash flows hedges, the compliance with the identifiable nature of the risk component and the application of prospective and retrospective effectiveness tests.

The IASB addresses the IBOR reform and its potential effects on financial reporting in two phases. These amendments conclude phase one that focuses on hedge accounting issues affecting financial reporting in the period before the interest rate benchmark reform, while the second phase focuses on potential issues that might affect financial reporting once the existing rates are replaced with an RFR. The amendment is not expected to have an impact on the Bank's financial statements.

5 Cash and cash equivalents

Cash and cash equivalents are as follows:

<i>(in thousands of UAH)</i>	31 December 2019	31 December 2018
Cash	1 119	565
Balances with the NBU (including for mandatory reserves)	90 453	99 877
Deposit certificates of the NBU	1 660 646	625 919
Total cash and cash equivalents	1 752 218	726 361

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 2019 amounted to UAH 90,252 thousand (as at 31 December 2018 amounted to UAH 118,468 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 2019 and 31 December 2018.

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

<i>(in thousands of UAH)</i>	31 December 2019	31 December 2018
Cash	1 119	565
Balances with the NBU	90 453	99 877
Correspondent accounts with other banks	479 913	387 228
Deposit certificates of NBU overnight	708 000	475 000
Total	1 279 485	962 670

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>	31 December 2019	31 December 2018
Due to other banks in settlements	-	541 827
Term deposit certificates of NBU	950 000	150 000
Total	950 000	691 827

6 Due from other banks

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

<i>(in thousands of UAH)</i>	31 December 2019	31 December 2018
Correspondent accounts		
banks in OECD countries	479 889	913 056
banks in non OECD countries	24	15 998
Ukrainian banks	-	-
Total cash and cash equivalents due from other banks	479 913	929 054
Provision for impairment	(303)	(533)
Total cash and cash equivalents due from other banks less provision for impairment	479 610	928 521

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>	31 December 2019	31 December 2018
Correspondent accounts		
banks rated from BBB- to BBB+	479 889	913 056
unrated banks	24	15 998
Total due from other banks	479 913	929 054

The movement in provision for impairment as at 31 December 2019 and 31 December 2018 is as follows:

<i>(in thousands of UAH)</i>	Due from other banks	Total
Balance as at 01 January 2018	158	158
Increase/(decrease) in provision for impairment	375	375
Balance as at 31 December 2018	533	533
Increase/(decrease) in provision for impairment for	(230)	(230)
Balance as at 31 December 2019	303	303

Correspondent account due from unrated Bank is represented by balances due from the related party as at 31 December 2019 and as at 31 December 2018.

As at 31 December 2019, cash and cash equivalents due from one bank amount to UAH 387,410 thousand or 80.7% of the total cash and cash equivalents (31 December 2018: UAH 841,925 thousand or 90.6% respectively).

7 Loans and advances to customers

Loans and advances to customers are as follows:

<i>(in thousands of UAH)</i>	31 December 2019	31 December 2018
Corporate loans	475 586	1 849 975
Provisions for (expected) credit losses	(136)	(1 183)
Total loans less provisions	475 450	1 848 792

Analysis of changes in provisions for loans for 2019 and 2018 is as follows:

<i>(in thousands of UAH)</i>	Corporate loans
Balance as at 01 January 2018	59
Increase/(decrease) in provision for impairment	1 124
Balance as at 31 December 2018	1 183
Increase/(decrease) in provision for impairment	(1 047)
Balance as at 31 December 2019	136

Loan structure by sectors of economic activities is as follows:

<i>(in thousands of UAH)</i>	31 December 2019	%	31 December 2018	%
Trade	475 586	100.00%	1 412 766	76.37%
Production	-	-	437 209	23.63%
Gross loans and advances to customers	475 586	100.00%	1 849 975	100.00%

Information on collateral as at 31 December 2019:

<i>(in thousands of UAH)</i>	Corporate loans
Unsecured loans	118 889
Loans collateralised by: investment banks guarantees	356 697
Gross loans and advances to customers	475 586

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

Information on collateral as at 31 December 2018:

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

Analysis of credit quality of loans as at 31 December 2019 is as follows:

(in thousands of UAH)

	Corporate loans
Not past due:	
Large borrowers	475 586
Provision for impairment	(136)
Net loans	475 450

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

(in thousands of UAH)

	Corporate loans
Not past due:	
Large borrowers	1 849 975
Provision for impairment	(1 183)
Net loans	1 848 792

Effect of collateral value on credit quality as at 31 December 2019:

(in thousands of UAH)

	Carrying amount	Expected cash flow from collateral	Effect of collateral
Corporate loans	475 586	356 697	118 889
Provision for impairment	(136)	-	(136)
Total loans and advances to customers less provisions	475 450	356 697	118 753

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

(in thousands of UAH)

	Carrying amount	Expected cash flow from collateral	Effect of collateral
Corporate loans	1 849 975	1 585 707	264 268
Provision for impairment	(1 183)	-	(1 183)
Total loans and advances to customers less provisions	1 848 792	1 585 707	263 085

During the years ended 31 December 2019 and 31 December 2018, the Bank has not received any assets as a result of imposition on foreclosure.

8 Fixed, intangible and right-of-use assets

A summary of movements in fixed, intangible and right-of-use assets for the year ended 31 December 2019 is as follows:

<i>(in thousands of UAH)</i>	Machinery and equipment	Instruments, fixtures and furniture	Other non-current tangible assets	Intangible assets	Capital investments	Right-of-use assets (buildings)	Right-of-use assets (vehicles)	Total
Historical cost								
01 January 2018	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
Effect of transition to IFRS								
16 Leases	-	-	-	-	-	31 172	2 256	33 428
Additions	2 614	40	42	1 224	3 857	-	-	7 777
Disposal	(385)	-	-	-	(3 921)	-	-	(4 306)
31 December 2019	14 547	2 103	4 542	4 383	-	31 172	2 256	59 002
Depreciation								
01 January 2018	(3 446)	(707)	(302)	(2 360)	-	-	-	(6 815)
Depreciation charge	(2 304)	(323)	(285)	(308)	-	-	-	(3 220)
31 December 2018	(5 750)	(1 030)	(587)	(2 668)	-	-	-	(10 035)
Depreciation charge	(2 481)	(324)	(377)	(315)	-	(6 415)	(890)	(10 803)
Disposal	385	-	-	-	-	-	-	385
31 December 2018	(7 846)	(1 354)	(964)	(2 983)	-	(6 415)	(890)	(20 452)
Net carrying amount:								
01 January 2018	7 820	1 310	2 768	578	1 046	-	-	13 522
31 December 2018	6 568	1 033	3 913	490	64	-	-	12 068
31 December 2019	6 700	749	3 578	1 400	-	24 757	1 366	38 550

The Bank has no property and equipment which ownership, use and disposal is restricted by law, pledged property, equipment and intangible assets; property and equipment temporarily out of use or disposed of. There are no intangible assets subject to restrictions of ownership rights or intangible assets self-designed by the Bank. During the reporting period there were 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 2019, historical cost of fully depreciated property and equipment amounts to UAH 1,414 thousand.

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

9 Other assets

Other assets are as follows:

<i>(in thousands of UAH)</i>	31 December 2019	31 December 2018
Prepayments for goods and services	1 433	3 507
Accounts receivable from taxes and mandatory payments other than income tax	-	197
Accrued fee and commission income	97	156
Accounts receivable from payments to employees	3	6
Total other assets	1 534	3 866
Provision for impairment	(94)	(957)
Total other assets less provision for impairment	1 440	2 909

Analysis of changes in provisions for other assets for 2019 and 2018 is as follows:

<i>(in thousands of UAH)</i>	Prepayments for services	Other assets	Total
Balance as at 01 January 2018	8	78	87
Increase/(decrease) of provision for impairment	898	26	923
Write-off of bad debts	-	(53)	(53)
Balance as at 31 December 2018	906	51	957
Increase/(decrease) of provision for impairment	(873)	10	(863)
Write-off of bad debts	-	-	-
Balance as at 31 December 2019	33	61	94

10 Due to customers

Due to customers are as follows:

<i>(in thousands of UAH)</i>	31 December 2019	31 December 2018
Corporate clients		
Current accounts	928 265	1 395 486
Term deposits	1 399 898	1 737 468
Total due to customers	2 328 163	3 132 954

Current accounts include accounts payable on transactions with customers.

Due to customers distributed by sectors of economic activities as at 31 December 2019 are as follows:

<i>(in thousands of UAH)</i>	31 December 2019	%
Trade	1 417 484	60,88%
Processing industry	507 448	21,80%
Professional, scientific and technical activities	144 437	6,20%
Information and telecommunication	79 396	3,41%
Administrative and support services	61 091	2,62%

<i>(in thousands of UAH)</i>	31 December 2019	%
Financial and insurance activity	57 441	2,47%
Construction	33 877	1,46%
Transport	13 779	0,59%
Other	13 210	0,57%
Total due to customers	2 328 163	100.00%

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

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

As at 31 December 2019, account balances of 10 largest customers amount to UAH 1,423,244 thousand, or 61.1% of the Bank's total amount due to customers (31 December 2018: UAH 2,278,837 thousand, or 72.7% respectively).

As at 31 December 2019 account balances of one largest customer amount to UAH 401,181 thousand, or 17.2% of the Bank's total amount due to customers (31 December 2018: UAH 602,202 thousand, or 26.4% respectively).

11 Provision for credit-related commitments

Changes in provisions for credit-related commitments for 2019 are as follows:

<i>(in thousands of UAH)</i>	Credit related commitments
Balance as at 01 January 2019	54
Increase/(decrease) of provision for impairment	56
Balance as at 31 December 2019	110

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

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

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>	31 December 2019	31 December 2018
Accounts payable for administrative and IT services	13 059	8 590
Accounts payable at settlements with the Bank's employees	4 479	5 762
Accounts payable for taxes and mandatory payments other than income tax	2 172	1 461
Accrued expenses for others services	1 646	1 578
Deferred income	29	80
Other liabilities*	126	-
Total other liabilities	21 511	17 471

* Other liability as at 31 December 2019 in the amount of UAH 126 thousand is the balance of account #3720 "Amounts for clarification".

13 Share capital

<i>(in thousands of UAH)</i>	Number of shares outstanding	Ordinary shares price
Balance as at 01 January 2018	228 666	301 839
Balance as at 31 December 2018	228 666	301 839
Balance as at 31 December 2019	228 666	301 839

As at 31 December 2019, 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 2019 is as follows:

<i>(in thousands of UAH)</i>	<i>Note</i>	Less than 12 months	Over 12 months	Total
ASSETS				
Cash and cash equivalents	5	1 752 218	-	1 752 218
Due from other banks	6	479 610	-	479 610
Loans and advances to customers	7	475 450	-	475 450
Deferred tax asset	18	1 087	-	1 087
Fixed assets, right-of-use assets	8	858	36 292	37 150
Intangible assets	8	77	1 323	1 400
Other assets	9	1 440	-	1 440
Total assets		2 710 740	37 615	2 748 355
LIABILITIES				
Due to customers	10	2 328 163	-	2 328 163
Current income tax liability		2 286	-	2 286
Provision for credit related commitments	11	110	-	110
Lease liabilities		7 212	19 031	26 243
Other liabilities	12	21 511	-	21 511
Total liabilities		2 359 282	19 031	2 378 313

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

<i>(in thousands of UAH)</i>	<i>Note</i>	Less than 12 months	Over 12 months	Total
ASSETS				
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
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
Total assets		3 508 135	11 804	3 519 939
LIABILITIES				
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
Total liabilities		3 154 416	-	3 154 416

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>	2019	2018
Interest income:		
Deposits in other banks	7 016	1 645
NBU deposit certificates	56 637	61 592
Loans and advances to customers	237 422	214 924
Total interest income	301 075	278 161
Interest expense:		
Term deposits of other banks	(9 793)	(855)
Corporate current accounts	(11 886)	(6 157)
Corporate term deposits	(143 102)	(134 748)
Lease liabilities	(289)	-
Total interest expenses	(165 070)	(141 760)
Net interest income	136 005	136 401

16 Fee and commission income and expenses

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

<i>(in thousands of UAH)</i>	2019	2018
Fee and commission income	26 282	24 054
Fee and commission expenses	(8 291)	(5 889)
Net fee and commission income	17 991	18 165

<i>(in thousands of UAH)</i>	2019	2018
Net fee and commission income:		
Cash and cash transactions	912	1 068
Foreign currency transactions for customers	20 408	20 127
Guarantees issued/received	(3 926)	(3 842)
Other	597	812
Net fee and commission income	17 991	18 165

17 Trading income

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

<i>(in thousands of UAH)</i>	2019	2018
Trading income:		
Gains/losses from trading in foreign currency	9 656	7 616
Gains/losses from transactions with derivatives	1 409	20
Gains/losses from foreign currency revaluation	(1 391)	(181)
Net trading income	9 674	7 454

In order to match presentation of information for the current reporting period, presentation of information for 2018 has been changed, as follows: line "Gains/losses from trading in foreign currency" in the amount of UAH 7 636 thousand was split into lines "Gains/losses from trading in foreign currency" and "Gains/losses from transactions with derivatives".

18 Administrative and other operating expenses

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

<i>(in thousands of UAH)</i>	2019	2018
IT expenses	11 592	6 543
Operating lease and maintenance of property and equipment*	11 544	13 535
Consultancy, legal and other professional services	12 712	14 600
Telecommunication expenses	2 909	3 001
Management	7 408	7 096
Other employee expenses (other than maintenance costs)	1 058	1 234
Taxes and other mandatory payments, other than income tax	4 797	5 103
Expenses on Supervisory Board	4 522	4 074
Marketing and representative expenses	2 909	2 251
Other expenses	699	619
Total administrative and other operating expense	60 150	58 056

* Short-term lease and lease of low value assets expenses in 2019 amounted to UAH 8 thousand, and in 2018 - UAH 8 thousand.

19 Taxation

The statutory income tax rate in 2019 and thereafter is 18 %.

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

<i>(in thousands of UAH)</i>	2019	2018
Current tax expense	(13 246)	(12 213)
Deferred tax expense	(191)	346
Total income tax expense	(13 437)	(11 867)

a) Reconciliation of effective tax rate

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

(in thousands of UAH)

	31 December 2019	%	31 December 2018	%
Profit before tax	58 129	100%	54 154	100%
Income tax at the applicable tax rate	(10 463)	18%	(9 748)	18%
Non-deductible income and expenses	(2 974)	5,1%	(2 119)	3,9%
Total income tax expenses	(13 437)	23,1%	(11 867)	21,9%

6) 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 2019 and as at 31 December 2018.

Movements in recognised deferred tax assets and liabilities during the year ended 31 December 2019 are as follows:

(in thousands of UAH)	Balance as at the beginning of the year	Recognised in profits/ losses	Recognised in other comprehensiv e income	Balance as at the end of the year
Accrued income (expenses)	1 096	(46)	-	1 050
Provision for credit related commitments	10	10	-	20
Provisions for other assets	172	(155)	-	17
Net deferred tax asset (liability)	1 278	(191)	-	1 087

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

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

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 2019 and 2018. The Bank has no potential ordinary dilutive shares.

(in thousands of UAH)

	2019	2018
Profit for the period owned by holders of the Bank's ordinary shares	44 692	42 287
Average number of outstanding shares for the period (thousand shares)	228 666	228 666
Basic and diluted earnings per ordinary share (UAH)	0.20	0.18

21 Dividends

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

In 2019, according to shareholders' decision, the Bank directed part of the profit for 2018 for distribution of dividends in the amount of UAH 40,173 thousand.

The movement in dividends is as follows:

(in thousands of UAH)

	<u>Ordinary shares</u>
Dividends	
Balance as at 1 January 2018	-
Dividends on decision to pay during the year	36 167
Dividends paid	(34 359)
Tax paid on dividends	(1 808)
Balance as at 31 December 2018	-
Dividends on decision to pay during the year	40 173
Dividends paid	(38 164)
Tax paid on dividends	(2 009)
Balance as at 31 December 2019	-

22 Risk management

Risk management is fundamental for the banking business and is an essential element of the Bank's operations. The Bank assesses the complex of the following risks: credit exposure risk, market risk (inclusive of interest and currency risks), 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, analyse, 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 impairment of 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;
- 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 2019 the Bank complied with the credit risk ratios. As at 31.12.2019 the ratios were as follows (according to the form 6DX): H7 = 20.60%; H8 = 35.91%; H9 = 7.44% (As at 31.12.2018 (according to the form 611): H7 = 20.13%; H8 = 105.65%; H9 = 16.81%).

Analysis of changes in provisions for loans for the years ended 31 December 2019 and 31 December 2018 is as follows:

<i>(in thousands of UAH)</i>	Corporate loans	Due from other banks	Credit related commitments	Prepayments for services	Other assets	Total
Balance as at 1 January 2018	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)
Balance as at 31 December 2018	1 183	533	54	906	51	2 727
Increase/(decrease) of provision for impairment	(1 047)	(231)	56	(873)	10	(2 085)
Balance as at 31 December 2019	136	303	110	33	61	642

(b) Market (currency) risk

The risk of financial losses and probability of capital decrease associated with changes in the exchange rates, unfavourable for (opposing) existing open currency positions, change in value of securities 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 the 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:

	31 December 2019			31 December 2018		
	monetary assets	monetary liabilities	net position	monetary assets	monetary liabilities	net position
USD	92 480	92 501	(21)	71 088	71 209	(121)
EURO	387 758	384 986	2 772	843 037	840 929	2 108
Total	480 238	477 487	2 751	914 125	912 138	1 987

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.

	2019		2018	
	Profit or loss	Equity	Profit or loss	Equity
50% appreciation of USD against UAH	(8)	(8)	(50)	(50)
50% appreciation of EUR against UAH	1 136	1 136	864	864

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.

The Bank does not have a securities portfolio.

(c) 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 case of assets and liabilities maturity mismatch;
- yield curve risk that arises from unfavourable 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 specific feature of this process is the limited administrative capacity. Asset management is limited by:

- the liquidity requirements and credit risk of portfolio of the Bank's assets;
- price competition from other banks, which limits freedom in the Bank's choice of loan pricing.
- the client's appetites for credit 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 Bank's planned profitability considering its liquidity position.

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

Interest rate risk management includes using of Sensitivity (sensitivity to interest risk) and Gaps (open interest gaps) models.

Management process involves daily monitoring of Sensitivity limits and monthly monitoring of open Gaps.

Derivatives (Forwards and Swaps in foreign currency) are carried at fair value through profit or loss, but as at the end of 2019 the Bank did not have such instruments, thus a change in interest rates at the reporting date would not affect profit or loss.

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

	2019			2018		
	Average effective interest rate, %			Average effective interest rate, %		
	UAH	USD	EURO	UAH	USD	EURO
Interest bearing assets						
Cash and cash equivalents due from other banks	-	3.11%	0.96%	-	1.88%	-
NBU deposit certificates	15.45%	-	-	15.31%	-	-
Loans to other banks	16.29%					
Loans and advances to customers	17.33%	-	-	18.34%	-	-
Interest bearing liabilities						
Overnight loans, due to banks	16.73%			17.53%		
Due to customers:						
Current accounts	7.81%	-	-	4.54%	-	-
Term deposits	15.43%	-	-	15.43%	-	-
Liabilities of a lessee	0.97%	-	-	-	-	-

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.

(d) Geographical risk

Geographical concentration of financial assets and liabilities as at 31 December 2019 is as follows:

<i>(in thousands of UAH)</i>	Ukraine	OECD countries	Other countries	Total
Assets				
Cash and cash equivalents	1 752 218	-	-	1 752 218
Due from other banks	-	479 587	23	479 610
Loans and advances to customers	475 450	-	-	475 450
Other assets	48	-	49	97
Total financial assets	2 227 716	479 587	72	2 707 375
Liabilities				
Due to customers	2 328 163	-	-	2 328 163
Provision for credit related commitments	108	2	-	110
Other financial liabilities	126	-	-	126
Total financial liabilities	2 328 397	2	-	2 328 399
Net balance sheet position on financial instruments	(100 681)	479 585	72	378 976

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

<i>(in thousands of UAH)</i>	Ukraine	OECD countries	Other countries	Total
Assets				
Cash and cash equivalents	726 361	-	-	726 361
Due from other banks	-	912 533	15 988	928 521
Loans and advances to customers	1 848 792	-	-	1 848 792
Other assets	6	101	49	156
Total financial assets	2 575 159	912 635	16 036	3 503 830
Liabilities				
Due to customers	3 132 954	-	-	3 132 954
Provision for credit related commitments	49	5	-	54
Total financial liabilities	3 133 003	5	-	3 133 008
Net balance sheet position on financial instruments	(557 844)	912 630	16 036	370 822

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.

(e) 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. The Bank set up certain sufficient liquidity limits for the following terms: overnight, week and month. In addition, the Bank controls its compliance with the mandatory provisioning ratios for borrowings on correspondent accounts, economic ratios established by the National Bank of Ukraine, as well as internal regulation requirements. Important instrument for effective liquidity management is using the methods for analysis of maturity balances between active deposited and borrowed funds and cash flow projections.

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

During 2019 the Bank complied with requirements on liquidity ratios. As at 31.12.2019 the ratios were as follows (according to form 611): H6 = 115.26% (as a 31.12.2018 according to form 6DX, H6 = 136.14%)

The undiscounted cash flows from financial liabilities, including future interest payments, by maturity as at 31 December 2019 is as follows:

<i>(in thousands of UAH)</i>	On demand and less than 1 month	From 1 month to 1 year	More than 1 year	Total	Carrying amount
Due to customers:					
Corporates	2 101 626	226 537		2 328 163	2 328 163
Provision for credit related commitments	-	110		110	110
Lease liabilities	601	6 611	19 031	26 243	26 243
Total potential future payments under financial liabilities	2 102 227	233 258	19 031	2 354 516	2 354 516

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

(f) 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:

- determination of Risk Appetite;
- 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.

Operational risk appetite for 2019, EUR		Q 1	Q 2	Q 3	Q 4
Annual level	8 000	-	58	4 825	21 412
Quarterly level	2 000	-	58	4 767	16 587

At the end of the year, the Bank exceeded its risk appetite level by EUR 13 thousand due to several significant operational cases:

- failure to withdraw customer commissions due to human factors;
- loss of income due to non-placement of free liquidity in NBU deposit certificates.

23 Capital management

Capital management main objective is to maintain the Bank's capital at a level sufficient for effective day-to-day operation and to ensure strategic development of the banking business while complying with NBU capital adequacy requirements. 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 131.54% (31 December 2018: 85.08%) with the minimum established ratio is 10%.

Regulatory capital of the Bank is as follows (according to form 6DX excluding corrective postings per year):

(in thousands of UAH)

	31 December 2019	31 December 2018
Primary capital		
Share capital actually paid	301 839	301 839
Disclosed reserves, formed or increased by retained earnings:	23 511	21 397
General reserves and reserve funds formed under the laws of Ukraine	23 511	21 397
Reduction in primary capital	(1 400)	(554)
Intangible assets less depreciation	(1 400)	(490)
Capital investments in intangible assets	-	(64)
Primary capital (1-tier capital)	323 951	322 682
Calculated profit for current year	43 687	42 882
Profit of previous years	(36 486)	(81 621)
Uncovered credit risk	(39)	-
Additional capital (2-tier capital)	7 162	(38 739)
Total regulatory capital	331 113	283 943

24 Contingencies

a) Litigations

As at 31 December 2019 the Bank has no litigations in progress.

The Bank recognised no provisions for potential losses from litigations.

6) 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.

b) Credit-related commitments

As at the reporting date the Bank did not have pledged assets or assets restricted for ownership, use or distribution.

Credit-related commitments are as follows:

(in thousands of UAH)

	31 December 2019	31 December 2018
Revocable:		
Undrawn credit lines	3 543 824	2 224 917
Total revocable liabilities	3 543 824	2 224 917
Irrevocable:		
Guarantees issued	30 370	55 275
Import letters of credit	6 544	-
Total irrevocable liabilities	36 914	55 275
Total	3 580 738	2 280 192

Credit-related commitments by currency are as follows:

(in thousands of UAH)	31 December 2019	31 December 2018
UAH	768 150	150 025
USD	797 739	774 173
EURO	2 014 849	1 355 994
Total	3 580 738	2 280 192

25 Fair value of financial instruments

a) Classifications and fair values

Carrying amounts and fair values of financial assets and financial liabilities by measurement category as at 31 December 2019 are as follows:

(in thousands of UAH)

	Loans and receivables	Other assets/liabilitie s at amortised cost	Carrying amount	Fair value
Cash and cash equivalents	1 752 218		1 752 218	1 752 218
Due from other banks	479 610		479 610	479 610
Loans and advances to customers	475 450		475 450	475 450
Other assets	97		97	97
Total assets	2 707 375	-	2 707 375	2 707 375
Due to customers		2 328 163	2 328 163	2 328 163
Provision for credit related commitments		110	110	110
Total liabilities	-	2 328 273	2 328 273	2 328 273

Carrying amounts and fair values of financial assets and financial liabilities by measurement category as at 31 December 2018 are as follows:

(in thousands of UAH)

	Loans and receivables	Other assets/liabilitie s at amortised cost	Carrying amount	Fair value
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
Total assets	3 503 830	-	3 503 830	3 503 830
Due to customers		3 132 954	3 132 954	3 132 954
Provision for credit related commitments		54	54	54
Total liabilities	-	3 133 008	3 133 008	3 133 008

As at 31 December 2019 and 31 December 2018 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 measurement 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 2019:

(in thousands of UAH)

	Level 1	Level 2	Level 3	Fair value	Carrying amount
Cash and cash equivalents		1 752 218		1 752 218	1 752 218
Due from other banks		479 610		479 610	479 610
Loans and advances to customers			475 450	475 450	475 450
Other financial assets			97	97	97
Total assets	-	2 231 828	475 547	2 707 375	2 707 375
Due to customers		2 328 163		2 328 163	2 328 163
Provision for credit related commitments			110	110	110
Total liabilities	-	2 328 163	110	2 328 273	2 328 273

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)

	Level 1	Level 2	Level 3	Fair value	Carrying amount
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 financial assets			156	156	156
Total assets	-	1 654 882	1 848 948	3 503 830	3 503 830
Due to customers		3 132 954		3 132 954	3 132 954
Provision for credit related commitments			54	54	54
Total liabilities	-	3 132 954	54	3 133 008	3 133 008

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 2019:

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	475 450	Discounted cash flow	Risk adjusted discount rate	Interest rates 11.50%-25.00%	The reduction in interest rates leads to 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 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 increase in fair value

During the years ended 31 December 2019 and 2018 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 2019 and 2018 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 2019 and 31 December 2018, the Bank has no subsidiaries, associates, or joint ventures where the Bank has control relationship.

Balances of transactions with related parties as at 31 December 2019 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control	Key management personnel
Due from other banks	387 410	92 502	-
Other liabilities (on demand, denominated in EUR)	3 536	9 524	-
Provisions for off-balance sheet liabilities	-	2	-

As at 31 December 2019 balances due from banks related to transactions with related parties represent call deposits.

As at 31 December 2019 , balances due from banks related to transactions with related parties by currency are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
USD	-	92 479
EURO	387 400	-
RUB	-	23
Other	10	-
Total	387 410	92 502

Other rights and commitments on transactions with related parties as at 31 December 2019 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
Guarantees received	-	1 027 336
Guarantees issued	-	24 621

Income and expenses on transactions with related parties for the year ended 31 December 2019 are as follows:

(in thousands of
UAH)

	Parent company	Key management personnel	Other related parties	Entities under common control
Interest income	5 192	-	-	1 465
Interest expense	(1 481)	-	-	-
Gains less losses from trading foreign currencies	-	-	-	(425)
Commission income	205	-	-	530
Commission expense	(217)	-	-	(8 071)
Administrative and other operating expenses	(6 606)	(18 084)	(4 040)	(9 197)
Other operating income	257	-	-	-

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

(in thousands of UAH)

	Parent company	Entities under common control	Key management personnel
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:

(in thousands of UAH)

	Parent company	Entities under common control
USD	-	71 131
EURO	841 914	-
RUB	-	15 998
Other	11	-
Total	841 925	87 129

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

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
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:

<i>(in thousands of UAH)</i>	Parent company	Key management personnel	Other related parties	Entities under common control
Interest income	22	-	-	1 073
Interest expense	(157)		-	
Gains less losses from trading foreign currencies	-	-	-	4 234
Commission income	-	-	-	330
Commission expense	(181)	-	-	(5 672)
Administrative and other operating expenses	(4 386)	(16 834)	(3 853)	(6 811)

To correspond the presentation of information in the current reporting period, the presentation of information for 2018 has been changed as follows: the column "Other related parties" has been added and the total balance in line "Administrative and other operating expenses" was split between "Key management personnel" in the amount of UAH 20,687 thousand and "Other Related Parties" columns.

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

<i>(in thousands of UAH)</i>	As at and for the year ended 31 December 2019		As at and for the year ended 31 December 2018	
	expenses	accrued liability due	expenses	accrued liability due
Payments to key management personnel	18 084	1 269	16 834	1 723

27 Subsequent events

In March 2020, the Bank received a notice from the lessor regarding early termination of the lease of the main office premises located at the following address: Kyiv, Lavrska street 20; the notice defined a 6-month term for relocating the office. The Bank is currently exploring the legal justification for the early lease termination notice and is considering potential options for new office premises to change location. Early termination of the lease agreement may result in the write-off of part of the assets and liabilities on the Bank's balance sheet as at 31 December 2019. This may include writing-off the right-of-use asset for office premises and the lease liability of a lessee in the amounts of UAH 24.3 million and 24.5 million, respectively. In

addition, the Bank has previously identified fixed assets, integrated into the leased premises, with a residual value of approximately UAH 5 million as of the end of 2019, which will also be written off in the event of lease termination. The list of fixed assets identified is not exhaustive and may be expanded by the results of a detailed relocation plan.

In the first quarter of 2020, a coronavirus epidemic began to spread worldwide, which WHO announced a pandemic in March 2020. The severe quarantine measures imposed by the majority of leading and developing countries have led to a sharp recession in global and Ukrainian economy. It is now extremely difficult to predict the course of events, the depth and timelines of economic crisis. Management believes that the Bank is well positioned to face the economic downturn due to conservative risk management strategy (for details, see Note 22, Risk Management). The Bank's priorities are to ensure its operation as a going concern and to protect its employees and clients. As at the beginning of 2020, the Bank's strategy remained unchanged. However, given the growing risks in the banking system of Ukraine, management is exploring the need to revise its strategy in the light of new economic realities.