

**PUBLIC JOINT-STOCK COMPANY
JOINT STOCK BANK “UKRGASBANK”**

Management report

Financial statements

*for the year ended 31 December 2019,
together with independent auditor's report*

Translation from Ukrainian

Content

Management report

Independent auditor's report

Statement of financial position.....	1
Statement of profit or loss and other comprehensive income.....	2
Statement of changes in equity	4
Statement of cash flows (the direct method)	5

Notes to the financial statements

1. General information	6
2. Operating environment and going concern.....	6
3. Basis of preparation	7
4. Summary of accounting policies	10
5. Significant accounting judgments and estimates	25
6. Segment information.....	26
7. Cash and cash equivalents	29
8. Due from credit institutions.....	30
9. Derivative financial instruments	31
10. Loans to customers and financial leases.....	32
11. Investments measured at fair value through other comprehensive income	39
12. Investment property	40
13. Property and equipment and intangible assets.....	41
14. Right-of-use assets and lease liabilities	42
15. Other property	42
16. Taxation	43
17. Provisions for legal risks.....	44
18. Other assets and liabilities	45
19. Due to the National Bank of Ukraine	47
20. Due to credit institutions.....	48
21. Due to customers.....	48
22. Equity.....	49
23. Commitments and contingencies.....	51
24. Net fee and commission income.....	55
25. Net gains on foreign exchange operations and precious metals.....	55
26. Other income.....	55
27. Changes in expected credit losses on other assets, other provisions for impairment and provisions for guarantees, commitments and legal risks	56
28. Staff costs and other operating expense.....	57
29. Risk management.....	57
30. Fair value measurements.....	70
31. Analysis of assets and liabilities by maturities	74
32. Related party transactions.....	75
33. Capital adequacy.....	77
34. Changes in liabilities arising from financing activities.....	78
35. Subsequent events	79

Management Report (Report on Management) of JSB “UKRGASBANK”

1. The probable prospects for further development of JSB “UKRGASBANK” (hereinafter referred to as the Bank, too)

The Bank performed in accordance with the Measures of Strategic Reform of the Public Banking Sector (Strategic Principles) (hereinafter referred to as the Measures), Strategy of JSB “UKRGASBANK” for 2019 - 2021 (hereinafter referred to as the Strategy).

The Strategy of the Bank foresees the establishment of the investment-attractive Bank with maximum value and further withdrawal of the State from the capital of the Bank by way of privatization. The Bank shall focus its efforts on the strengthening of strong sides and positions of the Bank on the market aiming at application of new possibilities in business, with this ensuring the sustainable level of profitability as compared with the best players at the market.

In November 2019, the Board of the International Finance Corporation, which is a part of the World Bank Group, adopted the decision to grant an equity convertible loan to JSB “UKRGASBANK”. As of today, the Ministry of Finance of Ukraine and the Bank continue negotiating the structure of the agreement and preparation of the documents.

It is expected that the relevant agreements between the International Financial Corporation, Ministry of Finance of Ukraine and the Bank will be concluded, providing the partial exit of the State from the capital of JSB “UKRGASBANK” and, in its turn, will give impetus for further privatization of the Bank by attracting a strategic investor.

Considering the challenges posed by the spread of coronavirus infection around the world and the introduction of quarantine restrictions, the Bank plans to maintain its position in three key business areas, specifically: small and medium businesses, corporate banking, retail and alternative sales channels.

Small and Medium Business

It is planned to increase the customer’s base on the account of the development of alternative sales channels, introduction of the digital solutions, development of transaction banking, optimization of the credit processes, improvement of the business analytics, creation of the targeted client products and programs, increasing attention to the micro segment, activating the existing customer base.

Corporate Business

Today, the corporate banking is the largest segment of the Bank in terms of the business scope. The Bank will direct its activities to the increasing of the share of the private sector and to reducing of the share of public sector enterprises. In corporate segment, the Bank shall also develop the transaction banking by way of increasing the scopes of transactions with the use of documentary letters of credit, guarantees/reserved letters of credit, documentary collection, and trade credit agreements, etc.

Retail Business and Alternative Sales Channels

The Bank plans to increase the customer base by way of attracting the economically active population of working age. Digital solutions shall be introduced for servicing of the larger number of customers. On the account of own processing center, there is a possibility of performing prompt adjustment and targeting of card products. Synergy with small and medium business and corporate banking for the pay roll programs is planned.

2. Information on the Development of JSB “UKRGASBANK”

As of 01 January 2020, 75 banks have been performing in Ukraine, out of them 35 banks are the banks with foreign capital. JSB “UKRGASBANK” is a part of the bank group with the State share. It ranks the 4th as per the amount of assets.

Year 2019 was successful for the banking sector – the profitability of the banks were the highest for the entire period of its activity (59.6 billion UAH). The return on equity in the sector reached 34%.

This was made possible by both the rapid increase in operating income and the lowest contribution to asset reserves in decades. In 2019, due to the inflation slowdown, the NBU discount rate cycle began decreasing. Banking deposit and loan rates had also started to decline. However, this has not yet contributed to the rapid growth of banks' credit portfolio, indicating a lack of quality borrowers. 29 banks, which accounted for more than 90% of the banking system's assets, were stress-tested in 2019, which determined the required (target) level of capital adequacy for banks. Most financial institutions have already taken steps to mitigate risks, or are nearing the required level of capital adequacy.

JSB "UKRGASBANK" in 2019 continued developing as a leading "eco-bank" of Ukraine, focusing on the financing of the projects of the corporate customers, small and medium businesses and private persons related to the technologies of energy efficiency, renewable energy, resource efficiency, pollution reduction, and so on.

As of 01 January 2020 in 154 cities and towns of Ukraine 250 active sales points are available for the customers.

Assets of the Bank as of 01 January 2020 constitute 119 billion UAH, having increased during 2019 on 37 billion UAH or on 45%.

- Credit portfolio of the customers – 39.0 billion UAH, including:
 - Credit portfolio of the corporate business constitutes 31.2 billion UAH;
 - Credit portfolio of the small and medium business constitutes 5.0 billion UAH;
 - Credit portfolio of the retail business constitutes 2.8 billion UAH;
- Customer's funds – 103.4 billion UAH, including:
 - Portfolio of the corporate customers' funds constitutes 70.8 billion UAH;
 - Portfolio of the small and medium business customers' funds constitutes 8.2 billion UAH;
 - Portfolio of the retail business' funds constitutes 24.3 billion UAH.

Portfolio of the securities as of 01 January 2020 constitutes 30.4 billion UAH, having increased during 2019 on 11.6 billion UAH or on 62%.

The Bank actively attracted the funding from international financial institutions. Thus, as of 01 January 2020, the portfolio of assets of international financial institutions constitutes 2.5 billion UAH, having increased during 2019 on 0.8 billion UAH.

During 2019, the Bank actively developed trade finance operations. The portfolio of these operations as of 01 January 2020 constitutes 9.8 billion UAH, including open letters of credit for 1.9 billion UAH, received letters of credit for 1.2 billion UAH, securities provided for 2.8 billion UAH, securities received for 2.8 billion UAH, instruments of own liabilities for 1.1 billion UAH.

In the result of 2019, the Bank made the profit of 1 289 mln. UAH.

As of 01 January 2020, the number of the customers of the Bank amounts to 2 136 thousand, including: 2 067 thousand – customers of retail business, 63 thousand – customers of small and medium business, 6 thousand – corporate customers.

As of 01 January 2020, nearly 1 665 thousand payment cards issued by JSB "UKRGASBANK" are in circulation, more than 851 thousand out of them are active. During 2019, the Bank actively continued developing own multi-platform mobile application "ECO Bank" (Garmin Pay, Google Pay and Apple Pay, cashback have been introduced, as well as the possibility to pay the utility bills, and currency exchange transactions, etc.). The number of users of the application exceeded 257 thousands as of the end 2019.

During 2019, the Bank received the following recognitions:

- Became the first Ukrainian bank winning the nomination "CEE's Best Bank for Sustainable Finance 2019" of "Award for Excellence 2019" rating, concluded by a reputable financial publication "Euromoney";
- Winner of nomination "Services to Legal Entities" in "Financial Recognition – 2019" Rating;
- Winner of nominations "SME Support" and "Best Eco-Bank" from Business Magazine;

- Included into TOP-3 of nomination “Best Trade Finance Bank in Eastern Europe in 2019”;
- Became the only Ukrainian bank included into TOP-20 “The Most Successful Ukrainian Brands” (Vlast Deneg Magazine (*Power of Money*));
- For the third consecutive year in the TOP-3 of “Rating of the Most Reliable Banks of Ukraine”, which was presented in the regular issue of “Lichnyi Schet” (*Personal Account*);
- Became the only Ukrainian bank included into TOP-20 of “The Most Innovative Companies of Ukraine” following the rating of Business Edition “Dilova Stolytsya” (*Business Capital*).

The Bank performs in accordance with the Measures of Strategic Reform of the State Banking Sector (strategic principles) (hereinafter referred to as Measures), Main Areas of JSB “UKRGASBANK” Activity for 2018-2019 (hereinafter referred to as Main Areas), in 2018 JSB “UKRGASBANK” Strategy for 2019-2021 (hereinafter referred to as the Strategy) was approved.

Measures, Main Areas and the Strategy define the following strategic objectives:

- Become the leading “Eco-bank” in Ukraine and ensure the funding of the projects in the area of energy effectiveness up to 30% of demand;
- Get prepared for privatization in 2018-2019 within the frames of implementation of Memorandum of Understanding related to support of privatization (sale) of the Bank.

Thus, in the result of the Bank’s activity in accordance with the established objectives for 2019, limits for financing of 30 projects in terms of renewable energy sources, with the general capacity of 259.9 MWt for 83.1 mln. Euro, 0.7 mln. USD and 7.8 mln. UAH were approved, out of which:

- 25 projects – solar power plants, with the general capacity of 149.3 MWt for the amount of 50.1 mln. Euro, 0.7 mln. USD and 7.8 mln. UAH.
- 2 projects – wind power plants, with the general capacity of 109.3 MWt for the amount of 31.3 mln. Euro.
- 2 projects – biogas power plant, with the general capacity of 1.1 MWt for the amount of 1.3 mln. Euro.
- 1 project – small hydro power plant, with the capacity of 0.2 MWt for the amount of 0.4 mln. Euro.

As of 01 January 2020, the credit portfolio of eco-products and other obligations in credit provision of the Bank constitute 15.6 billion UAH.

The Bank complies with the set goals for the withdrawal of the State from capital. In 2019, all the indicative conditions of the Memorandum of Understanding signed between the Ministry of Finance of Ukraine, the Bank and International Finance Corporation were implemented with respect to support to privatization (sale) of the Bank, as related to the conditions dependent on the Bank, specifically:

- Compliance with financial ratios similar to those specified in the Global Trade Financing Agreement is ensured;
- IFC’s environmental and social standards are ensured;
- The credit limit for one of the customers is closed;
- The amount of existing credit risk for state-owned enterprises is reduced;
- Compliance with the mandatory standards of the National Bank of Ukraine is ensured.

3. Information related to conclusion of derivatives or the performance of transactions with respect to derivative securities by the Bank, if it affects the valuation of its assets, liabilities, financial situation and profits or expenses of the Bank, in particular the information about the following:

- 1) Task and policy of the Bank related to the management of the financial risks, including the policy related to insurance of each main type of forecasted operation to which hedging operations are used.

In the course of its ordinary activities, the Bank uses various derivative financial instruments, including forward contracts and swaps in foreign exchange markets, which are concluded predominantly with Ukrainian banks. Derivative instruments are initially recognized at fair value at the date of the contract, after which they are revalued at fair value. All derivative instruments are recognized as assets when their fair value is positive and as liabilities if their fair value is negative. Changes in the fair value of derivative instruments are recognized immediately as a result of transactions with derivative financial instruments of the Profit and Loss Statement and other comprehensive income. The Bank evaluates and calculates the fair value of forward contracts and recognizes its material changes in profit or loss.

Though the Bank performs the trade operations with derivative instruments for the purposes of hedging, these instruments do not meet the criteria of hedging accounting.

Embedded derivative financial instruments

Derivative financial instruments embedded into the composition of other financial instruments or other combined agreements were accounted as individual derivatives if their characteristics and risks are not in tight connection with the main agreement, and the main agreement does not refer to category of financial instruments assessed at fair value through profits or losses.

2) The Bank's exposure to price risks, credit risk, liquidity risk and/or cash flow risk.

Risk appetite of the Bank is determined by Supervisory Board by way of establishment of the risk boundary indices with respect to the following types of risk:

- Credit risk;
- Interest risk;
- Market risk;
- Liquidity risk;
- Operations risk;
- Compliance risk;
- Aggregated risk.

4. Report on Corporate Governance

1) Reference to:

- Own Corporate Governance Code the Bank is guided by:
The decision of General Meeting of Shareholders dated 25 April 2017 (Minutes of Meeting No. 1) approved the Corporate Governance Code of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK "UKRGASBANK", determines the basic principles of corporate governance in JSB "UKRGASBANK", structure of corporate governance, loyalty and responsibility of the Bank's officials, internal control system, information disclosure and transparency in the Bank's activities, environmental liability, etc.
JSB "UKRGASBANK" in its activity strictly adheres to the Code of Corporate Governance of the PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK "UKRGASBANK", provided at the web-address:
https://www.ukrgasbank.com/upload/file/kodeks_ku.pdf.
- Code of corporate governance of the stock exchange, association of legal entities or other code of corporate governance that the Bank has voluntarily decided to apply;
The Bank does not apply code of corporate governance of the stock exchange, association of legal entities or other code of corporate governance.
- All the relevant information related to the practices of corporate governance applied over the requirements established by the legislation;

Corporate government in JSB “UKRGASBANK” is performed in accordance with the requirements of the effective legislation of Ukraine, Corporate Governance Principles approved by decision of National Commission on Securities and Fund Market dated 22 July 2014 No. 955, Methodic recommendations related to corporate governance in the banks of Ukraine approved by decision of Management Board of National Bank of Ukraine dated 03 December 2018 No. 814-пш.

- 2) In case the Bank deviated from the provisions of the Corporate Governance Code, clarifications shall be provided on what parts of corporate governance code are violated and what the reasons are for such violations. In case the Bank made the decision not to apply certain provisions of the corporate governance code described in para 2 and para 3 item 1 of this part, the reasons for that shall be grounded;

The Bank does not violate from the provisions of the Code of Corporate Governance of the PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK “UKRGASBANK” approved by the decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 25 April 2017 (Minutes of Meeting No. 1).

- 3) Information on the General Meeting of Shareholders.

General Meeting Type	Annual	Extraordinary
Date	X	
Quorum of Meeting	99.07503%	
Description	<p><u>List of Issues:</u></p> <ol style="list-style-type: none"> 1. On election of Tabulation Commission of the annual general meeting of shareholders of JSB “UKRGASBANK”. 2. On establishment the procedure of the annual general meeting of shareholders of JSB “UKRGASBANK” holding. 3. On approval of the report of Management Board of JSB “UKRGASBANK” for 2018 and making decision following the review of this report. 4. On approval of annual results of performance (annual report) of JSB “UKRGASBANK” for 2018, review of the report of Supervisory Board of JSB “UKRGASBANK” for 2018, and review of report (conclusions) of external independent auditor and approval of measures based on the results of review of this report. 5. On adoption of the decision following the review of the report by Supervisory Board of JSB “UKRGASBANK” for 2018. 6. On adoption of the decision following the review of the report by Management Board of JSB “UKRGASBANK” for 2018. 7. On approval of the report on remuneration of the members of Supervisory Board of JSB “UKRGASBANK” for 2018. 8. On compensation of losses and distribution of profit of JSB “UKRGASBANK” following the results of the Bank’s activity in 2018. 9. On approval of the amount of annual dividends. 10. On introduction of changes into the Articles of Association of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” by way of approval of its new revision. 11. On introduction of changes into the Regulations on General Meeting of Shareholders of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” by way of approval of its new revision. 12. On introduction of changes into the Regulations on Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” by way of approval of its new revision. 13. On introduction of changes into the Regulations on Management Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” by way of approval of its new revision. 	

	<p>14. On introduction of changes into the Regulations on Shares and Dividend Policy of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” by way of approval of its new revision.</p> <p>15. On approval of the Regulations on Remuneration of the Members of Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”.</p> <p>16. On termination of powers of the Chairperson and Members of Supervisory Board of JSB “UKRGASBANK”.</p> <p>17. On election of members of Supervisory Board of JSB “UKRGASBANK”.</p> <p>18. On election of Chairperson of Supervisory Board of JSB “UKRGASBANK”.</p> <p>19. On approval of the conditions of civil agreements to be awarded with the Chairperson and members of Supervisory Board of JSB “UKRGASBANK”, establishment of the amount of their remuneration, election of a person to be authorized for signing the civil agreements with the Chairperson and Members of Supervisory Board of JSB “UKRGASBANK”.</p> <p><u>Persons who submitted proposals to the list of issues of agenda: None.</u></p> <p><u>Results of review of the issues of agenda:</u></p> <p>Issue 1</p> <ol style="list-style-type: none"> 1. Establish that the Tabulation Commission of JSC “JSB “UKRGASBANK” during the annual general meeting of shareholders of JSB “UKRGASBANK” called for 19 April 2019, shall consist of three (3) persons. 2. Elect the following persons to Tabulation Commission of JSB “UKRGASBANK”: <ul style="list-style-type: none"> – Mrs. Iryna Vasylivna Konoval; – Mrs. Olena Viktorivna Kotsiuba; – Mr. Denis Vadymovych Ivanushkin. 3. Elect Mrs. Iryna Vasylivna Konoval a Head of Tabulation Commission. <p>Issue 2</p> <ol style="list-style-type: none"> 1. Approve the following procedure (regulation) of holding the annual general meeting of shareholders of JSB “UKRGASBANK”: <ul style="list-style-type: none"> – For a report on an issue of agenda up to 15 minutes shall be given; – The questions (proposals) from participants of general meeting shall be handed over to the secretary of general meeting during two minutes from the finish of report on the relevant issue of agenda, exclusively in writing stating the full name including family name, name and patronymic name or full title of entity (representative of a shareholder) initiating the issue (submitting a proposal); – Oral or anonymous questions and proposals, and questions and proposals not included into the agenda shall not be the subject to consideration; – Up to three minutes shall be given for answering to each question received from the participants of general meeting of shareholders of JSB “UKRGASBANK”. <p>Issue 3</p> <ol style="list-style-type: none"> 1. Approve the report and conclusions of Audit Commission of JSB “UKRGASBANK” on the results of audit of financial and economic activity of PUBLILC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” following the results of 2018 fiscal year and reliability of annual financial statements for 2018 attached. <p>Issue 4</p> <ol style="list-style-type: none"> 1. Approve the annual results of activity, specifically annual financial statement (annual report) of JSB “UKRGASBANK” for 2018 attached, composed of the following: <ul style="list-style-type: none"> – Report of Supervisory Board of JSB “UKRGASBANK” for 2018. – Management Report (Report on Management) for 2018. – Annual Financial Statements of JSB “UKRGASBANK” for 2018. 2. Take notice of the report (conclusions) of internal independent auditor (audit company) “Ernst and Young Audit Services” LLC following the results of audit of financial accounting of JSB “UKRGASBANK” for the year that finished on 31 December 2018, including the conclusion of auditor.
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	<p>Issue 5</p> <ol style="list-style-type: none"> 1. Recognize the performance of Supervisory Board of JSB “UKRGASBANK” during 2018 effective and meeting the interests of the shareholders, depositors, investors and promoting the further growth of JSB “UKRGASBANK”. <p>Issue 6</p> <ol style="list-style-type: none"> 1. Recognize the performance of Management Board of JSB “UKRGASBANK” during 2018 effective and meeting the interests of the shareholders, depositors, investors and promoting the further growth of JSB “UKRGASBANK”. <p>Issue 7</p> <ol style="list-style-type: none"> 1. Approve the Report on Remuneration of the Members of Supervisory Board of JSB “UKRGASBANK” for 2018, attached. <p>Issue 8</p> <ol style="list-style-type: none"> 1. Establish the following procedure for distribution of the profit and loss coverage: <ol style="list-style-type: none"> 1.1. To allocate 10% of the amount of profit constituting 76 869 831.72 UAH to the reserve fund of JSB “UKRGASBANK”; 1.2. To cover the losses of previous years with the remaining amount of profit being 691 828 485.52 UAH. <p>Issue 9</p> <ol style="list-style-type: none"> 1. Considering the restrictions established by Article 31 of the Law of Ukraine “On Joint Stock Companies”, do not pay dividends for the shares of JSB “UKRGASBANK” based on the results of 2018. <p>Issue 10</p> <ol style="list-style-type: none"> 1. Introduce the changes into the Articles of Association of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 26 April 2018 (Minutes of Meeting No. 1), and considering the presented changes approve the Articles of Association of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached, and provide it for approval and state registration following the procedure established by the effective legislation of Ukraine. <p>Issue 11</p> <ol style="list-style-type: none"> 1. Introduce the changes into the Regulations on General Meeting of Shareholders of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 26 April 2018 (Minutes of Meeting No. 1), and considering the presented changes approve and make effective from the date of registration by State Registrar of the Articles of Association of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 19 April 2019, the Regulations on General Meeting of Shareholders of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached. <p>Issue 12</p> <ol style="list-style-type: none"> 1. Introduce the changes into the Regulations on Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 26 April 2018 (Minutes of Meeting No. 1), and considering the presented changes approve and make effective from the date of registration by State Registrar of the Articles of Association of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 19 April 2019, the Regulations on Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached. <p>Issue 13</p> <ol style="list-style-type: none"> 1. Introduce the changes into the Regulations on Management Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 26 April 2018 (Minutes
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	<p>of Meeting No. 1), and considering the presented changes approve and make effective from the date of registration by State Registrar of the Articles of Association of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 19 April 2019, the Regulations on Management Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached.</p> <p>Issue 14</p> <p>1. Introduce changes into the Regulations on Shares and Dividend Policy of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 26 April 2018 (Minutes of Meeting No. 1), and considering the presented changes approve and make effective from the date of registration by State Registrar of the Articles of Association of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 19 April 2019, the Regulations on Shares and Dividend Policy of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached.</p> <p>Issue 15</p> <p>1. Approve the Regulations on Remuneration of the Members of Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, attached.</p> <p>Issue 16</p> <p>1. Terminate from 19 April 2019 the powers of the Chairman and members of Supervisory Board of JSB “UKRGASBANK”:</p> <ol style="list-style-type: none"> 1.1. Shrenik Davda – the Chairman of Supervisory Board of JSB “UKRGASBANK”, independent member of Supervisory Board of JSB “UKRGASBANK”. 1.2. Artem Valentynovych Shevaliov – member of Supervisory Board of JSB “UKRGASBANK”. 1.3. Teymour Mahmedovych Bagirov – independent member of Supervisory Board of JSB “UKRGASBANK”. 1.4. Slawomir Roman Konias – independent member of Supervisory Board of JSB “UKRGASBANK”. 1.5. Yuri Oleksandrovysh Blashchuk – independent member of Supervisory Board of JSB “UKRGASBANK”. 1.6. Oksana Yulianivna Volchko – independent member of Supervisory Board of JSB “UKRGASBANK”. <p>Issue 17</p> <p>Considering the fact that in accordance with Articles of Association of the Bank, the number of members of Supervisory Board constitutes seven (7) persons, and taking notice of Part 4 Article 42 of the Law of Ukraine “On Joint Stock Companies”, the candidates that received the majority of votes of shareholders as compared with other candidates shall be considered elected, specifically:</p> <ul style="list-style-type: none"> • Artem Valentynovych Shevaliov, representative of shareholder – State of Ukraine; • Yuri Ihorovych Geletiy, representative of shareholder – State of Ukraine; • Oksana Yulianivna Volchko, independent member; • Slawomir Roman Konias, independent member; • Yuri Oleksandrovysh Blashchuk, independent member; • Teymour Mahmedovych Bagirov, independent member; • Shrenik Dhirajlal Davda, independent member. <p>Issue 18</p> <p>1. Elect Mr. Shrenik Dhirajlal Davda as Chairman of Supervisory Board of JSB “UKRGASBANK”.</p> <p>Issue 19</p> <p>1. Approve the main conditions of civil agreements to be awarded by JSB “UKRGASBANK” with the Chairperson and members of Supervisory Board of JSB “UKRGASBANK”.</p> <p>2. Establish the amount of remuneration for the Chairperson and members of Supervisory Board of JSB “UKRGASBANK” in accordance with the conditions of civil agreements.</p>
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	<p>3. Elect the Chairperson of Management Board of JSB “UKRGASBANK”, and in case of his/her absence – acting Chairperson of Management Board of JSB “UKRGASBANK”, as a person authorized to sign on behalf of JSB “UKRGASBANK” the civil agreements with the Chairperson and members of Supervisory Board of JSB “UKRGASBANK”.</p> <p><u>General Description of the Decisions Adopted by the General Meeting of Shareholders:</u> in accordance with the requirements of the effective legislation of Ukraine, the agenda of the General Meeting of Shareholders conducted on 19 April 2019 included all the necessary issues. These issues were considered duly. Besides, due to the changes in the legislation of Ukraine and aiming at bringing the internal regulation instruments of the Bank into compliance with the mentioned changes, the internal regulation instruments were changed accordingly.</p>
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General Meeting Type	Annual	Extraordinary
Date	25 November 2019	
Quorum of Meeting	98.913817%	
Description	<p><u>List of Issues:</u></p> <ol style="list-style-type: none"> 1. On election of Tabulation Commission of the extraordinary general meeting of shareholders of JSB “UKRGASBANK”. 2. On establishment the procedure of the extraordinary general meeting of shareholders of JSB “UKRGASBANK”. 3. On adoption of the decision related to liabilities of JSB “UKRGASBANK” which may be converted into shares. <p><u>Persons who submitted proposals to the list of issues of agenda:</u> None.</p> <p><u>Person who initiated the conduction of extraordinary general meeting of shareholders:</u> Supervisory Board.</p> <p><u>Results of review of the issues of agenda:</u></p> <p>Issue 1</p> <ol style="list-style-type: none"> 1. Establish that the Tabulation Commission of JSC “JSB “UKRGASBANK” during the extraordinary general meeting of shareholders of JSB “UKRGASBANK” called for 25 November 2019, shall consist of three (3) persons. 2. Elect the following persons to Tabulation Commission of JSB “UKRGASBANK”: <ul style="list-style-type: none"> – Mrs. Iryna Vasylivna Konoval; – Mrs. Olena Viktorivna Kotsiuba; – Mr. Denis Vadymovych Ivanushkin. 3. Elect Mrs. Iryna Vasylivna Konoval a Head of Tabulation Commission. <p>Issue 2</p> <ol style="list-style-type: none"> 1. Approve the following procedure (regulation) of holding the extraordinary general meeting of shareholders of JSB “UKRGASBANK”: <ul style="list-style-type: none"> – For a report on an issue of agenda up to 15 minutes shall be given; – The questions (proposals) from participants of general meeting shall be handed over to the secretary of general meeting during two minutes from the finish of report on the relevant issue of agenda, exclusively in writing stating the full name including family name, name and patronymic name or full title of entity (representative of a shareholder) initiating the issue (submitting a proposal); – Oral or anonymous questions and proposals, and questions and proposals not included into the agenda shall not be the subject to consideration; – Up to three minutes shall be given for answering to each question received from the participants of general meeting of shareholders of JSB “UKRGASBANK”. <p>Issue 3</p> <ol style="list-style-type: none"> 1. Approve the conditions of the Loan Agreement to be awarded among others between JSB “UKRGASBANK” and International Finance Corporation (IFC) (hereinafter referred to as the Loan Agreement). 	

	<p>2. Authorize Supervisory Board of JSB “UKRGASBANK” to approve the other conditions of the Loan Agreement.</p> <p>3. Authorize the Chairperson of Management Board of JSB “UKRGASBANK”, and in case of his/her absence – acting Chairperson of Management Board of JSB “UKRGASBANK” to sign on behalf of JSB “UKRGASBANK” the Loan Agreement in accordance with the main conditions, approved by the General Meeting of Shareholders of JSB “UKRGASBANK” and other conditions of the Loan Agreement approved by Supervisory Board of JSB “UKRGASBANK”.</p> <p><u>General Description of the Decisions Adopted by the General Meeting of Shareholders:</u> the General Meeting of Shareholders conducted on 25 November 2019 adopted the decision related to the liabilities of JSB “UKRGASBANK” which may be converted into the shares.</p>
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What body did register the shareholders for participation in general meeting of shareholders in the reported year?		
	Yes	No
Registration Committee assigned by the persons who called for the general meeting	X	
Shareholders		X
Depository institution		X
Other (specify)		

What body did control the status of registration of shareholders or their representatives for participation in the reported year (if controlled)?		
	Yes	No
National Commission for Securities and Fund Market		X
Shareholders collectively owning more than 10 percent of voting shares		X

What was the method of voting for the agenda issues at the general meeting in the reported year?		
	Yes	No
Card raising		X
Bulletins (secret ballot)	X	
Hand raising		X
Other (specify)		

What are the main reasons for calling for the last extraordinary meeting during the reported year?		
	Yes	No
Reorganization		X
Additional issue of shares		X
Introduction of changes into the Articles of Association		X
Making decision on increase of authorized capital of joint stock company		X
Making decision on reduction of authorized capital of joint stock company		X
Election or termination of authorities of the chairperson and members of supervisory board		X
Election or termination of authorities of the chairperson and members of executive body		X

Election or termination of authorities of the members of audit commission (auditor)		X
Delegation of additional authorities to supervisory board	X	
Other (specify)	Aiming at completion of agreements between the parties of the mentioned process and obtaining by the Bank of equity convertible loan from IFC, the General Meeting of Shareholders was conducted, and the decisions with respect to the liabilities of the Bank which may be equity convertible were adopted, in particular, to approve the main conditions of the Loan Agreement to be awarded among others between JSB "UKRGASBANK" and IFC, foreseeing the obtaining by the Bank of a loan from IFC for the total amount not to exceed 30 000 000 Euro.	

Was general meeting of shareholders conducted during the reported year in the form of absentee voting?		
	Yes	No
		X
In case the extraordinary general meeting was called for, initiators shall be named:		
	Yes	No
Supervisory Board	X	
Executive body		X
Audit commission (auditor)		X
Shareholders (shareholder), who at the date of submission of demand are collectively own 10 and more percent of voting shares of joint stock company		X
Other (specify)		
In case the scheduled general meeting was called for but not conducted, the reason for it.	The general meeting was called for and conducted.	
In case the extraordinary general meeting was called for but not conducted, the reason for it.	The extraordinary meeting was called for and conducted.	

4) Information on Supervisory Board and Management Board.

Supervisory Board Composition			
Personal Composition of Supervisory Board	Independent member of Supervisory Board	Dependent member of Supervisory Board	Functional Obligations of the Member of Supervisory Board
	Yes	No	

<p>Shrenik Dhirajlal Davda</p>	<p>X</p>		<p>As the Chairman of Supervisory Board he is responsible for all the areas of Supervisory Board performance. Chairs: Committee on Remuneration, Assignments and Corporate Governance of JSB “UKRGASBANK” Supervisory Board – from 14 May 2019 the latest assignment; before that, he was elected as the Chairman of this Committee by the previous composition of Supervisory Board from 24 September 2018 until termination of the authorities of Supervisory Board; Member of: The Audit Committee; The Committee on Attraction of Investments and Realization of Development Strategy of JSB “UKRGASBANK”.</p>
<p>Artem Valentynovych Shevaliov</p>		<p>X</p>	<p>as Deputy to Chairman of Supervisory Board bears responsibility for all the areas of the Bank’s activity, in case of the Chairman absence; as well as the issues of risk management, raising funds by the Bank on the international capital market through “green” bonds issue mechanism; with respect to issues related to the reputation incident management. Chairs: Risk Management Committee of Supervisory Board of JSB “UKRGASBANK” – starting with 14 May 2019 (the last appointment); before this, he was elected as Chairman of this Committee by previous composition of Supervisory Board from 24 September 2018 until termination of powers of Supervisory Board; Committee of the Supervisory Board for Raising Funds by JSB UKRGASBANK on the International Capital Market Through “Green” Bonds Issue Mechanism - starting with 14 May 2019 (the last appointment); before this, he was elected as Chairman of this Committee by previous composition of Supervisory Board from 24 September 2018 until termination of powers of Supervisory Board; Member of: Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK”; Reputation Incident Management Temporary Committee of JSB “UKRGASBANK” Supervisory Board.</p>
<p>Yuri Ihorovych Geletiy</p>		<p>X</p>	<p>The functional obligations include issues of the internal, external audit of the Bank;</p>

			<p>determination of remuneration, assignments, corporate governance. Does not chair any committee of Supervisory Board. Member of: The Audit Committee; Committee of Supervisory Board of JSB "UKRGASBANK" on Remuneration, Assignments and Corporate Governance;</p>
<p>Teymour Mahmedovych Bagirov</p>	<p>X</p>		<p>The functional obligations include issues of internal, external audit of the Bank, determination of remuneration, assignments, corporate governance; attraction of investments and realization of strategy of development of the Bank; raising funds by the Bank on the international capital market through "green" bonds issue mechanism; conduction of the tender for the sale of right of claim under loan agreements and deeds of undertaking of JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK"; consideration of the issues related to the management of reputation incident. Chairs: Audit Committee of Supervisory Board of JSB "UKRGASBANK" from 14 May 2019 (the last appointment); before this, he was elected as Chairman of this Committee by previous compositions of Supervisory Board from 11 March 2016 until termination of powers of Supervisory Board; from 18 May 2017 until termination of powers of Supervisory Board; from 24 September 2018 until termination of powers of Supervisory Board; Committee on attraction of investments and realization of strategy of development of JSB "UKRGASBANK" – starting with 14 May 2019 (the last appointment); before this, he was elected as Chairman of this Committee by previous compositions of Supervisory Board from 18 May 2017 until termination of powers of Supervisory Board; from 24 September 2018 until termination of powers of Supervisory Board; Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK" from 14 May 2019 (the last appointment); before this, he was elected as Chairman of this Committee by previous compositions of Supervisory Board from 30 November 2015 until termination of powers of Supervisory Board; from 24 September 2018 until</p>

			<p>termination of powers of Supervisory Board; Member of: Risk Management Committee of Supervisory Board of JSB "UKRGASBANK" from 24 September 2018 until termination of powers of Supervisory Board; Committee of Supervisory Board of JSB "UKRGASBANK" on raising funds by the Bank on the international capital market through "green" bonds issue mechanism; Committee of Supervisory Board of JSB "UKRGASBANK" on Remuneration, Assignments and Corporate Governance; Reputation Incident Management Temporary Committee of JSB "UKRGASBANK" Supervisory Board.</p>
<p>Yuri Oleksandrovych Blashchuk</p>	<p>X</p>		<p>The functional obligations include issues related to the management of the reputation incident; the sale of right of claim under loan agreements and deeds of undertaking of JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK"; attraction of investments and realization of development strategy of JSB "UKRGASBANK"; raising funds by the Bank on the international capital market through "green" bonds issue mechanism; issues of the development of the information technologies of JSB "UKRGASBANK". Chairs: Reputation Incident Management Temporary Committee of JSB "UKRGASBANK" Supervisory Board. Member of: Risk Management Committee of Supervisory Board of JSB "UKRGASBANK"; Committee on conduction of the tender for the sale of right of claim under loan agreements and deeds of undertaking of JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK"; Committee on attraction of investments and realization of development strategy of JSB UKRGASBANK; Committee of Supervisory Board on raising funds by the Bank on the international capital market through "green" bonds issue mechanism; IT Development Committee of JSB "UKRGASBANK" Supervisory Board.</p>

<p>Oksana Yulianivna Volchko</p>	<p>X</p>		<p>The functional obligations include issues of internal, external audit of the Bank; raising funds by the Bank on the international capital market through “green” bonds issue mechanism; determination of remuneration, assignments, corporate governance; issues of the development of information technologies of JSB “UKRGASBANK”.</p> <p>Does not chair any committee of Supervisory Board.</p> <p>Member of:</p> <p>The Audit Committee;</p> <p>The Committee on Remuneration, Assignments and Corporate Governance of JSB “UKRGASBANK” Supervisory Board;</p> <p>The Committee of Supervisory Board on raising funds by the Bank on the international capital market through “green” bonds issue mechanism;</p> <p>IT Development Committee of JSB “UKRGASBANK” Supervisory Board.</p>
<p>Slawomir Roman Konias</p>	<p>X</p>		<p>The functional obligations include issues of the development of information technologies of JSB “UKRGASBANK”; risk management, conduction of the tender for the sale of right of claim under loan agreements and deeds of undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”.</p> <p>Chairs:</p> <p>IT Development Committee of Supervisory Board of JSB “UKRGASBANK”.</p> <p>Member of:</p> <p>Risk Management Committee of Supervisory Board of JSB “UKRGASBANK”;</p> <p>Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”.</p>
<p>Were the meetings of Supervisory Board conducted? General description of decisions made; procedures applied during the adoption of the decisions by Supervisory Board; determination of how the performance by Supervisory Board stipulated the changes in the financial and economic performance of JSB “UKRGASBANK”.</p>	<p>In 2019, 28 meetings of Supervisory Board took place, 215 issues reviewed during them. Supervisory Board of JSB “UKRGASBANK” in 2019 made decisions, in particular, related to:</p> <ul style="list-style-type: none"> - Approval of the Code of Conduct (Ethics) of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”; Strategy of Development of information security of JSB “UKRGASBANK” for 2019-2020; Strategy of Risk Management in JSB “UKRGASBANK” as revised, Credit Policy of JSB “UKRGASBANK” for 2020, Risk Appetite Statement of JSB “UKRGASBANK” for 2020, Policy of Ecological and Social Responsibility of JSB “UKRGASBANK” as revised; Strategy of NPL and 		

	<p>Collected Property Management in JSB “UKRGASBANK” for 2020-2022; Operative Plan of Realization of the Strategy of NPL and Collected Property Management in JSB “UKRGASBANK” for 2020; Program of financing of JSB “UKRGASBANK” for 2020; Plan of ensuring the continuous performance of JSB “UKRGASBANK” as revised; Policy of Prevention and Counteraction to the Legalization (Laundering) of the Incomes of Crime, Financing of Terrorism and Financing of Proliferation of the Weapons of Mass Destruction of JSB “UKRGASBANK” (AML/SANCTIONS POLICY); Policy of JSB “UKRGASBANK” of Whistleblowing Mechanism; Policy of Prevention of the Conflict of Interest in PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”; Policy of Compliance Risk Management in JSB “UKRGASBANK”; Policy of JSB “UKRGASBANK” with Respect to the Gifts and Representation Expenditures; Plan of Financing in the Crisis Situation of JSB “UKRGASBANK”; the Regulations on the Procedure of Distribution and Delegation of the Authorities in PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”; the Regulations on Remuneration of the Chairperson and Members of Management Board of JSB “UKRGASBANK”; the Regulations on Assessment of the Efficiency of Performance by Supervisory Board of JSB “UKRGASBANK”; the Regulations on the Assessment of the Key Employees of JSB “UKRGASBANK”; the Regulations on Training and Improvement of Qualification of the Members of Supervisory Board; approval of the internal regulatory instruments belonging to sole competence of Supervisory Board;</p> <ul style="list-style-type: none"> - Review of report of the Internal Audit Department for 2018; Audit Conclusion “Audit of the Process of Organization and Performance of Financial Monitoring” with proposals; - Organization and convening of the annual and extraordinary General Meetings of Shareholders of JSB “UKRGASBANK”; - Approval of assets transactions of the Bank in accordance with the established authority limits; - Approval of the Work Plan of Internal Audit Department for 2020; - Approval of changes to organization structure of Head Office of JSB “UKRGASBANK”; - Approval of the regulations on structural divisions of JSB “UKRGASBANK”; - Approval of decisions of Management Board of JSB “UKRGASBANK” related to sale of real estate objects of JSB “UKRGASBANK”; - Approval of the Regulations on Conduction of Tender to Select the Subjects of Audit Activity aiming at obtaining the services in mandatory audit of financial statements of JSB “UKRGASBANK”, selection of the successful tenderer aiming at obtaining the services in mandatory audit of financial statements of JSB “UKRGASBANK” for 2019, approval of the conditions of the agreement to be awarded to the successful tenderer, establishment of the amount for remuneration for the services provision; - Quarterly review: <ul style="list-style-type: none"> ➤ Reports of Management Board of JSSB “UKRGASBANK”; ➤ Reports of the Risk Management Committee of Supervisory Board of JSB “UKRGASBANK”;
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	<ul style="list-style-type: none"> ➤ Report on the results of monitoring of the state of implementation of recommendations of National Bank of Ukraine; ➤ Reports on the results of the monitoring of the efficiency of the internal control system of JSB “UKRGASBANK”; ➤ Report of Corporate Secretary of JSB “UKRGASBANK”. <p>Procedure of decision adoption (in accordance with the Articles of Association and the Regulations on Supervisory Board of the Bank): At the meeting of Supervisory Board, each member of Supervisory Board has one vote.</p> <p>Members of Supervisory Board participate in the meetings of Supervisory Board only in person, the transfer of rights by the members of Supervisory Board to participate in the meetings of Supervisory Board by issuing powers of attorney or otherwise is not allowed.</p> <p>At the meeting of Supervisory Board in praesentia, including by electronic means (video and voice conferences, etc.) the decisions of Supervisory Board are made by a simple majority of votes of members of Supervisory Board who participate in the meeting and have the right to vote, except as provided in the Articles of Association and the Regulations on Supervisory Board, which provide for a different number of votes for decision-making.</p> <p>Decisions of Supervisory Board in the case of in absentia meeting of Supervisory Board (by poll) are taken by a simple majority of votes of Supervisory Board members (more than 50 percent of votes) established by the Articles of Association, except as provided by the Articles of Association and the Regulations on Supervisory Board, providing a different number of votes for decision-making.</p> <p>If the number of votes “for” and “against” is equal, the decision for which the Chairperson of Management Board voted shall be made.</p>		
Committees of Supervisory Board			
	Yes	No	Personal Composition of the Committee
For the issues of audit	X		<ol style="list-style-type: none"> 1. T.M. Bagirov – Chairman of the Committee. 2. Y.I. Geletiy 3. Sh.D. Davda 4. O.Yu. Volchko
For the issues of assignments		X	
For the issues of remuneration		X	
Others (indicate)	Risk Management Committee of Supervisory Board of JSB “UKRGASBANK”		<ol style="list-style-type: none"> 1. A.V. Shevaliov – Chairman of the Committee; 2. Yu.O. Blashchuk 3. S.R. Konias
	Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance.		<ol style="list-style-type: none"> 1. Sh.D. Davda – Chairman of the Committee; 2. O.Yu. Volchko 3. T.M. Bagirov 4. Y.I. Geletiy
	Committee of Supervisory Board of JSB “UKRGASBANK” on attraction of investments and realization of development strategy of JSB “UKRGASBANK”		<ol style="list-style-type: none"> 1. T.M. Bagirov – Chairman of the Committee; 2. A.V. Shevaliov 3. Yu.O. Blashchuk 4. Sh.D. Davda

	Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK".	<ol style="list-style-type: none"> 1. T.M. Bagirov – Chairman of the Committee; 2. Yu.O. Blashchuk 3. S.R. Konias
	Committee of the Supervisory Board for Raising Funds by JSB UKRGASBANK on the International Capital Market through "Green" Bonds Issue Mechanism.	<ol style="list-style-type: none"> 1. A.V. Shevaliov – Chairman of the Committee; 2. T.M. Bagirov 3. O.Yu. Volchko 4. Yu.O. Blashchuk
	Information Technologies Development Committee of Supervisory Board of JSB "UKRGASBANK".	<ol style="list-style-type: none"> 1. S.R. Konias – Chairman of the Committee. 2. Yu.O. Blashchuk 3. O.Yu. Volchko
	Reputation Incident Management Temporary Committee of JSB "UKRGASBANK" Supervisory Board.	<ol style="list-style-type: none"> 1. Yu.O. Blashchuk – Chairman of the Committee. 2. A.V. Shevaliov 3. T.M. Bagirov
<p>Were the meetings of the committees of Supervisory Board held? The general description of the decisions adopted during them; in the case of evaluating the work of committees, information on their competence and effectiveness shall be provided.</p>	<p>Audit Committee during 2019 conducted 9 meetings (including 1 in praesentia, and 8 in absentia) to discuss 27, provide 20 recommendations to Supervisory Board, give 5 errands, out of them 1 – to the chairperson of the Audit Committee; 2 – to an authorized person for performance of the organizational measures related to the conduction of the tender for selection of the auditors aiming at obtaining the services in the mandatory audit of financial statements of JSB "UKRGASBANK"; 2 – to Management Board of JSB "UKRGASBANK".</p> <p>In accordance with the Regulations on Audit Committee approved by decision of Supervisory Board dated 08 August 2019 (Minutes of Meeting No. 16), and requirements of legislation the competence of the Committee included the following during 2019:</p> <ol style="list-style-type: none"> 1. Performance of the monitoring of integrity of financial information provided by the Bank, in particular, review of compliance and consistency of the accounting methods used by the Bank; 2. Performance of supervision over the activity of internal audit division and ensuring of assessment of efficiency and quality of this division; 3. Determination of the procedure of work of the internal audit division and control over its activity; 4. Provision to Supervisory Board of recommendations related to selection, assignment, re-assignment or dismissal of the manager of internal audit division; 5. Preliminary review of organizational structure, calculation of the need for resources, including human resources, for the internal audit division and submission of proposals to the Bank's Supervisory Board with respect to their approval; 6. Preliminary consideration and submission of recommendations to Supervisory Board of the Bank with respect to approval of the Regulations on the internal audit division of the Bank, the plan of internal audit of the Bank and the budget of internal audit division of the Bank; 	

	<ol style="list-style-type: none"> 7. Monitoring and reviewing the effectiveness of the internal audit division of the Bank, which include evaluating the performance of the head of the internal audit division, providing recommendations to Supervisory Board of the Bank on approving the remuneration of the head and staff of the internal audit division; 8. Analysis and discussion of internal audit division reports on the results of the audits conducted and periodic reports on the work of the internal audit division and, in cases determined by the effective legislation and internal regulation instruments of the Bank, provision of recommendations on these issues to Supervisory Board of the Bank; 9. Submission to Supervisory Board of the Bank of proposals for taking measures to eliminate within the established terms deficiencies in the activities of the internal audit division identified by the National Bank of Ukraine; 10. Drafting the budget of Supervisory Board of the Bank and submitting them for approval to Supervisory Board; 11. Provision of recommendations to Supervisory Board on the selection and change of the external auditor (audit company), the terms of the contract with the auditor and the amount of remuneration for the auditor; 12. Independence and objectivity control of an external auditor (audit company) in accordance with International Standards on Quality Control, Audit, Review, Other Assurance and Related Services; 13. Discussion with the auditor (audit company) of the main issues arising from external audit of the Bank, any significant deficiencies found in the internal control system related to the financial reporting process; 14. Establishment and application of a formal policy definition, types of services not subject to the audit, that are excluded or admissible after review by the Committee or admissible without the recommendation of the Committee; 15. Review of the effectiveness of the external audit process and the speed of response of the Bank's executives to the recommendations provided in writing by the external auditor (audit company); 16. Investigation of the issues that may be the basis for any dismissal of the external auditor (audit company) and provide advice on any necessary action; 17. Monitoring the implementation by the Bank of accounting policies, effective qualitative accounting practices, including calculations and disclosure of financial statements; 18. Monitoring the integrity of the Bank's financial statements and any formal statements concerning the Bank's financial results; 19. Verification of the necessary measures taken by the Bank's Management Board to remedy the shortcomings aimed at implementing the recommendations and conclusions of the internal and external auditors within the set deadlines;
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	<p>20. Elimination of deficiencies in the internal control system, settlement of cases of non-compliance with policies, laws and regulations, as well as other problems identified by internal and external auditors of the Bank;</p> <p>21. Reporting to Supervisory Board on the functions assigned to it. The Committee's report shall be submitted to Supervisory Board at least every six months; it should also include information on the existence / absence of comments regarding the independence of the external audit.</p> <p>In 2019, the Audit Committee as a whole used the methods and procedures of activity set out in the Articles of Association of the Audit Committee, which made it possible to effectively organize the process of exercising the delegated powers.</p> <p>Mr. T.M. Bagirov, Chairman of the Committee, called meetings of Audit Committee in the form of in praesentia and in absentia (by correspondence voting), chaired them, determined the agendas, ensured their meeting, performed control over the timely distribution of materials related to agenda to the members of Audit Committee, organized the keeping minutes of Audit Committee meetings and their timely formalization, and bringing the decision made to the notice of Supervisory Board.</p> <p>For the effective performance of Audit Committee and comprehensive preparation for the making of justified decisions, the Chairman and Members of the Committee actively interacted with the Management Board of the Bank, Mr. Yu.S. Horishniak, Internal Audit Department Director (before 11 October 2019), Mrs. Ye.O. Liuta, Internal Audit Department Director (starting with 15 October 2019), external auditor – audit company TOV “Ernst and Young Audit Services”, and Supervisory Board.</p> <p>It shall be noted, that during 2019, the meetings in praesentia and in absentia (by correspondence voting) of the Audit Committee were conducted under condition of 100% presence of Audit Committee members; this testifies to the responsible attitude of Audit Committee members to the fulfillment of their respective obligations and proper execution by the Chairman of the correspondent authorities in organization of Audit Committee performance.</p> <p>Besides, in order to meet the requirements of para 2 Part 6 Article 56 of the Law of Ukraine “On Joint Stock Companies”, it shall be noted that during 2019 there were no comments by Audit Committee to independence of external audit performance.</p> <p>Risk Management Committee during 2019 conducted 10 meetings, 6 out of them in praesentia, reviewed 59 issues, provided 50 recommendations to Supervisory Board, and gave 7 errands, 5 out of them – to the Risk Management Department of JSB “UKRGASBANK”, 2 – to Management Board of JSB “UKRGASBANK”.</p> <p>In accordance with the Provisions on Risk Management Committee approved by the decision of Supervisory Board dated 04 July 2019 (Minutes of Meeting No. 13 and requirements of effective legislation the competence of Risk Management Committee in 2019 included the following:</p> <ol style="list-style-type: none"> 1. Development, ensuring the development and/or participation in development of the internal banking
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	<p>documents, and regular revision of them aiming at updating and performance of the control over their introduction and meeting;</p> <ol style="list-style-type: none"> 2. Performance of the control over the introduction and meeting of the internal banking documents related to the system of risk management of the Bank; 3. Performance of control over the state of implementation of measures as related to the prompt elimination of shortcomings in the functioning of the system of risk management, fulfillment of recommendations and comments presented by the internal audit division, external auditors, the NBU, and other surveillance bodies; 4. Preliminary review of the draft strategy and policy of risk management, credit policy, procedure of performance of transactions with the persons related to the Bank, and other documents in the area of risk management presented for consideration and/or approval by Supervisory Board; 5. Submission to Supervisory Board of proposals related to improvement of the risk management system; 6. Performance of control over consideration of the business-model of the Bank and strategy of risk management of the Bank in the pricing / setting tariffs for the products of the Bank; 7. Reporting to Supervisory Board as related to the functions imposed on the Committee, and preliminary review of the issues related to elimination of shortcomings, identified by the NBU and other bodies of state power and management, which within the competence perform the supervision over the activity of the Bank, by Internal Audit Division and audit company, following the results of the external audit, within the frames of performance by Supervisory Board of the control over the efficiency of functioning of the risk management system. <p>In 2019, the Committee used the methods and procedures of activities defined in the Regulations on Risk Management Committee; thus allowed effectively organizing the process of implementation of the authorities imposed.</p> <p>The Chairman of the Committee, Mr. A.V. Shevaliov, called for the meetings of the Committee in praesentia and in absentia, chaired them, defined the agendas, ensured its meeting, performed control over the timely distribution of materials as related to agenda to the members of the Committee, arranged the making minutes at the meetings of the Committee, their timely formalization and notification of the Supervisory Board of the decisions made.</p> <p>For the purposes of effective performance of the Risk Management Committee and comprehensive preparation for the making of justified decisions, the Chairperson and members of the Committee actively interacted with Management Board of the Bank, the Risk Management Department, the Department of Compliance, the Internal Audit Department and Supervisory Board.</p> <p>All meetings of the Risk Management Committee in 2019 took place with 100% presence of the members of the Committee, which testifies to the responsible attitude of the members of the Committee to the fulfillment of their</p>
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	<p>obligations and proper implementation by the Chairperson of authorities in arrangement of the activity of the Committee.</p> <p>Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance during 2019 conducted 7 meetings in absentia (by poll method), reviewed 16 issues, provided 15 recommendations to Supervisory Board, gave 5 errands, 3 out of them – to the Chairperson of the Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance, Mr. Sh.D. Davda, 2 – to the Corporate Secretary of JSB “UKRGASBANK”, Mrs. T.M. Shestak.</p> <p>In accordance with the Regulations on the Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance, approved by the decision of Supervisory Board dated 01 October 2019 (Minutes of Meeting No. 18), and the requirements of the effective legislation, the competence of the Committee during 2019 included the following:</p> <ol style="list-style-type: none"> 1. In the area of assignments: <ul style="list-style-type: none"> – Development and periodical revision of the policy (internal regulations) of the Bank in the area of assignment; – Determination and recommendation for approval of Supervisory Board of the Bank of the candidatures for taking the posts within the Management Board of the Bank, and in cases foreseen by the Articles of Association or internal documents of the Bank – other vacancies; – Periodic assessment of the structure, size, composition and work of Management Board and provision of the recommendations to Supervisory Board related to any changes; – Periodic assessment of the members of Management Board in terms of compliance with the qualification requirements and reporting on the matter to Supervisory Board of the Bank; – Development of the succession plan for the positions of chairpersons and members of Supervisory Board of the Bank, submission of proposals to the shareholders with respect to the candidatures for the positions of members of Supervisory Board of the Bank in case it is foreseen by the internal regulations of the Bank; – Development of the succession plan for the positions of chairpersons and members of Management Board, provision of the availability in Management Board of the proper succession plan for the other persons performing managerial functions in the Bank; – Submission to Supervisory Board of the Bank of recommendations related to the personal composition of each committee of Supervisory Board, and periodical rotation of the members of Supervisory Board of the Bank between the committees; – Development and submission to Supervisory Board of the Bank in order to approve the rules (code) of conduct of the officials of the Bank, which in particular regulates the issues of conflicts of interests, confidentiality, fair business running, protection and proper use of the assets of the Bank, compliance with the requirements of the applicable legislation and the
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	<p>internal regulation instruments of the Bank, and the necessity to submit to Supervisory Board of the Bank the information on any known facts of violations from the legal requirements or ethic norms;</p> <ul style="list-style-type: none"> - Ensuring of conduction of the programs in orientation and training for the members of Supervisory Board and Management Board of the Bank, necessary for the efficient fulfillment by them of the respective obligations in the model of corporate governance introduced in the Bank; <p>2. In the area of remuneration:</p> <ul style="list-style-type: none"> - Submission to Supervisory Board of the Bank of recommendations related to the formation of the system of remuneration and ensuring the meeting by remuneration of the culture of risk management, Strategy of the Bank, approved Risk Appetite statement of the Bank, financial results and system of the internal control, and the requirements of the effective legislation of Ukraine aiming at consideration by Supervisory Board of the Bank during formation of the remuneration system of both the interests of the persons receiving the remuneration, and long-term interests of the participants of the Bank, investors and other interested parties; - Development and periodical revision of the policy (internal regulations) of the Bank in the area of remuneration and performance of the assessment of introduction of such policy; - Submission of proposals to the shareholders with respect to the remuneration for the members of Supervisory Board of the Bank, should it be foreseen by the internal regulations of the Bank; - Submission of proposals to Supervisory Board of the Bank with respect to the remuneration for the members of Management Board of the Bank. Such proposals must refer to any forms of compensation, including in particular the fixed remuneration, remuneration based on the results of activity, retirement arrangements and compensation at dismissal. The proposals with respect to the schemes of remuneration based on the results achieved must be accompanied with the recommendations of the respective objectives and criteria of assessment; - Submission of proposals to Supervisory Board of the Bank with respect to the individual remuneration to be provided to a member of Management Board, guaranteeing their compliance with the policy of remuneration accepted by the Bank, and their meeting the assessment of the work of the mentioned members; - Submission of proposals to Supervisory Board of the Bank with respect to the forms and material conditions of the agreements and contracts for the members of Management Board; - Submission of proposals to Supervisory Board of the Bank with respect to the key efficiency indices and organization of the procedures of the periodical assessment of their achievement by the members of Management Board of the Bank; - Submission of the general recommendations to Management Board of the Bank with respect to the level and structure of remuneration for the persons
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	<p>performing the managerial functions. The Committee must study the policy of Management Board of the Bank with respect to selection and assignment of the persons performing the managerial functions in the Bank;</p> <ul style="list-style-type: none"> - Control of the level and structure of remuneration for the persons performing the managerial functions, based on the reliable information provided by Management Board of the Bank. If the Bank apply the mechanisms of incentives provision to the persons performing the managerial functions, and other employees of the Bank connected with the participation in the share capital of the Bank of such persons, the competence of the Committee also includes the following: <ul style="list-style-type: none"> • Submission of proposals to Supervisory Board of the Bank with respect to the overall policy of the application of such schemes; • Determination of the scope of information provided in terms of this issue in the annual report; • Submission of proposals to Supervisory Board of the Bank with respect to the mechanisms of such incentives justifying such proposals. <p>3. In the area of corporate governance:</p> <ul style="list-style-type: none"> - Submission of proposals to Supervisory Board of the Bank with respect to the ensuring the performance of effective arrangement of the corporate governance in the Bank; - Submission to Supervisory Board of the Bank of recommendations with respect to the performance of the assessment of efficiency of arrangement of the corporate governance in the Bank, and determination of its compliance with the size, peculiarities of the activity of the Bank, nature and scope of the banking and other financial services, profile of risk of the Bank, and system importance of the Bank; - Preparation of proposals and recommendations to Supervisory Board of the Bank with respect to the ensuring of measures undertaking by Supervisory Board of the Bank as related to the elimination of shortcomings and improvement of the arrangement of the corporate governance considering the results of the assessment of the efficiency of corporate governance arrangement in the Bank; - Assisting to Supervisory Board of the Bank in order to ensure the following: <ul style="list-style-type: none"> • Compliance of the Bank with the principle of transparency in the area of corporate governance; • Disclosure by the Bank of full and reliable information on the organization of its activity, including on its financial state, economic indices, material events, structure of ownership and management, aiming at assessment by the interested persons (users) of the efficiency of the management of the Bank by Supervisory Board and Management Board of the Bank;
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- Submission of proposals to Supervisory Board of the Bank with respect to the determination of the corporate values of the Bank and ensuring that the Bank's executives, heads of control units and other employees of the Bank are informed of the proposals, while other interested persons have the opportunity to get acquainted with them;
- Performance of the monitoring of compliance with the Code of Corporate Governance of the Bank by the managers of the Bank and all the employees of the Bank, and submission of the relevant proposals to Supervisory Board of the Bank;
- Preliminary review and submission to Supervisory Board of the Bank of recommendations with respect to the approval of the reports of the Corporate Secretary of the Bank;
- Provision of the Committee's reports to Supervisory Board of the Bank with respect to the functions imposed on it. The report of the Committee shall be submitted to Supervisory Board at least once a year.

Any proposals for the assignment of officers of the Bank, the appointment of which falls within the competence of the Supervisory Board of the Bank as required by law or provided for in the Bank's Articles of Association, shall be the subject to the prior approval by the Committee.

The Committee might carry out a preliminary examination and consideration of other matters within the competence of Supervisory Board of the Bank, in the event of amendments to the Regulations or by a decision of Supervisory Board.

The main tasks of the Committee included the following:

- ensuring the availability and keeping up-to-date of internal regulation instruments regulating the issues of remuneration, assignments and corporate governance in the Bank;
- preliminary review of the drafts of internal regulation instruments of the Bank in the area of remuneration, assignments and corporate governance of the Bank;
- preparation of the materials for the meetings of Supervisory Board of the Bank and submission of the reports to Supervisory Board of the Bank in the areas belonging to the competence of the Committee.

In 2019, the Committee used methods and procedures of the activity, specified in the Regulations on Supervisory Board and the Regulations on the Committee on Remuneration, Assignments and Corporate Governance of JSB "UKRGASBANK" Supervisory Board. This allowed effectively organizing the process of realization of the authorities imposed.

The Chairman of the Committee, Mr. Sh.D. Davda, convened the meetings of the Committee in absentia, chaired them, defined the agendas, ensured its meeting, performed control over the timely distribution of materials as related to agenda to the members of the Committee, arranged the making minutes at the meetings of the Committee, their timely

	<p>formalization and notification of the Supervisory Board of the decisions made.</p> <p>It shall be noted, that during 2019, the meetings in absentia (by correspondence voting) of the Committee were conducted under condition of 100% presence of the Committee members; this testifies to the responsible attitude of Committee members to the fulfillment of their respective obligations and proper execution by the Chairman of the correspondent authorities in organization of the Committee performance.</p> <p>For the effective performance of Committee and comprehensive preparation for the making of justified decisions, the Chairman and Members of the Committee actively interacted with Supervisory Board.</p> <p>Committee of Supervisory Board of JSB “UKRGASBANK” on attraction of investments and realization of development strategy during 2019 conducted 2 meetings in absentia (by poll method), reviewed 5 issues, provided 3 recommendations to Supervisory Board.</p> <p>In accordance with the Regulations on Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK”, approved by the decision of Supervisory Board dated 01 March 2019 (Minutes of Meeting No. 3) and the requirements of the effective legislation, the competence of the Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK” in 2019 included the following:</p> <ol style="list-style-type: none"> 1. Development and submission to Supervisory Board of the Bank for agreement of the main areas of the activity of the Bank; <ol style="list-style-type: none"> 1.1. Development and submission to Supervisory Board of the Bank for agreement of the strategy (strategic plan) of the development of the Bank in accordance with the main areas of the activity, determined by the General Meeting of Shareholders, introduction of modifications into it; 1.2. Development and submission to Supervisory Board of the Bank for agreement and/or approval of other strategic documents of the Bank, introduction of modifications into them, within the competence of Supervisory Board of the Bank; 1.3. Monitoring of the implementation of the strategy (strategic plan) of the development of the Bank and submission to Supervisory Board of the Bank of the proposals based on the results of such monitoring performance; 1.4. Submission to Supervisory Board of the Bank of the proposals related to the following: <ul style="list-style-type: none"> – Investing in statutory (share) capital of other legal entities by joining the legal entities, proposals on termination of participation; – Establishment of limits of authority of Management Board of the Bank with regard to the investments in the statutory (share) capital of other legal entities by
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	<p>joining the legal entities, to termination of participation;</p> <ol style="list-style-type: none"> 1.5. submission to Supervisory Board of the Bank of the proposals related to the implementation of the control over the actions undertaken in the main areas of the activity of the Bank, and the strategy (strategic plan) of the development of the Bank; 1.6. Preliminary review of the projects of potential attraction of the investments of the Bank, submitted to Supervisory Board for consideration and/or approval; 1.7. Submission to Supervisory Board of the proposals related to improvement of the processes of attraction of investments and implementation of the strategy of the Bank; 1.8. Cooperation with the international finance organizations and international investment society with regard to the attraction of investments by the Bank; 1.9. Cooperation with the international establishments and associations in the area of the green financing, sustainable development and counteraction to the climate changes within the frames of implementation of the Strategy of Development of JSB “UKRGASBANK” during 2019-2021; 1.10. Within the frames of performance of the activity by Supervisory Board of the Bank in the area of organization of attraction of the investments, and realization of the strategy of the Bank, preliminary consideration of the issues related to elimination of the shortcomings identified by the NBU, the National Securities and Stock Market Commission, and other bodies of the state authorities and power, which within the competence fulfill the surveillance over the performance of the Bank; 1.11. Submission of the reports by the Committee to Supervisory Board with respect to the functions imposed. The report of the Committee to Supervisory Board shall be submitted at least once a year. <p>In 2019, the Committee used methods and procedures specified in the Regulations on Supervisory Board and the Regulations on the Committee on Attraction of Investments and Realization of Development Strategy of JSB “UKRGASBANK”. This allowed effectively organizing the process of realization of the authorities imposed.</p> <p>The Chairman of the Committee, Mr. T.M. Bagirov, convened the meetings of the Committee in absentia, chaired them, defined the agendas, ensured its meeting, performed control over the timely distribution of materials as related to agenda to the members of the Committee, arranged the making minutes at the meetings of the Committee, their timely formalization and notification of the Supervisory Board of the decisions made.</p> <p>It shall be noted, that during 2019, the meetings in absentia (by poll method) of the Committee were conducted under</p>
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	<p>condition of 100% presence of the Committee members; this testifies to the responsible attitude of Committee members to the fulfillment of their respective obligations and proper execution by the Chairman of the correspondent authorities in organization of the Committee performance.</p> <p>For the effective performance of Committee and comprehensive preparation for the making of justified decisions, the Chairman and Members of the Committee actively interacted with Management Board and Supervisory Board.</p> <p>Committee of the Supervisory Board for Raising Funds by JSB UKRGASBANK on the International Capital Market through “Green” Bonds Issue Mechanism during 2019 conducted one meeting in praesentia, considered three issues, provided two recommendations to Supervisory Board, gave two errands, one out of them – to the Chairman of the Committee for Raising Funds on the International Capital Market through “Green” Bonds Issue Mechanism, Mr. A.V. Shevaliov, one – to the Corporate Secretary, Mrs. T.M. Shestak.</p> <p>In accordance with the Regulations on the Committee of Supervisory Board for Rising the Funds on the International Capital Market through “Green” Bonds Issue Mechanism, approved by decision of Supervisory Board dated 17 July 2018 (Minutes of Meeting No. 19), the competence of the Committee includes:</p> <ol style="list-style-type: none"> 1. Preparation of draft internal regulation instruments connected with the rising by the Bank of funds on the international capital market through “green” bonds issue mechanism and ensuring submission of them for review and approval by Supervisory Board of JSB “UKRGASBANK”; 2. Development of the criteria and procedure of competitive selection of councilor/organizer of “green” bonds issue and ensuring submission of them for review and approval by Supervisory Board of JSB “UKRGASBANK”; 3. Ensuring the organization of competitive selection of councilor/organizer of “green” bonds issue in accordance with the criteria and procedure of conduction of competitive selection approved by the Supervisory Board of JSB “UKRGASBANK”; 4. Based on the results of the work performed by councilor/organizer of “green” bonds issue, preparation of necessary documents, materials, other analytical information, ensuring their submission for review by Supervisory Board of the Bank, in order to making the relevant decision on rising funds by JSB “UKRGASBANK” at the international market of capital through “green” bonds issue mechanism; 5. Preparation of necessary documents and address to the international rating agencies with the request to provide the commercial proposals for establishment of necessary for the Bank credit ratings; based on the results of receipt from the rating agencies of the commercial proposals preparation for Supervisory Board of JSB “UKRGASBANK” of proposals related to engagement of relevant international rating agency, and ensuring the review of these proposals by Supervisory Board and making the decisions required;
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6. Preparation of draft decisions of Supervisory Board for the issues related to rising funds by JSB "UKRGASBANK" at the international market of capital through "green" bonds issue mechanism and ensuring their submission for the consideration and approval by Supervisory Board of JSB "UKRGASBANK".

In 2019, the Committee for Rising the Funds on the International Capital Market through "Green" Bonds Issue Mechanism used the methods and procedures of activities defined in the Regulations on it; thus, it allowed effectively organizing the process of implementation of the authorities imposed.

The Chairman of the Committee, A.V. Shevaliov, called for the meetings of Committee for Rising the Funds on the International Capital Market through "Green" Bonds Issue Mechanism in praesentia, chaired them, determined the agendas, ensured their meeting, performed control over the timely distribution of materials related to agenda to the members of the Committee, organized the keeping minutes of the Committee meetings and their timely formalization, and bringing the decision made to the notice of Supervisory Board.

For the purposes of effective performance of the Committee for Rising the Funds on the International Capital Market through "Green" Bonds Issue Mechanism and comprehensive preparation for making justified decisions, the Chairperson and members of the Committee actively interacted with the Management Board of the Bank, International Cooperation Department and Supervisory Board.

The meeting of the Committee for Rising the Funds on the International Capital Market through "Green" Bonds Issue Mechanism in 2019 place with 100% presence of the members of the Committee, which testifies to the responsible attitude of the members of the Committee to the fulfillment of their obligations and proper implementation by the Chairperson of authorities in arrangement of the activity of the Committee.

Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY JSB "UKRGASBANK" did not conduct meetings during 2019.

In accordance with the Regulations on the Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY JSB "UKRGASBANK", approved by decision of Supervisory Board of JSB "UKRGASBANK" dated 30 November 2015 (Minutes of Meeting No. 27), and the requirements of the effective legislation, the competence of the Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY JSB "UKRGASBANK" included the determination of competitive principles for sale of right of claim under loan agreements and deeds of undertaking of the Bank.

	<p>Information Technologies Development Committee of Supervisory Board of JSB “UKRGASBANK” during 2019 conducted four meetings in praesentia, reviewed 13 issues, provided three recommendations to Supervisory Board, gave five errands to Management Board, one errand to the Chairman of IT Committee, one errand to the members of IT Committee and presented “The IT Model and the Strategy of the Digital Transformation of JSB “UKRGASBANK” during 2019-2021” aiming at information provision to Supervisory Board.</p> <p>In accordance with the Regulations on the IT Development Committee of JSB “UKRGASBANK” Supervisory Board, approved by the decision of Supervisory Board dated 03 April 2019 (Minutes of Meeting No. 7), the competence of the Committee includes the following:</p> <ol style="list-style-type: none"> 1. Preliminary consideration of the issues and preparation of proposals for Supervisory Board related to the strategic development and improvement of the information technologies of the Bank, in particular with regard to the digital automation of the processes, establishment of the digital strategy of the Bank; 2. Monitoring of the process of introduction of the digital technologies in the Bank and preparation of the relevant materials and reports for Supervisory Board in respect to these issues; 3. Analysis of the efficiency of IT-systems and processes in the Bank; 4. Analysis and evaluation of the resource base of the Bank (inclusive of the infrastructure of hardware and software, outsourcing, qualification training of the personnel, etc.); 5. Development of the draft decisions, internal regulation instruments, their preliminary consideration, undertaking of organizational, technical and other measures, related to the process of performance by Supervisory Board of the control of strategic development and improvement of the information technologies of the Bank, specified in Item 2.2 of the Regulations; 6. Revision of the existing informational system of management of the Bank as related to IT system and transactions of the Bank; 7. Provision to Supervisory Board of the Bank of recommendations related to the modifications within the frames of information panels and key indices of efficiency; 8. Quarterly revision of the financial indices related to IT systems and transactions of the Bank within the frames of realization of Item 2 of the Regulations; 9. Revision of the contractual conditions and obligations related to rendering of the services by the third parties in the area of IT systems and transactions of the Bank; 10. Monitoring of the reports of the internal and external auditors, connected with the informational technologies of the Bank, informational security and transactions; 11. Reporting by the IT Development Committee to Supervisory Board related to the functions imposed on the Committee.
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	<p>In 2019, the IT Committee used methods and procedures specified in the relevant Regulations. This allowed effectively organizing the process of realization of the authorities imposed.</p> <p>The Chairman of the Committee, Mr. S.R. Konias, called meetings of the IT Development Committee in praesentia, chaired them, determined the agenda, ensured its meeting, performed control over the timely distribution of materials related to agenda to the members of the Committee, organized the keeping minutes of the Committee meeting and its timely formalization, and bringing the decision adopted to the notice of Supervisory Board.</p> <p>For the purposes of effective performance by the IT Development Committee and comprehensive preparation of the justified decisions, the Chairman and the members of the Committee actively interacted with Management Board and Supervisory Board.</p> <p>All meetings of the Committee IT during 2019 have taken place under 100% participation of the members of the Committee. This testifies of the responsible attitude of the members of the Committee to the fulfillment of their obligations and proper performance by the Chairman of his authorities in organization of the Committee's performance.</p> <p>Reputation Incident Management Temporary Committee of JSB "UKRGASBANK" Supervisory Board was established on 27 November 2019 in accordance with the decision of Supervisory Board of JSB "UKRGASBANK" dated 27 November 2019 (Minutes of Meeting No. 24) in order to assist Supervisory Board in the exercise of its powers related to the effective management of compliance risk, including reputation risks, the creation of an effective compliance function, the fulfillment of the Bank's core priority, which is to develop and implement mitigation measures to reduce the compliance risk that may damage the Bank's reputation or cause other adverse effects.</p> <p>The main tasks of the Committee include drafting decisions, internal regulation instruments, conducting organizational, technical and other activities related to the management of a reputational incident.</p> <p>Reputation Incident Management Temporary Committee of JSB "UKRGASBANK" Supervisory Board in 2019 conducted three meetings in praesentia, considered four issues, gave two errands to the Chairman of the Temporary Committee.</p> <p>In total, during 2019, 36 meetings of the committees of Supervisory Board took place. During these meetings, 130 issues were considered, 93 recommendations to Supervisory Board were provided, and 24 errands given.</p> <p>The committees of Supervisory Board of JSB "UKRGASBANK" during 2019 adopted the decisions with respect to the following:</p> <ul style="list-style-type: none"> - Reports following the results of audits conducted by the Internal Audit Department; reports on the results of monitoring of implementation of the audit recommendations; - Development of the draft Budget of Supervisory Board of JSB "UKRGASBANK" for 2020; draft budgets of the Risk Management Department, Social and Ecological Risks Unit, the Department of Compliance
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	<p>and the Internal Audit Department of JSB “UKRGASBANK” for 2020;</p> <ul style="list-style-type: none"> - The organization of the conduction of the for Selection of the Auditors Aiming at Receiving the Services in Mandatory Audit of the Financial Statements of JSB “UKRGASBANK”; - The proposals to establish the key indices of efficiency, their specific weight, method of KIE implementation calculation when determining the personal bonus for the employees of the Internal Audit Department of JSB “UKRGASBANK”; - The dismissal and assignment of the director for the Internal Audit Department; - The current profiles of the credit risk of the Bank, the liquidity risk, market risk and operations risk; the results of stress-testing of the credit, currency, interest, operations, liquidity risks; evaluation of the compliance risks of JSB “UKRGASBANK”; - The status of implementation of the recommendations following the results of the inspection conducted by the National Bank of Ukraine; - The assignment of CRO and CCO of JSB “UKRGASBANK”, and establishment of the cases for application by them or the persons replacing them for the period of their absence of the right to veto (ban) the decisions of Management Board of JSB “UKRGASBANK” and collegial bodies of Management Board of JSB “UKRGASBANK”; - The approval of the relevant changes to be introduced into the organization chart of the Head Office of JSB “UKRGASBANK” and the Regulations on the appropriate structural divisions of the Head Office in the area of risk management and compliance; - The preliminary review of the draft internal regulation instruments in the respective areas of competence of the Committees of Supervisory Board; - The draft criteria and procedure of conduction of the tender for selection of a councilor /organizer of the issuance of the “green” bonds; - The establishment of the indicative values of the key indices of efficiency for the Chairperson and members of Management Board JSB “UKRGASBANK” and the methodology for their calculation; - The election of a member of Management Board of JSB “UKRGASBANK” and approval of the conditions of the agreement to be awarded with a member of Management Board of JSB “UKRGASBANK”; - The preliminary consideration of the Strategy of the Risk Management in JSB “UKRGASBANK” as revised, the Strategy of Management of Non-performing Assets and Collected Property of JSB “UKRGASBANK” for 2020-2022; Operative Plan of Implementation of the Strategy of Management of Non-performing Assets and Collected Property of JSB “UKRGASBANK” for 2020; Program of Financing of the Bank for 2020; the Credit Policy of JSB “UKRGASBANK” for 2020; the Risk Appetite Statement of JSB “UKRGASBANK” for 2020, etc. <p>Following the decision of Supervisory Board of JSB “UKRGASBANK” dated 02 March 2020 (Minutes of Meeting No. 7) and in accordance with the Regulations on</p>
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	<p>the Assessment of the Efficiency of Performance of Supervisory Board of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” (hereinafter referred to as the Regulations on Assessment), approved by the decision of Supervisory Board of JSB “UKRGASBANK” dated 09 April 2019 (Minutes of Meeting No. 8), the assessment of the efficiency of Supervisory Board of JSB “UKRGASBANK” performance during 2019 was organized and conducted. The Assessment included among others the assessment of the efficiency of performance of functions and authorities by the committees of Supervisory Board, inclusive of the efficiency of methods and procedures of the committees of Supervisory Board performance.</p> <p>Based on the results of the assessment conducted, reflected in the Report on the Assessment of the Efficiency of Supervisory Board of JSB “UKRGASBANK” Performance during 2019, approved by the decision of Supervisory Board of JSB “UKRGASBANK” dated 05 May 2020 (Minutes of Meeting No. 20), the efficiency of implementation of functions and authorities by the committees of Supervisory Board, including efficiency of the methods and procedures of performance of the committees of Supervisory Board, has been assessed, in general, as outstanding, in particular, for such statements as:</p> <ul style="list-style-type: none"> - The committees of Supervisory Board significantly increase the efficiency of Supervisory Board performance; - Supervisory Board includes the necessary number of committees and does not require establishing other committees; the compositions of the committees are optimal and meet the needs of the Bank; - Authorities of the committees of Supervisory Board of the Bank meet the needs of the Bank; - The process of interaction between the committees and Supervisory Board is well established. - The number of conducted meeting of the committees and issues considered at them is adequate and meets the needs of the Bank. - The performance by the committees of Supervisory Board is efficient. The committees submit to Supervisory Board the recommendations allowing adopting more informed decisions and making the meetings of Supervisory Board more organized and effective. The performance of the committees promoted the achievement of the set objectives by Supervisory Board.
<p>Information about the performance by Supervisory Board and assessment of its performance</p>	
<p>Assessment of performance by Supervisory Board</p>	<p>All members of Supervisory Board have degree in economics and fluent in English, have degree and/or experience in international relations (A.V. Shevaliov, T.M. Bagirov, Sh.D. Davda, S.R. Konias, Yu.O. Blashchuk, O.Yu. Volchko, Yu.I. Geletiy); some members have degree and/or experience in the area of governmental finance and experience in corporate governance, in particular, experience as members of Supervisory Board (Yu.O. Blashchuk, A.V. Shevaliov, O.Yu. Volchko, T.M. Bagirov, Yu.I. Geletiy), all members of Supervisory Board have experience of work at leading positions in the state authority bodies and/or banks, the Chairman of Supervisory Board has a degree in law (Sh.D. Davda), two members of Supervisory Board have an academic degree, candidate of economic science (Yu.I. Geletiy, Yu.O. Blashchuk).</p> <p>Following the decision of Supervisory Board of JSB “UKRGASBANK” dated 02 March 2020 (Minutes of Meeting No. 7), the assessment of the efficiency of Supervisory Board of JSB “UKRGASBANK” performance during 2019 was organized and conducted in accordance with the Regulations on the Assessment of the Efficiency of Performance of Supervisory Board of</p>

JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” (hereinafter referred to as the Regulations on Assessment, too), approved by the decision of Supervisory Board of JSB “UKRGASBANK” dated 09 April 2019 (Minutes of Meeting No. 8). The Assessment included the assessment of the general efficiency of the performance of Supervisory Board of JSB “UKRGASBANK” and individual assessment of the performance by the members of Supervisory Board; it was conducted by own resources in the form of completing the questionnaires in accordance with the annexes to the Regulations on Assessment. Based on the results of processing the information received during the poll, the responsible person assigned by Supervisory Board, developed the Report on the Assessment of the Efficiency of Performance by Supervisory Board of JSB “UKRGASBANK” during 2019 (hereinafter referred to as the Report on the Assessment, too). The Report on the Assessment was approved by the decision of Supervisory Board dated 05 May 2020 (Minutes of Meeting No. 20).

In accordance with the Report on the Assessment, the general efficiency of the performance of Supervisory Board of JSB “UKRGASBANK” in 2019 was assessed as good, specifically:

- Against the parameter “Assessment of the composition, structure and performance of Supervisory Board as a collegial body, including the efficiency of the methods and procedures of performance of Supervisory Board, including the interaction with Management Board of the Bank and divisions of the control”, the performance was assessed as good;
- Against the parameter “Assessment of the collective suitability of Supervisory Board”, the performance was assessed as good;
- Against the parameter “Assessment of the efficiency of implementing the functions and authorities by the committees of Supervisory Board, including the efficiency of methods and procedures of performance of the committees of Supervisory Board”, the performance was assessed as outstanding;
- Against the parameter “Achievement by Supervisory Board of the objectives set”, the performance was assessed as outstanding.

Individual assessment of the performance by the members of Supervisory Board (each member of Supervisory Board) based on the assessment of:

- The competence and efficiency of each member of Supervisory Board, including the information about his/her performance as an official of other legal entities or other activity – paid and free of charge;
- The business reputation of the members of Supervisory Board;
- The professional suitability of the members of Supervisory Board considering the efficiency of their work in Supervisory Board, and meeting by them of the obligations of loyalty and caring attitude;
- Independence of each independent members of Supervisory Board.

The individual assessment of the performance by members of Supervisory Board was conducted with the use of combined form: self-assessment (when a member of Supervisory Board assessed exclusively own performance) and cross-assessment (when a member of Supervisory Board assessed exclusively the performance by colleagues).

The results of the individual assessment of the performance by the members of Supervisory Board during 2019 include the results of the assessment of own performance of each member of Supervisory Board during 2019 and the results of the assessment of the experience, skills and professional qualities of the members of Supervisory Board during 2019.

It shall be noted, that in accordance with Item 1.5 of the Regulations on the Assessment of the Efficiency of Performance of Supervisory Board of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” dated 09 April 2019 (Minutes of Meeting No. 8), the information with respect of the results of a certain member of Supervisory Board is qualified as confidential and is not subject to disclosure.

Besides, within the frames of the individual assessment of the performance by the members of Supervisory Board of JSB “UKRGASBANK” during 2019, the assessment of independence of each independent member. For the conduction of the assessment of independence each of independent member of Supervisory Board completed the correspondent questionnaire.

In accordance with the provided questionnaires for assessment of independence, all independent members of Supervisory Board of the Bank specified the correspondence within the reported period – year 2019, and compliance as of the date of completion of the questionnaire with the requirements of independence established by the effective legislation of Ukraine and the internal regulation instruments of the Bank.

What requirements to members of Supervisory Board are included into the internal documents of the joint stock company?		
	Yes	No
Industry knowledge and experience in the industry	X	
Knowledge in the area of finance and management	X	
Personal qualities (honesty, responsibility)	X	
Absence of conflicts of interest	X	
Age limit		X
No requirements		X
Other (specify)		
When a new member of Supervisory Board was elected, how did he/she get acquainted with the relevant rights and obligations?		
	Yes	No
New member of Supervisory Board get acquainted with the contents of internal documents of the joint stock company on his/her own	X	
A meeting of Supervisory Board was conducted where the new member got acquainted with the his/her rights and obligations		X
Special training (in corporate governance or financial management) was arranged for the new member		X
All members of Supervisory Board were re-elected for another term or		X

Translation from Ukrainian original

no new members were elected		
Other (specify)		
How is the remuneration for members of Supervisory Board determined?		
	Yes	No
Remuneration is fixed		X
Remuneration is percent of net profit or increase of market value of shares		X
Remuneration is paid as securities of joint stock company		X
Members of Supervisory Board do not get remuneration		X
Other (specify)	<p>The amount of remuneration for the Chairperson and members of Supervisory Board, including compensations, shall be determined in accordance with the Regulations on Remuneration of the Members of Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”.</p> <p>The Chairperson and members of Supervisory Board of JSC “UKRGASBANK”, which are the civil servants or persons authorized to perform the functions of the State, shall perform the functions imposed by the Articles of Association of JSB “UKRGASBANK”, the Regulations on the Supervisory Board of JSB “UKRGASBANK” and the relevant civil agreements on a free of charge basis (with the possibility of compensation of documented expenses related to the activity as members of the Supervisory Board of JSB “UKRGASBANK”, in accordance with the procedure specified in civil agreements awarded).</p> <p>The members of Supervisory Board of JSC “UKRGASBANK”, which are not the civil servants or persons authorized to perform the functions of the state, shall perform the functions imposed by the Articles of Association of JSB “UKRGASBANK”, the Regulations on the Supervisory Board of JSB “UKRGASBANK” and the relevant civil agreements on payable basis (with the possibility of compensation of documented expenses related to the activity as members of the Supervisory Board of JSB “UKRGASBANK”, in accordance with the procedure specified in civil agreements awarded). The amount of their remuneration shall be established by the decision of the General Meeting of Shareholders of JSB “UKRGASBANK”, and composed of the base amount and additional remuneration for a member of Supervisory Board fulfilling the functions of Chairperson of Supervisory Board (20% of the base remuneration) and participating in the activity of a Supervisory Board committee (10% of the base remuneration (independently of the number of committees)).</p> <p>Besides, if a member of Supervisory Board is a non-resident, the possibility to pay the relevant remuneration in foreign currency is foreseen.</p>	

Composition of Management Board	
Personal Composition of Management Board	Functional Obligations of a Member of Management Board
1. Kyrlo Yevhenovych Shevchenko – Chairman of Management Board.	Functional obligations of each member of Management Board are established by effective legislation, Articles of Association of JSB “UKRGASBANK”, the Regulations on JSB “UKRGASBANK” Management Board and labor agreement (contract) awarded with the

<p>2. Andriy Mykolayovych Kravets – First Deputy to Chairman of Management Board.</p> <p>3. Oleksandr Vitaliyovych Dubrovin – First Deputy to Chairman of Management Board.</p> <p>4. Natalija Yevhenivna Vasylets – Deputy to Chairman of Management Board.</p> <p>5. Oleksandr Stepanovych Ignatenko – Deputy to Chairman of Management Board.</p> <p>6. Yevhen Volodymyrovych Metsger – Deputy to Chairman of Management Board.</p> <p>7. Tamara Yuriyivna Savoshchenko – Deputy to Chairman of Management Board.</p> <p>8. Oleksiy Mykolayovych Berezhnyi – Director of Financial Monitoring Department.</p>	<p>members of Management Board, and Decree on distribution of powers between the Bank’s managers.</p>
<p>Were the meetings of the executive body held: general description of the decisions adopted during the meetings; information on the results of the performance by the executive body; determination how the performance of the executive body stipulated the changes in the financial and economic activity of the joint stock company.</p>	<p>In 2019, Management Board of JSB “UKRGASBANK” conducted 61 meetings, during which the decisions were made in the majority of cases with respect to the following:</p> <ul style="list-style-type: none"> – Conduction of the assets transactions; – Changes in the organizational structure of the Head Office; – Activity of the offices of the Bank; – Financing of the capital investment items; – Selling of the property of JSB “UKRGASBANK”; – Results of inspections conducted by the Internal Audit Department and the status of implementation of the recommendations provided by the Internal Audit Department; – Consideration and approval of the internal regulation instruments of the Bank, etc. <p>Procedure of decision making (in accordance with the Articles of Association and the Regulations on Management Board of the Bank): When voting, the Chairperson and each member of Management Board have one vote. A member of Management Board does not have the right to transfer the vote to other persons.</p> <p>The decisions of Management Board are made by simple majority of votes of the general number of members of Management Board present at the meeting of Management Board in case the meeting was in praesentia, or who took part in the meeting of Management Board following the working procedure, unless another procedure of decision making is established by effective legislation or Articles of Association of the Bank. If the number of votes “for” and “against” is equal, the decision for which the Chairperson of Management Board voted shall be made.</p> <p>Changes in the composition of Management Board of JSB “UKRGASBANK” during 2019:</p> <ol style="list-style-type: none"> 1. Termination of authorities: The powers of member of Management Board of JSB “UKRGASBANK”, Mrs. Natalia Yevhenivna Vasylets, have been terminated on 11 November 2019 due to the completion of the period of authorities, established by the decision of Supervisory Board of JSB “UKRGASBANK” dated 11 November 2014 (Minutes of Meeting No.13), and expiration of the period of the agreement dated 12 November 2014, concluded between JSB “UKRGASBANK” and Mrs. N.Ye. Vasylets in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 11 November 2014 (Minutes of Meeting No.13).

	<p>2. Election: In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 04 November 2019 (Minutes of Meeting No.22) Mrs. Natalia Yevhenivna Vasylets was elected from 12 November 2019 as a member of Management Board of JSB “UKRGASBANK”.</p> <p>JSB “UKRGASBANK” in 2019, for the fifth consecutive year, demonstrated the positive financial result and improvement of the main indices of the Bank’s activity.</p> <p>The assets of the Bank increased on 45% and as of 01 January 2020 constituted 119.2 bln. UAH. According to National Bank of Ukraine, as of 01 January 2020 among 75 acting banks, the Bank changed its share in the following way:</p> <ul style="list-style-type: none"> – Per net assets – on 1.95 p.p. up to 7.98% (4th place); – Per credit portfolio (to reserves) – on -0.23 p.p. up to 4.47% (6th place); – Per funds of the customers – on 2.65 p.p. up to 9.43% (3rd place). <p>During 2019, the Bank fulfilled all obligations undertaken on time and in full.</p> <p>In 2019, in addition to a positive financial result, it demonstrated improvement in key performance indicators of the Bank.</p> <p>JSB “UKRGASBANK” adhered to a well-balanced policy and confirmed its stability, reflected in the Bank’s high position in the Ukrainian banking system market and ratings assigned by leading rating agencies.</p> <p>The Bank adheres to the established objectives related to exit of the State from the capital of the Bank.</p> <p>In 2019, all the indicative conditions of the Memorandum of Understanding between the Ministry of Finance of Ukraine, the Bank and International Finance Corporation related to support of privatization (sale) of the Bank, in terms of the conditions depending on the Bank, specifically:</p> <ul style="list-style-type: none"> – Compliance with financial ratios similar to those set out in the Global Trade Financing Agreement has been ensured; – IFC’s environmental and social standards have been met; – The credit limit for one of the customers has been closed; – The amount of existing credit risk for state-owned enterprises has been reduced; – Compliance with mandatory standards of the National Bank of Ukraine has been ensured. <p>In November 2019, the Board of International Finance Corporation, which is the part of the World Bank Group, adopted the decision with respect to granting to JSB “UKRGASBANK” the equity convertible loan. As of today, the Ministry of Finance of Ukraine and the Bank continue negotiating as related to the structuring the agreement and preparation of the documents. It is expected that the relevant agreements between the International Finance Corporation, the Ministry of Finance of Ukraine and the Bank will be concluded, which will provide a partial exit of the State from the capital of JSB “UKRGASBANK” and, in turn, will give impetus for further privatization of the Bank by attracting a strategic investor.</p>
<p>Assessment of the performance of the executive body</p>	<p>In accordance with the Regulations on Management Board of the Bank, the evaluation of the activities of the Chairperson of Management Board and Management Board as a whole shall be carried out on the basis of the results of Management Board’s performance for the year and after reporting of Management Board to Supervisory Board. The evaluation of the activities of each individual member of Management Board shall be carried out by the Chairperson of Management Board.</p> <p>In assessing the activities of the Chairperson and members of Management Board, the results of the Management Board performance, the individual contribution of each member of Management Board to the Bank’s performance, and respective managerial capabilities, etc. shall be taken into account. The criteria for evaluating the activities of the Chairperson and members of Management Board shall be determined by Supervisory Board.</p>

	<p>Besides, Supervisory Board shall assess the performance of Management Board by way of:</p> <ul style="list-style-type: none"> • Receipt of information on the indices of the Bank’s performance; • Monitoring of compliance of the Management Board with the corporate values by review of quarterly reports on the results of monitoring of efficiency of internal audit system, developed by Methodology and Compliance division, relevant reports of Internal Audit Department related to conducted audits and on the situation of implementation/realization by management and employees of the Bank of recommendations regarding to elimination of violations and deficiencies in the Bank’s performance identified in the result of audits, and making decision based on the results of such reviews; • Receipt of information on the level of risks occurring in the result of its activity; • Receipt of information on potential risks related to current performance of the Bank in case of their occurrence. <p>In addition to the aforementioned, in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 18 December 2018 (Minutes of Meeting No. 33) from 2019 quarterly reporting of Management Board to Supervisory Board was introduced. Following the results of such reporting Supervisory Board of JSB “UKRGASBANK” perform the assessment of the efficiency and carefulness of Management Board of JSB “UKRGASBANK” actions with respect to management of the transactions performed by JSB “UKRGASBANK” and risks JSB “UKRGASBANK” is exposed to and, if necessary, submit proposals to Supervisory Board of JSB “UKRGASBANK” in order to improve its work. Thus, based on the results of quarterly review of the reports submitted by Management Board of JSB “UKRGASBANK” in accordance with the decisions of Supervisory Board of JSB “UKRGASBANK” dated 14 May 2019 (Minutes of Meeting No. 10), dated 30 July 2019 (Minutes of Meeting No. 15), dated 04 November 2019 (Minutes of Meeting No. 22) the performance of Management Board of JSB “UKRGASBANK” for the relevant quarter of 2019 individually and correspondent period from the beginning of the reported year has been recognized effective, the actions of Management Board of JSB “UKRGASBANK” with respect to management of transactions of the Bank and risks – careful.</p>
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5) Description of main characteristics of internal control and risk management systems of the Bank.

Is Audit Commission established in your joint stock company, or is a position of an auditor introduced?

Yes, Audit Commission is established.

If Audit Commission is established in the Bank:

Number of members of Audit Commission – three (3) persons;

How many times a year averagely did the meetings of Audit Commission take place during last three years? 1

In accordance with the Articles of Association of the Bank, the competence of which body (general meeting of shareholders, supervisory board or management board) does include the decision of following issues?

	General Meeting of Shareholder	Supervisory Board	Executive Body	Does not belong to competence of any Body
Determination of main areas of activity (strategy)	yes	yes	no	no
Approval of plans of activity (business plans)	no	yes	no	no
Approval of financial report, or balance sheet, or budget	no	yes	no	no
Election or termination of powers of the chairperson and members of executive body	no	yes	no	no
Election or termination of powers of the chairperson and members of supervisory board	yes	no	no	no
Election or termination of powers of the chairperson and members of audit commission	yes	no	no	no
Determination of the amount of remuneration for the chairperson and members of executive body	no	yes	no	no
Determination of the amount of remuneration for the chairperson and members of supervisory board	yes	no	no	no
Making a decision on bringing the members of executive body to property responsibility	no	yes	no	no
Making a decision on additional issue of shares	yes	no	no	no
Making a decision on purchase, sale and placement of own shares	yes	no	no	no
Approval of external auditor	no	yes	no	no
Approval of agreement with conflict of interests	no	no	no	yes

Does the Articles of Association of the Bank include the provisions which restrict the powers of Management Board to make decisions on award of contracts considering their amounts on behalf of the joint stock company? Yes, it does.

Does the Articles of Association or internal documents of the Bank include the provisions related to conflict of interests, i.e. contradiction between the personal interests of an official or associated persons and the duty to act to the interests of joint stock company?

Yes, it does.

What documents are effective in the Bank?

	Yes	No
Regulations on General Meeting of the Shareholders	X	
Regulations on Supervisory Board	X	
Regulations on Executive Body	X	
Regulations on Officials of Joint Stock Company		X
Regulations on Audit Commission (or Auditor)	X	
Regulations on Procedure of Distribution of Profit		X
Other (specify)		

How can the shareholders receive the information related to the activity of your joint stock company?

Information about the activity of joint stock company	The information is distributed during general meeting	Information is disclosed in the public information data base of National Commission for Securities and Fund Market on the market of securities or via a person who discloses the regulated information on behalf of fund market players	Documents are provided for familiarization directly in joint stock company	Copies of documents are provided following the request of a shareholder	Information is provided at own web-site of joint stock company
Financial statement, results of activity	yes	yes	yes	yes	yes
Information on shareholders who own 5 percent and more of voting shares	no	yes	yes	yes	yes
Information on composition of management bodies of the company	no	yes	yes	yes	yes
Minutes of General Meetings of shareholders after conduction	no	no	yes	yes	yes
Amount of remuneration for officials of joint stock company	no	yes	yes	yes	no

Does joint stock company develop financial statements in accordance with international standards of financial accounting?

Yes, it does.

How many times were the audits of joint stock company by independent auditor (audit company) conducted within the reported period?

	Yes	No
Not conducted at all		X
Once a year	X	
More than once a year		X

What body did make a decision related to approval of independent auditor (audit company)?

	Yes	No
General Meeting of Shareholders		X
Supervisory Board	X	
Other (specify)		

Following the initiative of what body, did audit commission (auditor) perform the last audit?

	Yes	No
Following own initiative	X	
Following the errand of General Meeting		X
Following the errand of Supervisory Board		X
Following the address of Executive Body		X
On demand of shareholders who collectively own 10 and more percent of the voting shares		X
Other (specify)		

6) List of persons who directly or indirectly own significant package of shares of the issuer

#	Full name of legal entity – owner (owners) of first name, name, patronymic name (if any) of physical person – owner (owners) of significant package of shares	ID Code in accordance with the Unified State Register of Legal Entities, Physical Persons – Entrepreneurs and Public Organizations (for legal entity - resident), code/number from trade, bank or court register, registration certificate of local authority of foreign country on registration of legal entity (for legal entity – non-resident)	Size of share of shareholder (owner) (percent of authorized capital)
1	State of Ukraine in person of Ministry of Finance of Ukraine	00013480	94.940948

7) Information about any restrictions to the rights of participation and voting of shareholders (members) during general meeting of the shareholders of the issuer

General Number of Shares	Number of Shares with Restrictions	Basis for Restrictions	Date of Restriction Occurrence
13 836 522 922	521 333 548	2 894 243 ordinary registered shares – restrictions in accordance with Item 10 Section VI of final and transition provisions of the Law of Ukraine “On the Depository System of Ukraine”. 518 439 305 ordinary registered shares – restrictions in accordance with Article 692 of the Law of Ukraine “On Joint Stock Companies”. (the data in accord with the list of shareholders who had the right to participate in general meeting of Issuer (as of 24:00 15 April 2019, which took place on 19 April 2019).	11 October 2014 2013-2014
13 836 522 922	521 018 261	2 578 956 ordinary registered shares – restrictions in accordance with Item 10 Section VI of final and transition provisions of the Law of Ukraine “On the Depository System of Ukraine”. 518 439 305 ordinary registered shares – restrictions in accordance with Article 692 of the Law of Ukraine “On Joint Stock Companies”. (the data in accord with the list of shareholders who had the right to participate in general meeting of Issuer (as of 24:00 19 November 2019, which took place on 25 November 2019).	11 October 2014 2013-2014

8) Procedure for assignment and dismissal of officials of the Bank.

The procedure for assignment and dismissal of officials of JSB “UKRGASBANK” is regulated by the requirements of the effective legislation of Ukraine, in particular, Labor Code of Ukraine, the Law of Ukraine “On Banks and Banking”, Decree of the Cabinet of Ministers of Ukraine dated 10 March 2017 No. 142 “Some Issues of management of national unitary entities and economic partnerships, in which more than 50 percent of shares in the authorized capital belong to the State”, Articles of Association of JSB “UKRGASBANK”, and the Regulations on Licensing of the Banks approved by the Resolution of the Management Board of National Bank of Ukraine dated 22 December 2018 No. 149, as well as by internal regulation instruments of the Bank in terms of the

remuneration of the Chairperson and members of Management Board of JSB “UKRGASBANK”, and payroll and material incentives for the employees of the Bank.

- 9) Powers of officials of the Bank are determined by the Articles of Association of the Bank, the Regulations on Supervisory Board and Management Board, job descriptions, and Powers of Attorney.
- 10) Opinion of the auditor (audit company) with respect to the information presented in sub-items 5 – 9 of this Item, and verification of the information presented in sub-items 1 – 4 of this Item.
- 11) Information foreseen by the Law of Ukraine “On Financial Services and State Regulation of the Market of Financial Services”

REPORT ON THE CORPORATE GOVERNANCE

- 1) The objective of the Bank’s activity.

In accordance with Articles of Association of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK “UKRGASBANK”, approved by General Meeting of Shareholders of JSB “UKRGASBANK” dated 19 April 2019 (Minutes of Meeting No. 1), the objective (goals) of the Bank’s activity is the fulfillment of the banking activity directed to making profit for the own development and in the interests of the shareholders.

- 2) Compliance/non-compliance with the principles or code of corporate governance (with reference to the source of their text), deviation and reasons for such deviation during the year. JSB “UKRGASBANK” in its activities does not deviate and strictly adheres to the Code of Corporate Governance of JOINT STOCK COMPANY JOINT STOCK BANK “UKRGASBANK” approved by the decision of the General Meeting of Shareholders of JSB “UKRGASBANK” dated 25 April 2017 (Minutes of Meeting No. 1).

- 3) Owners of significant share (including persons exercising control over a financial institution), their compliance with the requirements of the legislation and changes in their composition for the year.

The State represented by the Ministry of Finance of Ukraine has a significant share (94,940948%) in the Bank’s authorized capital, acquisition of substantial share for which took place in accordance with the current legislation of Ukraine.

During 2019, the owner of essential share of the Bank has not been changed.

- 4) Composition of Supervisory Board and its changes during the year, including Committees established.

Supervisory Board.

As of 01 January 2019, Supervisory Board of the Bank consisted of five (5) independent members and one (1) member – representative of the shareholder – the State of Ukraine, with this, the chairperson of Supervisory Board was an independent member.

The personal composition of Supervisory Board of the Bank as of 01 January 2019 (approved by the decision of the General Meeting of Shareholders dated 11 September 2018 (Minutes of Meeting No. 2) considering the termination from 28 December 2018 of the powers of a member of Supervisory Board, Mrs. O.S. Markarova, based on the letter of Ministry of Finance of Ukraine dated 12 December 2018 No. 14010-10-10/33002 (dated 13 December 2018 incoming No. 10/64295) and statement of Mrs. O.S. Markarova dated 12 December 2018 on termination of her activity in line with Part 2 Article 7 of the Law of Ukraine “On Cabinet of Ministers of Ukraine” and withdrawal from Supervisory Board of JSB “UKRGASBANK” voluntarily:

1. Mr. Shrenik Dhirajlal Davda – Chairman of Supervisory Board, independent member of Supervisory Board.
2. Mr. Artem Valentynovych Shevaliov – member of Supervisory Board, representative of the shareholder – the State of Ukraine.
3. Mr. Teymour Mahmedovych Bagirov – independent member of Supervisory Board.
4. Mr. Yuri Oleksandrovych Blashchuk – independent member of Supervisory Board.
5. Mrs. Oksana Yulianivna Volchko – independent member of Supervisory Board.
6. Mr. Slawomir Roman Konias – independent member of Supervisory Board.

The functional obligations of each member of Supervisory Board have been established by the effective legislation, the Articles of Association of JSB “UKRGASBANK”, the Regulations on Supervisory Board of JSB “UKRGASBANK”, the Regulations on the relevant committee of Supervisory Board and civil and legal agreement awarded to such member of Supervisory Board.

The personal composition of Supervisory Board of JSB “UKRGASBANK” in accordance with the decision of the General Meeting of Shareholders dated 19 April 2019 (Minutes of Meeting No. 1) considering the decision of Supervisory Board of JSB “UKRGASBANK” dated 14 May 2019 (Minutes of Meeting No. 10) as of 31 December 2019 included the following members:

1. Mr. Shrenik Dhirajlal Davda – Chairman of Supervisory Board, independent member of Supervisory Board.
2. Mr. Artem Valentynovych Shevaliov – Deputy to the Chairman of Supervisory Board, representative of the shareholder – the State of Ukraine.
3. Mr. Yuri Ihorovych Geletiy – member of Supervisory Board, representative of the shareholder – the State of Ukraine.
4. Mr. Teymour Mahmedovych Bagirov – independent member of Supervisory Board.
5. Mr. Yuri Oleksandrovych Blashchuk – independent member of Supervisory Board.
6. Mrs. Oksana Yulianivna Volchko – independent member of Supervisory Board.
7. Mr. Slawomir Roman Konias – independent member of Supervisory Board.

Supervisory Board Committees.

Audit Committee of the Supervisory Board of JSB “UKRGASBANK”.

Personal composition as of 31 December 2019:

5. T.M. Bagirov – Chairman of the Committee.
6. Y.I. Geletiy
7. Sh.D. Davda
8. O.Yu. Volchko

Changes in the composition of the Committee during 2019:

- The authorities of the following members of the Committee elected in accordance with the decision of Supervisory Board dated 24 September 2018 (Minutes of Meeting No. 26) were terminated:
 1. T.M. Bagirov – Chairman of the Committee.
 2. Sh.D. Davda
 3. O.Yu. Volchko
- In accordance with the decision of Supervisory Board dated 14 May 2019 (Minutes of Meeting No. 10) the new composition of the Committee was elected:
 1. T.M. Bagirov – Chairman of the Committee.
 2. Y.I. Geletiy
 3. Sh.D. Davda
 4. O.Yu. Volchko

Risk Management Committee of Supervisory Board of JSB “UKRGASBANK”.

Personal composition as of 31 December 2019:

4. A.V. Shevaliov – Chairman of the Committee;
5. Yu.O. Blashchuk – member of the Committee;
6. S.R. Konias – member of the Committee.

Changes in the composition of the Committee during 2019:

- As of 01 January 2019 in accordance with the decision of Supervisory Board dated 24 September 2018 (Minutes of Meeting No. 26), the Risk Management Committee acted in the following composition:
 1. A.V. Shevaliov – Chairman of the Committee;
 2. T.M. Bagirov – member of the Committee;
 3. S.R. Konias – member of the Committee.
- In accordance with the decision of Supervisory Board dated 14 May 2019 (Minutes of Meeting No. 10) the new composition of the Committee was elected:
 1. A.V. Shevaliov – Chairman of the Committee;
 2. Yu.O. Blashchuk – member of the Committee;
 3. S.R. Konias – member of the Committee.

Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance.

Personal composition as of 31 December 2019:

5. Sh.D. Davda – Chairman of the Committee;
6. O.Yu. Volchko – member of the Committee;
7. T.M. Bagirov – member of the Committee;
8. Y.I. Geletiy – member of the Committee.

Changes in the composition of the Committee during 2019:

- As of 01 January 2019 in accordance with the decision of Supervisory Board dated 18 December 2018 (Minutes of Meeting No. 33), Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance acted in the following composition:
 1. Sh.D. Davda – Chairman of the Committee.
 2. A.V. Shevaliov
 3. T.M. Bagirov
- In accordance with the decision of Supervisory Board dated 14 May 2019 (Minutes of Meeting No. 10) the new composition of the Committee was elected:
 1. Sh.D. Davda – Chairman of the Committee;
 2. O.Yu. Volchko – member of the Committee;
 3. T.M. Bagirov – member of the Committee;
 4. Y.I. Geletiy – member of the Committee.

Committee of Supervisory Board of JSB “UKRGASBANK” on attraction of investments and realization of development strategy of JSB “UKRGASBANK”.

Personal composition as of 31 December 2019:

5. T.M. Bagirov – Chairman of the Committee.
6. A.V. Shevaliov
7. Yu.O. Blashchuk
8. Sh.D. Davda

Changes in the composition of the Committee during 2019:

- As of 01 January 2019 in accordance with the decision of Supervisory Board dated 18 December 2018 (Minutes of Meeting No. 33), the Committee acted in the following composition:
 1. T.M. Bagirov – Chairman of the Committee.
 2. A.V. Shevaliov
 3. Yu.O. Blashchuk
 4. Sh.D. Davda
- In accordance with the decision of Supervisory Board dated 14 May 2019 (Minutes of Meeting No. 10) the new composition of the Committee was elected:
 1. T.M. Bagirov – Chairman of the Committee.
 2. A.V. Shevaliov
 3. Yu.O. Blashchuk
 4. Sh.D. Davda

Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”.

Personal composition as of 31 December 2019:

4. T.M. Bagirov – Chairman of the Committee.
5. Yu.O. Blashchuk
6. S.R. Konias

Changes in the composition of the Committee during 2019:

- As of 01 January 2019 in accordance with the decision of Supervisory Board dated 24 September 2018 (Minutes of Meeting No. 26), the Committee acted in the following composition:
 1. T.M. Bagirov – Chairman of the Committee.
 2. Yu.O. Blashchuk
 3. S.R. Konias
- In accordance with the decision of Supervisory Board dated 14 May 2019 (Minutes of Meeting No. 10) the new composition of the Committee was elected:
 1. T.M. Bagirov – Chairman of the Committee.
 2. Yu.O. Blashchuk
 3. S.R. Konias

Committee of the Supervisory Board for Raising Funds by JSB UKRGASBANK on the International Capital Market through “Green” Bonds Issue Mechanism.

Personal composition as of 31 December 2019:

5. A.V. Shevaliov – Chairman of the Committee
6. T.M. Bagirov
7. O.Yu. Volchko
8. Yu.O. Blashchuk

Changes in the composition of the Committee during 2019:

- As of 01 January 2019 in accordance with the decision of Supervisory Board dated 24 September 2018 (Minutes of Meeting No. 26), the Committee acted in the following composition:
 1. A.V. Shevaliov – Chairman of the Committee
 2. T.M. Bagirov
 3. O.Yu. Volchko
 4. Yu.O. Blashchuk
- In accordance with the decision of Supervisory Board dated 14 May 2019 (Minutes of Meeting No. 10) the new composition of the Committee was elected:
 1. A.V. Shevaliov – Chairman of the Committee
 2. T.M. Bagirov
 3. O.Yu. Volchko
 4. Yu.O. Blashchuk

Information Technologies Development Committee of Supervisory Board of JSB “UKRGASBANK”.

Personal composition as of 31 December 2019:

4. S.R. Konias – Chairman of the Committee.
5. Yu.O. Blashchuk
6. O.Yu. Volchko

Changes in the composition of the Committee during 2019:

- As of 01 January 2019 in accordance with the decision of Supervisory Board dated 18 December 2018 (Minutes of Meeting No. 33), the Committee acted in the following composition:
 1. S.R. Konias – Chairman of the Committee.
 2. Yu.O. Blashchuk
 3. O.Yu. Volchko

- In accordance with the decision of Supervisory Board dated 14 May 2019 (Minutes of Meeting No. 10) the new composition of the Committee was elected:
 1. S.R. Konias – Chairman of the Committee.
 2. Yu.O. Blashchuk
 3. O.Yu. Volchko

Reputation Incident Management Temporary Committee of JSB “UKRGASBANK” Supervisory Board.

Personal composition as of 31 December 2019:

1. Yu.O. Blashchuk – Chairman of the Committee.
2. T.M. Bagirov
3. A.V. Shevaliov

Changes in the composition of the Committee during 2019:

- In accordance with the decision of Supervisory Board dated 27 November 2019 (Minutes of Meeting No. 24), the following composition was approved at the establishment of the Committee:
 1. Yu.O. Blashchuk – Chairman of the Committee.
 2. T.M. Bagirov
 3. A.V. Shevaliov

In total, during 2019, 36 meetings of the committees of Supervisory Board took place to consider 130 issues, to provide 93 recommendations to Supervisory Board and 24 errands. The committees of Supervisory Board of JSB “UKRGASBANK” during 2019 adopted the decisions with respect to the following:

- The reports following the results of the audits conducted by the Internal Audit Department; reports on the results of monitoring of the completion of the audit recommendations;
- The development of the draft Budget of Supervisory Board of JSB “UKRGASBANK” for 2020; draft budgets of the Risk Management Department, Social and Ecological Risks Unit, the Department of Compliance and the Internal Audit Department of JSB “UKRGASBANK” for 2020;
- The organization of the conduction of the for Selection of the Auditors Aiming at Receiving the Services in Mandatory Audit of the Financial Statements of JSB “UKRGASBANK”;
- The proposals to establish the key indices of efficiency, their specific weight, method of KIE implementation calculation when determining the personal bonus for the employees of the Internal Audit Department of JSB “UKRGASBANK”;
- The dismissal and assignment of the director for the Internal Audit Department;
- The current profiles of the credit risk of the Bank, the liquidity risk, market risk and operations risk; the results of stress-testing of the credit, currency, interest, operations, liquidity risks; evaluation of the compliance risks of JSB “UKRGASBANK”;
- The status of implementation of the recommendations following the results of the inspection conducted by the National Bank of Ukraine;

- The assignment of CRO and CCO of JSB “UKRGASBANK”, and establishment of the cases for application by them or the persons replacing them for the period of their absence of the right to veto (ban) the decisions of Management Board of JSB “UKRGASBANK” and collegial bodies of Management Board of JSB “UKRGASBANK”;
- The approval of the relevant changes to be introduced into the organization chart of the Head Office of JSB “UKRGASBANK” and the Regulations on the appropriate structural divisions of the Head Office in the area of risk management and compliance;
- The preliminary review of the draft internal regulation instruments in the respective areas of competence of the Committees of Supervisory Board;
- The draft criteria and procedure of conduction of the tender for selection of a councilor /organizer of the issuance of the “green” bonds;
- The establishment of the indicative values of the key indices of efficiency for the Chairperson and members of Management Board JSB “UKRGASBANK” and the methodology for their calculation;
- The election of a member of Management Board of JSB “UKRGASBANK” and approval of the conditions of the agreement to be awarded with a member of Management Board of JSB “UKRGASBANK”;
- The preliminary consideration of the Strategy of the Risk Management in JSB “UKRGASBANK” as revised, the Strategy of Management of Non-performing Assets and Collected Property of JSB “UKRGASBANK” for 2020-2022; Operative Plan of Implementation of the Strategy of Management of Non-performing Assets and Collected Property of JSB “UKRGASBANK” for 2020; Program of Financing of the Bank for 2020; the Credit Policy of JSB “UKRGASBANK” for 2020; the Risk Appetite Statement of JSB “UKRGASBANK” for 2020, etc.

5) Composition of Management Board of the Bank and its change during a year.

Personal composition of Management Board of JSB “UKRGASBANK” as of 31 December 2019:

1. Kyrylo Yevhenovych Shevchenko – Chairman of Management Board.
2. Andriy Mykolayovych Kravets – First Deputy to Chairman of Management Board.
3. Oleksandr Vitaliyovych Dubrovin – First Deputy to Chairman of Management Board.
4. Natalija Yevhenivna Vasylets – Deputy to Chairman of Management Board.
5. Oleksandr Stepanovych Ignatenko – Deputy to Chairman of Management Board.
6. Yevhen Volodymyrovych Metsger – Deputy to Chairman of Management Board.
7. Tamara Yuriyivna Savoshchenko – Deputy to Chairman of Management Board.
8. Oleksiy Mykolayovych Bereznyi – Director of Financial Monitoring Department.

Changes in composition of Management Board of JSB “UKRGASBANK” during 2019:

- Termination of authorities: The powers of member of Management Board of JSB “UKRGASBANK”, Mrs. Natalia Yevhenivna Vasylets, have been terminated on 11 November 2019 due to the completion of the period of authorities, established by the decision of Supervisory Board of JSB “UKRGASBANK” dated 11 November 2014 (Minutes of Meeting No.13), and expiration of the period of the agreement dated 12 November 2014, concluded between JSB “UKRGASBANK” and Mrs. N.Ye. Vasylets in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 11 November 2014 (Minutes of Meeting No.13).
- Election: In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 04 November 2019 (Minutes of Meeting No.22) Mrs. Natalia Yevhenivna Vasylets was elected from 12 November 2019 as a member of Management Board of JSB “UKRGASBANK”.

- 6) Facts of violation by the members of Supervisory Board and Management Board of the internal regulations that caused damage to the financial institution or the consumers of the financial services.

There are no facts of violation by the members of Supervisory Board and Management Board of the Bank of the internal regulations.

- 7) The measures of influence applied during 2019 by public authorities to the Bank, including members of its Supervisory Board and Management Board.

The public authorities did not apply any measures of influence to the Bank during 2019.

- 8) The amount of remuneration for 2019 for the members of Supervisory Board and Management Board.

The amount of remuneration of the Chairperson and members of the Supervisory Board, including compensation payments, is determined in accordance with the Regulations on the Remuneration of the Members of Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”.

The Chairman and members of Supervisory Board of JSC “UKRGASBANK”, which are the civil servants or persons authorized to perform the functions of the State, perform the functions imposed by the Articles of Association of JSB “UKRGASBANK”, the Regulations on the Supervisory Board of JSB “UKRGASBANK” and the relevant civil agreements on a free of charge basis (with the possibility of compensation of documented expenses related to the activity as members of the Supervisory Board of JSB “UKRGASBANK”, in accordance with the procedure specified in civil agreements awarded). The members of Supervisory Board of JSC “UKRGASBANK”, which are not the civil servants or persons authorized to perform the functions of the state, but are the representatives of the shareholder or independent members, perform the functions imposed by the Articles of Association of JSB “UKRGASBANK”, the Regulations on the Supervisory Board of JSB “UKRGASBANK” and the relevant civil agreements on payable basis (with the possibility of compensation of documented expenses related to the activity as members of the Supervisory Board of JSB “UKRGASBANK”, in accordance with the procedure specified in civil agreements awarded). The amount of the remuneration to them is established by the decision of the General Meeting of Shareholders of JSB “UKRGASBANK”, and composed of the base amount and additional remuneration for a member of Supervisory Board fulfilling the functions of Chairperson of Supervisory Board (20% of the base remuneration) and participating in the activity of a Supervisory Board committee (10% of the base remuneration (independently of the number of committees)).

Besides, if a member of Supervisory Board is a non-resident, the possibility to pay the relevant remuneration in foreign currency is foreseen.

The amount of remuneration for the Chairperson and members of Management Board, including the incentives and compensations, is specified in accordance with the Regulations on Remuneration for the Chairperson and Members of Management Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”.

Significant risk factors that influences the activity of the Bank during 2019.

During 2019, no violations of risk boundary indices were recorded.

9) System of risk management and its key characteristics in the Bank.

Risk Management Strategy of JSB “UKRGASBANK” identifies the following list of material risks:

#	Type of Risk	Definition
1.	Credit Risk	Probability of occurrence of damages or additional losses, or failure to receive the planned revenues as a result of non-performance by debtor/counteragent of undertaken obligations in accordance with the conditions of the contract
2.	Liquidity Risk	Probability of occurrence of damages or additional losses, or failure to receive the planned revenues as a result of the Bank’s failure to provide funding for its assets and fulfill its obligations in due time
3.	Interest Risk	Probability of occurrence of damages or additional losses or failure to receive the planned revenues as the results of influence of adverse changes in interest rates. The interest risk affects both the profitability of the Bank and the economic value of its assets, liabilities and off-balance sheet instruments. The Bank manages the interest rate risk in trading and bank books on a consolidated basis
4.	Market Risk	Probability of occurrence of damages or additional losses, or failure to receive the planned revenues as a result of adverse changes in exchange rates of foreign currencies, value of financial tools, etc.
5.	Operations Risk	Probability of occurrence of damages or additional losses, or failure to receive the planned revenues as a result of defects or errors in the organization of internal processes, intentional or unintentional actions of employees or other persons, failures in the work of information systems or due to external factors. Operations risk includes legal risk, that is, the probability of losses or additional losses, or the failure to receive the planned revenues due to the parties’ failure to comply with the terms of the contracts due to their non-compliance with the requirements of the law. Operations risk excludes the reputation risk and strategic risk.
6.	Compliance Risk	Probability of occurrence of losses/sanctions, additional losses or failure to receive the planned revenues or loss of reputation due to the Bank’s failure to comply with the requirements of legislation, regulations, market standards, fair competition rules, corporate ethics rules, conflicts of interest, as well as Bank’s internal bank documents
7.	Social Risk	Probability of occurrence of damages, additional losses, or failure to receive the planned revenues as a result of origin of the danger to the health and safety of people, the negative impact on the local communities, cultural and archeological heritage
8.	Ecological Risk	Probability of occurrence of damages, additional losses, or failure to receive the planned revenues as a result of pollution of environment, and creation of hazard for biodiversity

System of risk management of the Bank has been built considering its size, business model, scope of activity, types and complexity of operations; it ensures the following:

- Identification,
- Measurement (Assessment),
- Monitoring,
- Reporting,
- Control,
- Mitigating all significant risks to the Bank in order to determine the amount of capital required by the Bank to cover all significant risks inherent to its activities (internal capital).

System of risk management meets the following principles:

- Efficiency – providing an objective assessment of the size of the Bank’s risks and completeness of risk management measures with the optimal use of financial resources, personnel and information systems for risk management of the Bank;
- Timeliness – ensuring timely (at an early stage) identification, measurement, monitoring, control, reporting and mitigation of all types of risks at all organizational levels;
- Structuring – a clear division of functions, obligations and powers in the area of risk management between all structural units and employees of the Bank, and their responsibilities in accordance with such a division;
- Division of duties (separating the control function from the operations of the Bank) – avoiding a situation in which the same person carries out operations of the Bank and performs control functions;
- Comprehensiveness and integrity – the coverage of all Bank’s activities at all organizational levels and in all its divisions, the assessment of the mutual influence of risks;
- Proportionality – the compliance of the risk management system with the Bank’s business model, its systemic importance, and the level of complexity of operations carried out by the Bank;
- Independence – freedom from circumstances that threaten the impartial performance by the risk management department of its functions;
- Confidentiality – prevention of distribution of information that is not subject to disclosure by persons possessing no authority for its receipt;
- Transparency – disclosure by the Bank of information on the risk management system and risk profile.

The Bank during assessment of all types of risks shall consider the risk of concentration. The Bank shall consider the risk of concentration in the following terms:

- Per major debtors / depositors and their groups;
- Per business lines and products;
- Per types of economic activity (areas of economics) and geographical regions, counteragents of persons whose financial results depend on one type of activity or main product;
- Per classes of debtors /counteragents identified in accordance with the normative document of National Bank of Ukraine related to the assessment of credit risk;
- Per types of ensuring the fulfillment of obligations by debtors and counterparties;
- Per types of currencies.

The Bank evaluates the risks per financial instruments included into both trading and bank books.

The information related to the risk management is disclosed as part of annual and intermediate reports of the Bank.

Risk management system of the Bank is built taking into account its size, business model, scale of activity, types and complexity of operations, and provides for the identification, measurement

(assessment), monitoring, reporting, control, and mitigation of all significant risks of the Bank in order to determine by the Bank the amount of capital required to cover all significant risks inherent to its activities.

Risk management system is based on the distribution of obligations between the divisions of the Bank with application of the model of three security lines:

- First line – at the level of business divisions and divisions of support for the Bank’s performance;
- Second line – at the level of risk management divisions including the Risk Management Department and Unit for Social and Ecologic Risks, and the Department of Compliance;
- Third line – at the level of Internal Audit Department related to inspection and assessment of efficiency of the functioning of the risk management system.

Risk Management Structure

Supervisory Board

Supervisory Board defines and approves risk management strategy, risk appetite statement, credit policy, individual risk management policies, plan of ensuring the continuous performance, crisis financing plan, strategy and operational plan for managing non-performing assets and collected property, determines the sources of capitalization and other financing of the Bank, reviews the Bank’s risk profile reports, reviews the results of stress testing, approves the appointment and dismissal of CRO, identifies cases of prohibiting (vetoing) by CRO, ensures the operation and control of the effectiveness of the risk management system.

Risk Management Committee of Supervisory Board

The Risk Management Committee of Supervisory Board ensures that the internal regulation instruments regulating the risk management process and credit policy of the Bank are existing and update, performs the regular monitoring and analysis of the current risk profiles that the Bank faces, performs the control over meeting the indices of risk appetite specified in the Risk Appetite Statement.

Management Board

Management Board is responsible for the overall approach to risk management and for implementing the risk management strategies and principles approved by Supervisory Board. Management Board of the Bank delegates operational risk management authority to the Bank’s collegial bodies and establishes limits on the authority of these collegial bodies.

Collegial Bodies of Management Board

Credit Council, Credit Committee, Committee on Methodological Support for Retail, Small and Micro Business Risk Management, Loan Debt Management Commission, Credit Transaction Monitoring Committee, Credit Committees of Directorates manage credit risk within the limits of authority delegated by Management Board of the Bank.

The Assets and Liabilities Management Committee manages liquidity, interest rate and market risk within the authorities delegated by Management Board.

The Operations Risk Management Committee manages operations risk within the authorities delegated by Management Board.

The Information Security Management Committee manages information risk as a component of operations risk within the authorities delegated by Management Board.

CRO (Chief Risk Officer) and subordinated to CRO risk management divisions

CRO and subordinated to CRO risk management divisions provide for timely identification, measurement, monitoring, control, reporting of significant risks, prepare and submit risk reports to Supervisory Board, the Risk Management Committee of Supervisory Board, Management Board, collegial bodies of Management Board, develop and maintain up-to-date methodologies, tools and models of risk assessment, coordinate the works on risk management with other structural divisions of the Bank, estimate the risk profile of the Bank, provide monitoring and prevention of risk appetite indices and risk limits, control the approximation of risk indicators to the approved maximum risk indicators and risk limits, and initiate measures to prevent their violations, perform stress testing, develop conclusions to adopt the decisions with respect to loans on both new loans and changes on existing loans, develop conclusions on the risks inherent to the new products at the time of their introduction to make appropriate management decisions.

CCO (Chief Compliance Officer) and the Department of Compliance

CCO and the Department of Compliance carry out the development of compliance procedures, including compliance principles, which are mandatory for all employees and management, ensure relevance of the compliance function with the current requirements of the law and conduct training and improve the awareness of the Bank's employees in terms of compliance with legal rules, relevant standards of professional associations, the effect of which extends to the Bank, risk management culture, taking into account the code of conduct (ethics), organize the continuous functioning of the compliance function in the Bank, coordinate the establishment of potential compliance risk areas that may result in the loss of the Bank's reputation, legal or regulatory sanctions or financial damages, ensure the development and implementation of compliance risk mitigation measures, including transparent processes to prevent or reduce compliance risk level, as well as to identify, register and implement measures related to compliance breach, assess the compliance risks inherent to the new products and significant changes in the Bank's operations prior to their implementation for adoption of the management solutions, provide for the organization of the control over the meeting by the Bank of the norms with respect to timeliness and reliability of financial and statistical statements, prepare conclusions on compliance risk for decision-making on assets transactions with the persons associated with the Bank.

Risk Appetite Statement

The Bank determines (declares) aggregate risk appetite by setting aggregate risk margins and risk appetite for individual risks by setting the risk margins for significant risks defined by the current Risk Management Strategy in JSB "UKRGASBANK":

- Credit risk;
- Liquidity risk;
- Interest risk;
- Market risk;
- Operations risk;
- Compliance risk;
- Ecologic risk;
- Social risk.

The Statement is prepared in accordance with the assumptions underlying the Bank's Budget, taking into account the prudential requirements of the National Bank of Ukraine (including those established for system important banks) and the covenants which the Bank has undertaken to comply with in accordance with agreements with international financial institutions.

Aggregate risk appetite includes requirements for maintaining an international credit rating target, adherence to capital ratios and capital buffers, including the expected changes in prudential requirements and the regulatory environment.

Credit risk appetite includes a system of quality control indices of the credit portfolio (share of non-performing assets and collected property), credit risk value, limitation of the risk of concentration as per major borrowers, industries, etc.

Liquidity risk appetite includes minimum values of liquidity coverage ratio (LCR) in all currencies and separately in foreign currencies, net stable funding ratio (NSFR), limitation of concentration indices in liabilities.

Interest rate risk appetite includes indicators of the sensitivity of net interest income and the economic value of capital to the parallel / non-parallel shift of yield curves in major currencies.

Market risk appetite is set as the maximum values of positions sensitive to market risk and the value at risk calculated as per a parametric model based on a Student t-distribution with 7 degrees of freedom with a confidence interval of 99% on the horizon of ten (10) trading days.

Operations risk appetite is set as the maximum amount of direct losses from the realization of operations risk at the end of the year. However, regardless of the cost of the incident and the amount of potential loss, the Bank has established zero tolerance for operations risks related to internal fraud incidents, service negligence, disruption of the continuity of critical business processes.

Compliance risk appetite is determined by setting compliance risk margins. Regardless of the cost of the compliance risk incident and the amount of potential loss, the Bank is intolerant of compliance risk incidents related to the following:

- Performance by the Bank of the risky activity;
- Realization of the material reputation risks having significant influence on the performance by the Bank.

10) The results of functioning during 2019 of the system of internal audit (control), and data included into the notes to financial and consolidated financial accounting in accordance with the provisions (standards) of accounting.

In JSB “UKRGASBANK”, an effective system of internal control is introduced. It includes effective safeguards against potential errors, breaches, and losses, and ensures reliability, legitimacy, efficacy, and security of banking operations.

The system of internal control of JSB “UKRGASBANK” is directed to ensuring of efficiency and effectiveness of the Bank’s operations, the effectiveness of the management of risks, assets and liabilities, ensuring the completeness, timeliness and reliability of accounting and submission of financial, and statistical reporting, etc.

The norms and requirements set to the functioning of the internal control system of the Bank are stated by the Policy of Organization of Internal Control System in JSB “UKRGASBANK”, approved by Supervisory Board of the Bank.

Functioning of the internal control system of the Bank is ensured by the following way:

- Supervision over the compliance with the effective legislation of Ukraine and internal regulation instruments/normative and methodic documents of the Bank by the senior managers of the Bank;
- Distribution of obligations during the Bank performance;
- Control over the risk management system functioning;
- Control over the information security and information exchange;
- Introduction of the internal control procedures;
- Monitoring of the internal control system;
- Internal audit procedures introduction.

The introduced in the Bank system of internal control is aimed at the ensuring of the following:

- Efficiency of implementation of the operations of the Bank, protection from potential errors, violations, losses in its performance;
- Efficiency of risk management;

- Adequacy, comprehensiveness, completeness, reliability, accessibility, timeliness of provision of information to the users for making relevant decisions, including submission of financial, statistic, managerial, tax and other reports;
- Completeness, timeliness and reliability of reflection in accounting of operations of the Bank;
- Compliance;
- Efficiency of personnel management;
- Prevention of the use of Bank's services for illegal purposes, detection and prevention of financial transactions related to legalization (laundering) of proceeds from crime, or financing of terrorism and financing of the proliferation of weapons of mass destruction.

The system of internal control covers all the stages of the Bank's performance and includes the following:

1. Preliminary control performed before the actual implementation of the operations by the Bank and ensured as related to the personnel selection, attraction and placing the proceeds, material resources, selection of the supplies of goods, works and services, development and introduction of the new products;
2. Current control performed during implementation of the operations by the Bank; it includes the control over compliance with the legislative acts and internal regulation instruments of the Bank related to the implementation of these operations, the procedure of making decisions on their implementation, control over the complete, timely and accurate reflection of operations in accounting and reporting, control over the preservation of the property of the Bank;
3. Further control carried out upon the operations of the Bank are complete; it lies in the verification of the validity and correctness of transactions, the compliance of the documents with the established forms and requirements for their execution, the compliance of the duties performed by the employees with their job descriptions, the identification of the causes of violations and shortcomings, and the determination of measures for their elimination, control over the fulfillment of the planned performance indicators identified in the Strategy of Development of the Bank, its business plans and budget, verification of completeness and reliability of the data of financial, statistical, managerial, tax and other statements, formed by the Bank, displaying of the transactions in accounting and statements, control over the preservation of the Bank's property.

Subjects of system of internal control in the Bank are:

- Supervisory Board,
- Management Board,
- Internal Audit Department,
- Chief Accountant and Deputies to Chief Accountant,
- Managers of Directorates and Offices of the Bank,
- Risk Management Department,
- Department of Compliance,
- Managers of independent structural divisions and employees performing the internal control within the powers established by internal regulation instruments of the Bank.

Procedures of internal control of the Bank foresee the following:

- Provision of reports to the collegial bodies of the Bank related to the level of risks in the Bank, implementation of the budget, assessments of efficiency of functioning of the internal control system, meeting the established indices of performance;
- Multi-level control over the performance of the Bank;
- List of measures (actions) of the Bank to ensure control over the existing of the assets of the Bank;

- List of measures (actions) of the Bank to ensure control over the access to restricted information;
- Reflection of all operations of the Bank in the accounting;
- Verification of completeness, reliability and timeliness of execution of financial, statistic, managerial, tax and other reports;
- Permanent evaluation of adequacy and efficiency of the internal control system.

With regard to the performance of the internal audit system during 2019, the Internal Audit Department within the work plan completed the following:

1) Conducted 14 audits, projects and consultations, in particular: five general audits, five thematic audits, two further controls, one project, and one consultation.

2) Found and reflected in the Audit Reports the issues related to the risk in the performance of the Bank, in particular, as related to the following:

- Credit transactions and estimation of the credit risk amount;
- Organization of the process of financial monitoring, prevention and counteraction of legalization of the incomes of crime /financing of terrorism;
- Organization of collection and transportation of valuables;
- Organization and status of the system of information security management;
- Correctness of estimation / obtaining of the revenues of the Bank.

3) Estimated the level of risk per the areas of the banking performance (processes), including per risk category, and assessed the efficiency of functioning of the internal control system.

4) Provided the relevant recommendations and performed the monitoring of their implementation aiming at recovery of the violations found by audit during 2019, strengthen the internal control and minimization of the risks.

The Audit Reports following the results of the audits conducted and results of monitoring of the state of implementation of the audit recommendations were submitted to Supervisory Board/Audit Committee of Supervisory Board and Management Board for consideration.

In the International Standards of Financial Statements there is no requirements related to the disclosure of information related to the system of internal audit (control) in the notes to annual financial statements.

11) Facts of alienation during 2019 of assets in excess of the size established in the Bank's Articles of Association.

During 2019, there were no case of alienation of assets in excess of the size established in the Bank's Articles of Association.

12) Results of valuation of assets in the event of their sale during 2019 in amount exceeding the amount established in the Articles of Association of JSB "UKRGASBANK".

During 2019, there were no cases of alienation of assets in the amount exceeding the amount specified in the Articles of Association of JSB "UKRGASBANK", in connection with it no assessment of such assets was performed.

13) Operations with associated persons, including within the limits of the same industrial and financial group or other association, performed during 2018. Such information is not a commercial secret.

The amount of all claims of the Bank granted to the persons associated with the Bank (determined in accordance with the requirements of Article 52 of the Law of Ukraine "On Banks and Banking") as of the end of 2019 amounted to 19.9 million UAH. During 2019, the Bank adhered to the Standard of Maximum Credit Risk for Transactions with Bank-Related Persons (H9).

14) The used recommendations of the bodies that carry out the state regulation of financial services markets regarding the auditor's report.

There is no information related existence of recommendations of the bodies carrying out the state regulation of financial services markets regarding the auditor's report.

15) Information on the external auditor of Supervisory Board of JSB "UKRGASBANK" assigned during 2019.

Ernst & Young Audit Services LLC (Code according to USREOU 33306921, location: 19a, Khreshchatyk St., Kyiv, Ukraine, 01001) performed the audit of the annual financial statements of JSB "UKRGASBANK" prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2019 (Minutes of Meeting of Supervisory Board of JSB "UKRGASBANK" dated 12 September 2019 No. 17).

16) Activity of external auditor, in particular:

- Overall experience of audit performance;

Date of registration of Ernst and Young Audit Services LLC is 13 December 2004, date of issuance of certificate of Chamber of Auditors of Ukraine is 27 January 2005 (15 years).

- Number of years during which the company provides the audit services to the Bank; Ernst and Young Audit Services LLC provides the audit services from 2015.

- List of other audit services provided to the Bank during 2019; During 2019, other audit services were not provided.

- Cases of conflict of interests and/or overlapping of external auditor functions; During 2019, no cases of conflict of interests and/or overlapping of external auditor functions recorded.

- Rotation of auditors in financial institution during last five years;

- For 2015 - provision of audit services for annual financial statements prepared in accordance with the International Financial Reporting Standards by Ernst and Young Audit Services LLC.
- For 2016 - provision of audit services for annual financial statements prepared in accordance with the International Financial Reporting Standards by Ernst and Young Audit Services LLC.
- For 2017 - provision of audit services for annual financial statements prepared in accordance with the International Financial Reporting Standards by Ernst and Young Audit Services LLC.
- For 2018 - provision of audit services for annual financial statements prepared in accordance with the International Financial Reporting Standards by Ernst and Young Audit Services LLC.
- For 2019 - provision of audit services for annual financial statements prepared in accordance with the International Financial Reporting Standards by Ernst and Young Audit Services LLC.

- Penalties applied to auditor by Chamber of Auditors of Ukraine during 2019, and facts of submission of unreliable statement of JSB "UKRGASBNK" that is confirmed by audit conclusion detected by bodies performing state regulation of financial service markets;

Based on the information received from Ernst and Young Audit Services LLC, during 2019 no penalty was applied to the auditor, no facts of submission of unreliable statements confirmed by audit conclusion are recorded.

17) Protection by JSB “UKRGASBNK” of the rights of customers, in particular:

- availability of mechanism of complaints’ processing;

Complaints are processed in accordance with the Regulations on the Procedure for Dealing with Complaints in PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK “UKRGASBANK”.

- First name, name, patronymic name of an employee of the Bank authorized to review the complaints;

Oleh Anatoliyovych Savoshchenko, Regional Distribution Department Director, is an authorized person of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK “UKRGASBANK” for review of complaints.

- Status of review by the Bank during 2019 of complaints related to the financial services rendering (nature, number of complaints received, and number of complaints satisfied);

In 2019, 211 complaints were addressed for consideration to Regional Distribution Department in regard with the provision of financial services by the Bank. The issues presented in complaints related to the following:

- Refund of money due to non-receipt at ATM;
- Return of erroneously or incorrectly transferred money from an account;
- Disagreement with the amount credited to/withdrawn from the card account in accordance with the tariffs;
- Refund of money withdrawn by unknown persons from the card accounts;
- Refund of proceeds over-paid under the loan agreement.

35 complaints related to financial services in 2019 were satisfied.

- The existence of lawsuits in court regarding the provision of financial services by the Bank and the results of their consideration;

Within the period from 01 January 2019 through 31 December 2019, 106 claims (including counterclaims) of consumers of financial services to JSB “UKRGASBANK” as related to provision of financial services by the Bank, out of which 80 non-property claims (mainly on invalidation of loan agreements and mortgage agreements) and 26 property claims were in court proceedings.

18) Information about corporate governance in the Bank, submission of which is foreseen by the legislation in the area of regulation of certain markets of financial services and/or accepted in accordance with such laws normative and legal acts of the bodies performing governmental regulation of the markets of financial services.

Corporate government in JSB “UKRGASBANK” is performed in accordance with the requirements of the legislation of Ukraine, Corporate Governance Principles approved by decision of National Commission on Securities and Fund Market dated 22 July 2014 No. 955, Methodic recommendations related to corporate governance in the banks of Ukraine approved by decision of Management Board of National Bank of Ukraine dated 03 December 2018 No. 814-рш.

The decision of General Meeting of Shareholders dated 25 April 2017 (Minutes of Meeting No. 1) approved the Corporate Governance Code of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK “UKRGASBANK”, determining the basic principles of corporate governance in JSB “UKRGASBANK”, structure of corporate governance, loyalty and responsibility of the Bank’s officials, internal control system, information disclosure and transparency in the Bank’s activities, environmental liability, etc.

In accordance with the above said, Corporate Governance in the Bank bases on the following principles:

- Ensuring the protection of the rights and legitimate interests of shareholders, and equal treatment of all shareholders irrespective of the number of shares owned by them and other factors.
- Rational and clear distribution of powers between Supervisory Board and Management Board, as well as the introduction of a proper system of accountability and control, the creation of the necessary conditions for the timely exchange of information and effective interaction between them.
- Respect for the rights and consideration of the legitimate interests of the persons concerned (employees, creditors, state agencies and local self-government bodies, etc.) and active cooperation with them in order to create prosperity, workplaces and ensure financial stability of the Bank.
- Determination by General Meeting of Shareholders of the objectives and main areas of the Bank's performance.
- Strategic management by Supervisory Board of the Bank's performance and ensuring of effective control over the activity of Management Board.
- Well-balanced, efficient and effective management of current activities by Management Board.
- Timely disclosure of complete and reliable information about the Bank, including its financial status, economic indicators, significant events, ownership structure and management in order to allow users making informed decisions.
- Effective control over the financial and business operations of the Bank in order to protect the rights and legitimate interests of the Bank's shareholders and customers.

These principles form the policy of corporate governance adherence to which is obligatory for all structural divisions of the Bank.

Additional Information Subject to Disclosure in the Report on Management in accordance with the Instruction on the Procedure of Development and Disclosure of Financial Statements of Banks of Ukraine, approved by Resolution of National Bank of Ukraine dated 24 October 2011 No. 373

During 2019, the banking sector obtained a record net revenue of 59.6 billion UAH, which is almost three times more than in 2018. Out of 75 active banks, only six institutions were unprofitable. The total loss constituted 0.2 billion UAH. The profitability of banks was the highest for the whole period of the banking sector operation, although more than half of all profits were received by one of the state-owned banks. The return on equity in the sector reached 34%. This was made possible by both the rapid increase in operating income and the lowest contribution to reserves for assets transactions in decades.

In 2019, NBU started decreasing the discount rate (as of 01 January 2020 it constituted 13.5% and was lowered during a year for 4.5 p.p.). Deposit and loan rates have also started to lower, but not at such a rapid pace. At the same time, the credit portfolio of banks did not show rapid growth, which testifies to the lack of quality borrowers. Hryvnia loans, including mortgage rates, are expected to reach historic lows in 2020.

29 banks, which accounted for more than 90% of the banking system's assets, were stress-tested in 2019. This determined the required (target) level of capital adequacy for banks. Most financial institutions have already taken steps to mitigate risks, or are nearing the required level of capital adequacy.

Throughout the year, the funding base grew. As of 01 January 2020, all banks are performing foreign currency LCR (minimum value is 100%), and the LCR standard in all currencies (minimum value is 100%) has been violated by only one institution with a 0.1% sector share.

The share of non-performing loans decreased to 48.4% at the end of 2019. The main factors included the provision of new loans to individuals and write-offs of non-performing loans at the expense of reserves, resulting in the share of retail non-performing loans reduced to 34.1% at the end of 2019.

The market share of public financial institutions remained almost unchanged: 55.2% and 61.4% on the net assets and deposits of the population, respectively. The level of concentration in the sector has not changed over the last three years: at the end of last year, 92 banks accounted for 92% of net assets.

The assets of the banking system as of 01 January 2020 constitutes 1 494 billion UAH, the share of JSB "UKRGASBANK" in assets constitutes 8.0% (119.1 billion UAH), based on the classification of NBU for 2019, the Bank is the state-owned one.

The credit portfolio of the banking system as of 01 January 2020 constitutes 562 billion UAH, the share of JSB "UKRGASBANK" in the credit portfolio constitutes 6.9% (39 billion UAH).

The portfolio of the customers' funds of the banking system of Ukraine as of 01 January 2020 constitutes 1 098 billion UAH, the share of JSB "UKRGASBANK" in the portfolio of the customers' funds constitutes 9.4% (103 billion UAH).

During 2019, the Bank accomplished all the liabilities undertaken in a timely manner and in full.

In 2019, JSB "UKRGASBANK" continued development as a leading "eco-bank" of Ukraine, focusing its activity on the funding the projects of the corporate customers, small and medium business entities, and private persons connected with the technologies of energy efficiency, renewable energy, resource efficiency, pollution reduction, and so on.

As of 01 January 2019, in 154 cities and towns of Ukraine 250 active sales points are available for the customers. As of 01 January 2020, the number of customers of the Bank constitutes 2 136 thousand, including: 2 067 thousand – retail business customers, 63 thousand – small and medium business customers, and 6 thousand – corporate customers.

The Bank accepts deposits from individuals and legal entities, provides loans, provides payment services in Ukraine and transfers funds abroad, conducts currency exchange operations, securities transactions, trade financing operations and provides other banking services to its customers.

As of 01 January 2020:

- Credit portfolio of the customers – 39.0 billion UAH, including:
 - Credit portfolio of the corporate business 31.2 billion UAH;
 - Credit portfolio of the small and medium business constitutes 5.0 billion UAH;
 - Credit portfolio of the retail business constitutes 2.8 billion UAH;
- Customers' funds – 103.4 billion UAH, including:
 - Portfolio of the corporate customers' funds constitutes 70.8 billion UAH;
 - Portfolio of the small and medium business customers' funds constitutes 8.2 billion UAH;
 - Portfolio of the retail business' funds constitutes 24.3 billion UAH.

Transactions with the Payment Cards

As of 01 January 2020, about 1 665 thousand payment cards issued by JSB “UKRGASBANK” are in circulation, more than 851 thousand out of them are active. In 2019, the Bank actively continued developing own multi-platform mobile application “ECO Bank” (Garmin Pay, Google Pay and Apple Pay, cashback, opportunity to pay for the utilities, perform the currency exchange transactions, etc. have been already introduced up to date). The number of users of this application as of the end 2019 exceeded 257 thousand.

Treasury Operations and Investments. Securities

As of 01 January 2020, the volume of funds in other banks amounted up to 27 748 million UAH, the volume of funds of other banks – 3 282 million UAH.

The volume of the security portfolio as of 01 January 2020 constituted 30 410 million UAH. During the second quarter 2019, the Bank entered the international capital markets in the acquisition of US treasury bonds, the share of which in the security portfolio of the Bank as of the end 2019 constituted 24%, or 7 205 million UAH.

During 2019, the Bank actively developed the trade financing operations. The portfolio of these operations as of 01 January 2020 amounted up to 9.8 billion UAH, including open letters of credit 1.9 billion UAH, received letters of credit 1.2 billion UAH, securities provided 2.8 billion UAH, securities received 2.8 billion UAH, instruments of own liabilities 1.1 billion UAH.

Based on the results of 2019, JSB “UKRGASBANK” made a profit of 1 289 million UAH, exceeding the result of 2018 on 68%. The following factors influenced the profit: operational revenue of 4 495 million UAH (including net interest income after expenses on credit losses amounted to 2 123 million UAH, non-interest incomes – 2 139 million UAH, changes of expected credit losses for other assets – 233 million UAH), administrative and other operational expenditures 3 006 million UAH and other reserves 144 million UAH.

The Bank has improved its performance so that the return on assets constituted 1.32%, up from last year by 0.35 p.p., return on equity was 20.49%, growing as compared with 2018 on 6.69 p.p.

The Bank's operating revenue in 2019 constituted 4 495 million UAH, including net interest income after expenses on credit losses 2 123 million UAH (interest income constitutes 9 664 million UAH, interest expenses – 6 924 million UAH, expenses on credit losses 617 million UAH), the total net non-interest income amounted to 2 139 million UAH. The largest share in non-interest income is taken by: net commission income, which is 1 065 million UAH (including 1 363 million UAH commission income, which is 398 million UAH, or 41% more than last year), positive result from sale of assets held for sale, fixed assets and intangible assets 432 million UAH, result from transactions with derivatives 142 million UAH, net income from operations with foreign currencies and bank metals 159 million UAH, remuneration for the Bank from insurance companies and banks 110 million UAH, fines received 59 million UAH, net income from investments at fair value through other comprehensive income 66 million UAH, return on previously written off assets 38 million UAH, net income from investment property 17 million UAH, other income of 52 million UAH.

The largest specific weight in the structure of the Bank's operating income is traditionally occupied by interest income, the volume of which increased during 2019 by 1 548 million UAH (+19%) and as of 01 January 2020 amounted up to 9 664 million UAH. The largest share in the interest incomes is taken by the revenues of the corporate business (48%) and the revenues from the assets management (38%).

The net interest spread for 2019 constituted 3.3%, margin was 3.2%.

In 2019, the Bank continued to develop trade finance operations, which resulted in increasing of the amount of commission income from guarantees and letters of credit by 63% to 132 million UAH. At the same time, the largest share in the Bank's commission income belongs to the income from settlement transactions (66%).

During 2019, the amount of non-interest expenses excluding changes in expected credit losses on other assets and other reserves amounted to 3006 million UAH. The ratio of administrative and other operating expenses before operating revenue to the change in reserves constituted 62%.

Guided by a prudent policy on administrative and other operating costs, the Bank saved 127 million UAH as compared to the plan.

The policy of rational use of resources also extended to capital investments. Therefore, for 2019 savings of capital expenses made 202 million UAH at the actual amount of capital expenses being 235 million UAH.

During 2019, the Bank received the following recognitions:

- Became the first Ukrainian bank winning the nomination "CEE's Best Bank for Sustainable Finance 2019" of "Award for Excellence 2019" rating, concluded by a reputable financial publication "Euromoney";
- Winner of nomination "Services to Legal Entities" in "Financial Recognition – 2019" Rating;
- Winner of nominations "SME Support" and "Best Eco-Bank" from Business Magazine;
- Included into TOP-3 of nomination "Best Trade Finance Bank in Eastern Europe in 2019";
- Became the only Ukrainian bank included into TOP-20 "The Most Successful Ukrainian Brands" (Vlast Deneg Magazine (*Power of Money*));
- For the third consecutive year in the TOP-3 of "Rating of the Most Reliable Banks of Ukraine", which was presented in the regular issue of "Lichnyi Schet" (*Personal Account*);
- Became the only Ukrainian bank included into TOP-20 of "The Most Innovative Companies of Ukraine" following the rating of Business Edition "Dilova Stolytsya" (*Business Capital*).

On 20 December 2019, Rating Agency "Expert-Rating" made a decision on updating the credit rating of JSB "UKRGASBANK" per national scale at the level of "uaAA+".

On 21 December 2019, Rating Agency "IBI Rating" informed of increase of credit rating of JSB "UKRGASBANK" at the level of "uaAA" with the change of outlook of the rating from "Stable" to "Evolving". The rating of reliability of the banking deposits has been confirmed at "5+" level (excellent reliability).

On 23 December 2019, International Agency "Fitch Ratings" confirmed the long-term rating of JSB "UKRGASBANK" in foreign and national currencies at "B" level with "Positive" outlook. Rating meets the sovereign credit rating of Ukraine. Confirmation of the rating indicates constant macroeconomic stability and stabilization of the country's creditworthiness, which has a positive impact on the Bank's creditworthiness.

Small and Medium Business

It is planned to increase the customer base due to the development of alternative sales channels, implementation of digital solutions, development of transaction banking, optimization of credit processes, improvement of business intelligence, creation of targeted customer products and programs, increasing attention to the micro segment, activation of the existing customer base.

Corporate Business

Corporate banking is currently the largest segment of the Bank in terms of business volume. The Bank will focus on increasing the share of the private sector and reducing the share of public sector enterprises. In the corporate segment, the Bank will also develop transactional banking by increasing the volume of transactions using documentary letters of credit, guarantees / reserve letters of credit, documentary collections, trade credit agreements, etc.

Retail Business and Alternative Sales Channels

The Bank plans to increase its customer base by attracting the economically active population of working age. Digital solutions will be implemented to serve more customers. Due to its own processing center, it is possible to quickly configure and target card products. Close synergies are planned with small and medium-sized businesses and corporate banking on salary projects.

Equity

The Bank's policy is to maintain a stable level of equity in order to ensure adequate confidence from investors, creditors and other market participants, as well as sustainable business development in the future. At the same time, the impact of the level of capital on shareholders' profits is taken into account, therefore the Bank recognizes the need for a balance between increasing profitability, which is possible as a result of increasing the ratio of borrowed capital and equity, and the benefits and stability provided by financial stability.

The National Bank of Ukraine (hereinafter also the NBU), as the main regulatory body, sets the requirements for the amount of the Bank's capital as a whole, and monitors the implementation of these requirements on the basis of reporting according to national standards. The Bank and its individual operations are under the direct supervision of national regulators.

According to the existing capital requirements set by the NBU, banks must maintain a ratio of capital to risk-weighted assets ("capital adequacy ratio according to Ukrainian regulatory requirements") above a certain set minimum. As of 31 December 2019 and 31 December 2018, this minimum level is 10%. The Bank meets the regulatory requirements for the level of capital for the periods ended 31 December 2019 and 31 December 2018.

The Bank reviews its compliance with minimum capital requirements, including capital adequacy requirements estimated in accordance with the 1988 Basel Accord, as set out in the Basel Committee on Banking Supervision document, "International Convergence: Capital Measurements and Capital Standards" (as amended in April 1998) and the Amendment to the Basel Accord to take into account market risks (as amended in November 2005), known as Basel I. As of 31 December 2019 and 31 December 2018, the minimum level of capital adequacy indices according to Basel I requirements is 8% and the minimum capital adequacy of the first level is 4%.

The below table demonstrates the composition of the Bank's capital position estimated against the requirements of Basel Accord as of 31 December 2019 and 2018:

	<i>31 December 2019</i>	<i>31 December 2018</i>
		(Thousand UAH)
Tier 1 capital	8,525,802	7,130,650
Tier 2 capital	(271,318)	(1,450,067)
Total capital	8,254,484	5,680,583
Risk-weighted assets	59,889,856	55,792,995
Tier 1 capital ratio	14.24%	12.78%
Total capital ratio	13.78%	10.18%

As of 31 December 2019, the Bank adhered to the capital adequacy ratio estimated in accordance with the provisions of the Basel Accord.

Liquidity risk and management of funding sources.

Liquidity risk is the risk occurring when a bank fails to meet its obligations in a timely manner without incurring unacceptable losses, or to manage unplanned cash outflows, changes in funding sources and/or meet off-balance sheet liabilities. To limit this risk, management uses various sources of funding in addition to its core deposit base. Management also performs day-to-day liquidity management of the Bank, taking into consideration the balances on correspondent accounts and plans for receipts and outflows; management of current liquidity for up to one month by determining the Bank's needs in liquid funds and determining the size of the liquidity gap during the specified period; liquidity management for a period of more than one month by assessing the degree of inconsistency of the term structure of assets with the term structure of liabilities and developing measures to maintain the appropriate level of liquidity of the Bank in the future.

Analysis of financial liabilities grouped on the basis of terms from the reporting date to the maturity date in accordance with the relevant agreement.

Tables below present the information related to the future undiscounted cash flows of financial liabilities as of 31 December 2019 and 31 December 2018 in terms of the periods left until repayment. Derivative instruments, repayable by delivery of the underlying assets, are presented in terms of amounts receivable and payable on periods left until repayment. Liabilities subject to repayment on demand are considered to be payable at the earliest possible date. However, the Bank expects that a significant part of customers will not require payments at the earliest possible date.

	(Thousand UAH)				
<i>Financial Liabilities As of 31 December 2019</i>	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Due to credit institutions	3,232,702	1,411,506	1,151,353	136,128	5,931,689
<i>Gross settled derivative financial instruments:</i>					
Amounts payable	(1,529,595)	–	–	–	(1,529,595)
Due to credit institutions	1,573,219	–	–	–	1,573,219
Due to customers	88,551,534	14,911,856	887,177	1,674	104,352,241
Lease liability	16,862	43,890	82,652	–	143,404
Other liabilities	657,550	–	–	–	657,550
Total undiscounted financial liabilities	92,502,272	16,367,252	2,121,182	137,802	111,128,508

	(Thousand UAH)				
<i>Financial Liabilities As of 31 December 2018</i>	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Due to the National Bank of Ukraine	4,291,693	26,981	–	–	4,318,674
Due to credit institutions	3,704,960	919,729	1,301,912	–	5,926,601
<i>Gross settled derivative financial instruments:</i>					
Amounts payable	(668,531)	–	–	–	(668,531)
Due to credit institutions	670,360	–	–	–	670,360
Due to customers	50,096,209	14,175,039	1,745,708	197,542	66,214,498
Other liabilities	316,805	–	–	–	316,805
Total undiscounted financial liabilities	58,411,496	15,121,749	3,047,620	197,542	76,778,407

Activity in the Area of Research and Developments.

During 2019, constant work was carried out to improve the mobile application “Eco-Bank” and increase the number of services provided to the customers. Currently, the main services presented in the Annex allow customers to make transfers between cards, buy / sell foreign currency, etc.

Holders of payment cards of JSB “UKRGASBANK” have the opportunity to pay for purchases using their Android-smartphones, smart watches like Garmin, iPhone and Apple Watch through Google Pay, Garmin Pay and ApplePay technologies.

The system of alternative channels of communication with customers has been implemented, including the functionality of communication of contact center employees with customers through a single window using instant messaging systems: Telegram, Viber, Facebook, SMS, mail.

JSB “UKRGASBANK” as the owner of the international money transfer system Welsend cooperates with a non-resident participant (resident of Canada) of the Welsend System - Meest Corporation Inc., which provides services to customers through the Perekaz24 website, which allowed in 2019 not just sending cross-border transfers with payment in Ukraine at customer service points, but sending cross-border transfers in US dollars and euros with automatic payment in UAH to payment cards issued by Ukrainian banks.

Financial Mechanisms.

The policy of financial activity of the Bank is directed to gaining of acceptable level of risk-weighted revenue, and ensuring the growth of investment attractiveness of the Bank, strengthening the positions in the banking market, improving the quality of service, improving the quality of the credit portfolio, increasing the customer base, increasing non-interest income, optimizing the product line, improving sales channels, improving marketing campaigns. The Bank plans to develop the cooperation with international finance institutions, documentary business, etc.

Human Resources.

As of the end of the reported period, the general number of JSB “UKRGASBANK” personnel constituted 4319 persons, out of them 70% – women, 30% – men.

The number of employees of JSB “UKRGASBANK” during the reporting period increased by 132 people, in total, the increase in the number of employees is associated with the development of business areas and the opening of new offices of JSB “UKRGASBANK”.

More than 78% of the employees are from 25 to 49 years old, the average age of the employees is 39 years. The average experience of work in the Bank is 4 years.

Intellectual Capital.

The Bank’s personnel management policy is based on the formation of a cohesive and highly professional team. To achieve this objective, the professional level of employees is constantly being improved. During 2019, the Bank’s employees underwent trainings and distance learning courses, took part in conferences and open educational events.

In order to ensure the rights of the employees and employment provision, in JSB “UKRGASBANK” the Personnel Policy and the procedures of personnel management is introduced. In particular, in accordance with the Policy, the personnel policy of the Bank is based on the principle of equal opportunities and mutual respect between all the employees independently of the positions, divisions where employees work. Each employee has the right for equal respect and decent attitude to his/her work and personality from all employees and managers of the Bank.

A special focus in staff training in 2019 was aimed at the development of ECO area, new training programs were created to promote the installation of solar power plants, solar panels and other energy-saving equipment for private customers.

Besides, the level of ECO-responsibility and awareness of the staff is constantly increased, and the eco-initiatives of employees at the level of the Bank are supported.

The Bank guarantees high social standards, decent salary, training and development of staff, ensures labor protection and staff safety.

Technological Resources.

In 2019, the transfer of the critical infrastructure to the new own Data Processing Center was completed. This allowed ensuring the compliance with the requirements of business continuity by placing commercial data in a modern data center in accordance with security and fault tolerance standards.

A Cisco FirePower internal firewall has been implemented to optimize security without compromising network performance and to implement in-depth monitoring and control to quickly detect and block threats.

In accordance with the Resolution of the Management Board of the National Bank of Ukraine dated 26 September 2019 No. 118, the transition to the international bank account number IBAN was accomplished.

The mode of round-the-clock (24/7) service of payments of business customers through the Client-bank Internet system is introduced.

Electronic document control for the foreign economic contracts of business customers was introduced through the Client-Bank Internet system, which enabled the customers to make payments without having to visit the Bank's offices.

The possibility to form and store in electronic form (with an electronic signature) documents for cash transactions has been implemented.

The project to improve the Bank's Electronic Document Control System (SED DOCs) in terms of implementing the electronic signature "Author", integration with ABS "Scrooge", ERP and IDM systems, automation and transition of a number of documents into the electronic format, including accounting control documents and movement of fixed assets, documents on compliance risk management, connection to the general electronic document control of online mail exchange with the Postal-Portal decision of the NBU "Web-FD" was implemented.

The project on introduction of the "Zberihach" software was realized.

In order to ensure the video connection of the Bank with the NBU the Cisco Expressway system was introduced.

At all the working stations of the Bank operation system Microsoft Windows 7 was replaced with Microsoft Windows 10.

Ecological and Social Aspects in the Bank's Activity.

The Bank has own Policy of Ecological and Social Responsibility of JSB "UKRGASBANK" in place and Provisions on Assessment, Monitoring, Accountability as Related to Ecological and Social Risks of the Projects in JSB "UKRGASBANK". In 2019, the revision of Policy of Ecological and Social Responsibility of JSB "UKRGASBANK" was approved.

All the projects funded by the Bank are subject to proper verification and assessment of compliance with the social and ecological requirements of ecological and social Policy of the Bank. The projects funded by the Bank are developed and performed in accordance with the best Ukrainian and international practices. In order to help customers and their projects achieve this, the Bank is guided by eight requirements in the social and environmental fields as regards the implementation of projects developed by the International Finance Corporation. In its activity, the Bank is guided by the principles of sustainable development and performance standards of International Finance Corporation (PS IFC):

PS1 Assessment and Management of Environmental and Social Risks and Impacts;

PS2 Labor and Working Conditions;

PS3 Resource Efficiency and Pollution Prevention;

PS4 Health and Safety of Population;

PS5 Land Acquisition and Involuntary Resettlement;

PS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources;

PS7 Indigenous Peoples;

PS8 Cultural Heritage.

Projects related to alternative energy and energy efficiency as well as other projects according to the criterion of materiality are assessed in accordance with the Bank's requirements for environmental and social policy and efficiency. Project size, location and potential environmental and social impacts shall be considered. If the social and environmental assessment reveals that the project to be credited does not meet or will not fully comply with the specified requirements, the Bank shall develop and coordinate with customer the Environmental and Social Action Plan to achieve the relevant standard of the Bank's activities during the specified period. Besides, in case of significant legislative deviations in social aspects and environmental issues, deferment conditions for crediting shall be established, and only after such deviations are removed the Bank shall provide the crediting for a facility.

In 2019, the Bank assessed 156 customers (including eco-projects) for the presence / absence of social and environmental risks, of which 83 were low-risk, 71 were medium-risk and only 2 were high-risk. For comparison, in 2018 the Bank assessed 146 customers (including eco-projects) for the presence / absence of social and environmental risks, of which only 1 was classified as a high level of risk.

Employment, Respect for Human Rights, the Fight against Corruption.

Aiming at ensuring the rights of employees and ensuring the employment, the Regulations on Personnel Policy and HR Management Procedures is in effect in JSB "UKRGASBANK".

In particular, in line with the Regulations, the personnel policy of the Bank is based on the principle of equal opportunities and mutual respect between all employees independently on the positions, divisions where the employees work. Each employee is entitled for the equal respect and a decent attitude to the respective work and personality from all employees and managers of the Bank. Any discrimination is forbidden, specifically, violation of the principle of equality of rights and opportunities, direct or indirect restriction of rights depending on race, skin color, political, religious and other beliefs, sex, gender identity, sexual orientation, ethnic, social and foreign origin, age, state of health, disability, suspicion or presence of HIV/AIDS, family and property status, family responsibilities, place of residence, membership in a trade union or other association of citizens, participation in a strike, application or intent to apply to a court or other bodies for the protection of own rights or to provide support to other employees in the protection of their rights, on linguistic or other grounds, not related to the nature of the work or the conditions for its implementation. Besides, the Bank employees established the primary trade union organization "The Trade Union of JSB "UKRGASBANK" Workers".

The Bank's activities are based on trust and mutual respect between all its managers / employees. The Bank adheres to all applicable laws, ensuring equal opportunities for promotion of all employees. Discrimination on the grounds of race, color, sex, country of origin, age, religion, disability, marital status, pregnancy, sexual orientation, gender identity and expression, nationality or any other legally protected sign is prohibited.

Every employee of the Bank is obliged to:

- treat colleagues fairly and with respect;
- recognize and respect customers and other third persons with whom the Bank has relations as partners;
- in no way discriminate against colleagues.

The Bank recognizes and guarantees equality with customers. The main objective of the Bank is to become the best partner and provider of banking services for the customers. Relations with the customers, and the provision of services to customers, are carried out in a way that best meets customer requirements and allows for long-term relationships based on cooperation and trust.

The Bank recognizes and guarantees equality with the suppliers. The Bank shall not use the advantage in a contractual position in such a way that it unfairly, or in a way that does not comply with the principles of rationality, violates the rights of the suppliers.

The Bank recognizes equality with the competitors. Relationships with the Bank's competitors are based on the principles of honesty and mutual respect in accordance with the requirements of the

antimonopoly legislation of Ukraine. The Bank does not enter into unfair agreements that do not comply with the pricing policy, and adheres to the requirements of fair competition practice.

The Bank is guided by the principle of “zero tolerance” to any manifestations of corruption and takes all measures provided by law to prevent, detect and combat corruption and related actions (practices) in its internal activities, as well as in legal relations with customers, contractors and other legal entities or individuals with whom business relations are established, public authorities, local governments.

The Bank has introduced a system of training for the Bank’s employees, as well as a mechanism for prevention and control of corruption and violations:

- Restrictions on receiving / giving business gifts and representative expenses are set;
- The mechanism of confidential notification (“whistleblowing”) of potential and identified violations in the activities of the Bank and its employees while maintaining the confidentiality of notification is introduced.

The Anti-Corruption Program has been implemented in the Bank, and a Commissioner for the Implementation of the Anti-Corruption Program has been appointed.

Officials of the Bank.

The procedure for assignment and dismissal of officials of JSB “UKRGASBANK” is regulated by the requirements of the effective legislation of Ukraine, in particular, Labor Code of Ukraine, the Law of Ukraine “On Banks and Banking”, Decree of the Cabinet of Ministers of Ukraine dated 10 March 2017 No. 142 “Some Issues of Management of National Unitary Entities and Economic Partnerships, in Which More than 50 Percent of Shares in the Authorized Capital Belong to the State”, Articles of Association of JSB “UKRGASBANK”, and the Regulations on Licensing of the Banks approved by the Resolution of the Management Board of the National Bank of Ukraine dated 22 December 2018 No. 149.

Their powers are specified in the Articles of Association of the Bank, the Regulations on Supervisory Board and the Regulations on Management Board, relevant job descriptions, and Power of Attorney.

Relations with Associated Persons.

Supervisory Board has approved the Regulations on Procedure of Implementation of Operations with the Persons Associated with the Bank.

A person shall be considered associated with the Bank from the moment of arising the grounds for identification of such person as associated with the Bank.

The following persons are associated with the Bank:

- Controllers of the Bank.
- Persons possessing significant share in the Bank and the persons, through which these persons indirectly own significant share of the Bank.
- Managers of the Bank, Internal Audit Department Director, Chairperson and members of collegial bodies of Supervisory Board and Management Board.
- Related and affiliated persons of the Bank, including participants of the banking group.
- Persons possessing substantial share in related and affiliated persons of the Bank.
- Managers of legal entities and managers of the banks which are related and affiliated persons of the Bank, managers and members of committees of these entities.

The persons who in accordance with established by the National Bank of Ukraine grounds of nature of relations and/or nature of operations, are determined as persons associated with the Bank.

The following persons are not associated with the Bank:

On grounds of affiliation:

- The State of Ukraine (in person of relevant body of state power or management and/or subjects performing only on the basis of state ownership);
- Territorial community (represented by the relevant local government body);

- An international financial institution, with which the Government of Ukraine concluded an agreement of cooperation and for which according to the laws of Ukraine, privileges and immunities are established;

The Bank prepares a list of persons associated with the Bank that is approved by the Management Board on a monthly basis.

The Bank ensures the relevance of information about persons associated with the Bank based on changes in information related to a person identified by the Bank as associated, determination of new persons associated with the Bank, etc. The Bank is obliged to take measures in order to ensure the compliance of transactions with persons associated with the requirements of the legislation from the moment the signs of association of an individual or legal entity with the Bank occur.

The Bank is entitled to reject an operation with persons, with respect to which it is difficult or impossible to detect the existence or absence of association with the Bank. The Bank shall ensure the modification of the list of persons associated with the Bank based on the changes of information about a person who is recognized associated with the Bank, determination of new persons associated with the Bank, etc.

No later than the next working day upon recognition of a person to be associated with the Bank and introduction of information to the List of Persons Associated with the Bank, the Bank shall inform such persons of the fact in writing.

Operations requiring definition of a counteragent belonging to the persons associated with the Bank:

1. Operations resulting to occurrence of financial requirements to the persons associated with the Bank, i.e.:
 - Placement of deposits and funds in other banks;
 - Granting the loans, including based on bill of change;
 - Factoring transactions, financial leasing;
 - Purchase of debt securities;
 - Acquisition of shares and other non-fixed income securities;
 - Other operations resulting to occurrence of accounts receivable;
2. Provision of financial commitments by the Bank regarding persons associated with the Bank, i.e.:
 - provision/issuance by the Bank of guarantees, letters of comfort, letters of credit, vouchers and letters of acceptance;
 - granting by the Bank of liabilities in crediting.

Agreements with persons associated with the Bank cannot stipulate conditions that are not current market conditions. The Bank shall carry out active operations with persons associated with the Bank on conditions that do not differ from the conditions of active operations with other persons. The eligibility criteria for credit granting, as determined by the Credit Policy, cannot be adapted to the requirements and needs of individuals associated with the Bank.

Agreements with persons associated with the Bank on the conditions that are not current market conditions shall be considered void from the moment of their award.

The following conditions shall not be considered current market conditions:

- Acceptance of less security for liability implementation than required from other customers.
- Procurement from a person associated with the Bank of property of low quality or at an overvalued price.
- Investments in securities of a person associated with the Bank, which the Bank would not have invested into another enterprise.
- Payment for the goods and services of a person associated with the Bank at prices higher than usual, or in such circumstances, when the same goods and services of another person would not have been acquired at all.

- Selling to a person associated with the Bank of property for the price lower than the price which the Bank would have received from selling of such property to another person.
- Accrual of interest and commission fees for services rendered by the Bank to the persons associated with the Bank, which are smaller than usual.
- Accrual of interest for deposits attracted by the Bank from the persons associated with the Bank which are higher than usual.

The Bank is obliged to undertake measures in order to make the operations with the persons associated with the Bank compliant with the legislation of Ukraine from the moment of occurrence of signs of association of a physical person or legal entity with the Bank. The Bank is entitled to reject an operation with persons, with respect to which it is difficult or impossible to detect the existence or absence of association with the Bank.

Supervisory Board shall make decisions related to award of agreements by the Bank with the persons associated with the Bank in cases and following the procedure established by the effective legislation of Ukraine.

Management Board shall make decisions related to award of agreements by the Bank with the persons associated with the Bank following the procedure established by the effective legislation of Ukraine, and within the limits of powers (limits of maximum amount of credit risk per a person associated with the Bank), set by a decision of Supervisory Board of the Bank.

Management Board may delegate its powers in decision making related to award of agreements by the Bank with persons associated with the Bank to collegial bodies of the Bank and employees of the Bank.

If an agreement with a person associated with the Bank results in exceeding of the set by Supervisory Board of the Bank limit of maximum amount of credit risk per person associated with the Bank, the decision related to award of such agreement shall be made by Supervisory Board of the Bank given that it would not result in violation of the rated maximum amount of credit risk for operations with the persons associated with the Bank (H9).

Members of Supervisory Board, Management Board, collegial bodies of Management Board and employees of the Bank to whom the authority to perform active operations with persons associated with the Bank is delegated, cannot be involved into approval of decision related to granting the loans to the persons associated with them.

It is forbidden to the Bank to grant loans to any person for the repayment of any obligation by this person towards a person associated with the Bank, to acquire assets of a person associated with the Bank, except for the products produced by this person, and securities placed or signed by person associated with a Bank.

It is forbidden to the Bank to indirectly carry out the credit transactions with persons associated with the Bank, including placing funds in another bank for crediting by this bank the associated persons of the Bank.

During 2019, the Bank has consistently adhered to the standard for maximum exposure to credit risk related to operations with the persons associated to the Bank (N9) and legal restrictions for transactions with the persons associated with the Bank.

Procurement of the shares of JSB “UKRGASBANK”.

During 2019, no manager of the Bank procured the shares of JSB “UKRGASBANK”.

References, additional explanations of the amounts reflected in the annual financial statements.

Information on the financial situation is presented in annual financial statement with additional clarifications related to it in notes to annual financial statement.

Independent auditor's report

To the Shareholders and Management Board of PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK "UKRGASBANK"

Report on the audit of the financial statements

Opinion

We have audited the financial statements of PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK "UKRGASBANK" (the Bank), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements for the preparation of financial statements established by the Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to this matter.

Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter

How our audit addressed the key audit matter

Expected credit loss allowance on loans to customers

The assessment of expected credit loss allowance on loans to customers is a key area of judgment for the Bank's management. Due to the material nature of the loans to customers' balances, which represent 33% of total assets, and the related estimation uncertainty, expected credit loss allowance on loans to customers is considered a key audit matter.

Allocation of loans to customers to appropriate IFRS 9 stages, identification of factors of significant increase in credit risk since origination, changes in the risk of default, determining the probability of default, loss given default rates and expected cash flows for settlement of debt, including cash flows from collateral, require significant use of professional judgment and are inherently uncertain processes involving various assumptions. The use of different assumptions could produce significantly different estimates of expected credit loss allowance on loans to customers. The disclosures in respect of expected losses are presented in Note 10 "Loans to customers" and the Bank's management approach for assessing and managing credit risk is described in Note 29 "Risk management" to the financial statements.

Our audit procedures included analysis of methodology of estimation of expected credit loss allowance on loans to customers, assessment and testing the design and operating effectiveness of the Bank's internal controls over expected credit loss allowance calculations including quality of underlying data, e.g. days past due and assigned credit ratings.

We tested the assumptions underlying identification of significant increase in credit risk since origination and changes in risk of default. We tested models used by the Bank to calculate expected credit loss, including those used to determine probability of default and the loss given default rates, and tested the accuracy of inputs to those models, such as days past due and recovery rates. In addition, we assessed selection of forward-looking macroeconomic scenarios and their probability weightings to derive the economic inputs into the models.

For loans in Stage 3, we also tested the Bank's forecasts of future cash flows and valuation of underlying collateral.

We analysed associated disclosures in Note 10 to the financial statements in respect of expected credit loss allowance on loans to customers and the Bank's management approach for assessing and managing credit risk in Note 29 to the financial statements.

(ii)

Other information included in the Bank's Management Report and Annual Information of the Issuer of Securities for 2019

Other information comprises the information included in the Management Report (including the Corporate Governance report), which we obtained prior to the date of this auditor's report, and information included in the Bank's Annual Information of the Issuer of Securities, which is expected to be made available to us after that date, but does not include financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Supervisory Board for the financial statements

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

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

The Supervisory Board 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 skepticism throughout the audit. We also:

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

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

We also provide the Audit Committee of the Supervisory Board 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 the Audit Committee of the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Report in accordance with requirements of Section IV paragraph 11 "Instruction on preparation and publication of financial statements of banks in Ukraine" as approved by Resolution of the Board of National Bank of Ukraine No. 373 dated 24 October 2011 (as amended)

In accordance with Section IV paragraph 11 of "Instruction on preparation and publication of financial statements of banks in Ukraine" as approved by Resolution of the Board of National Bank of Ukraine No. 373 dated 24 October 2011 (as amended) ("Instruction No. 373"), we report the following:

In our opinion, based on the work undertaken in the course of our audit of the Bank's financial statements, Management report is prepared in accordance with requirements of Instruction No. 373 and information given is consistent with the financial statements.

We are required to report if we have identified material misstatements in the Management report in light of the knowledge and understanding obtained during the course of the audit of the Bank's financial statements. We have nothing to report in this regard.

Report on other legal and regulatory requirements

Pursuant to the requirements of Article 14 paragraph 4 of Law of Ukraine "On audit of financial statements and auditing activity" No. 2258-VIII (the "Law No. 2258-VIII") we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the auditor and period of engagement

We were first appointed as independent auditors to perform a statutory audit of the Bank's financial statements on 21 July 2015 by the Supervisory Board. Our appointment has been renewed annually by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Bank is five years.

Consistency of the independent auditor's report with the additional report to the Audit committee of the Supervisory Board

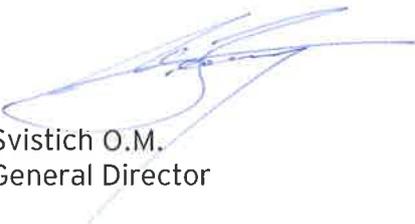
We confirm that our independent auditor's report is consistent with the additional report to the Audit Committee of the Supervisory Board of the Bank, which we issued on 13 May 2020 in accordance with Article 35 of Law No. 2258-VIII.

Provision of non-audit services

We declare that no prohibited non-audit services referred to in Article 6 paragraph 4 of Law No. 2258-VIII were provided. In addition, there are no non-audit services which were provided by us to the Bank and which have not been disclosed in the financial statements or the management report.

The partner in charge of the audit resulting in this independent auditor's report is Studynska Y.S.

For and on behalf of Ernst & Young Audit Services LLC:



Svistich O.M.
General Director

Registration number in the Register of
auditors and audit firms: 101250



Studynska Y.S.
Partner

Registration number in the Register of
auditors and audit firms: 101256



Movsesian L.S.
Auditor

Registration number in the Register of
auditors and audit firms: 101249

Kyiv, Ukraine

14 May 2020

Ernst & Young Audit Services LLC is included in
the Register of auditors and audit firms,
registration number: 3516.

STATEMENT OF FINANCIAL POSITION**As at 31 December 2019***(UAH thousands)*

	<i>Notes</i>	<i>31 December 2019</i>	<i>31 December 2018</i>
Assets			
Cash and cash equivalents	7	46,412,441	14,035,435
Precious metals		1,428	1,754
Due from credit institutions	8	293,570	727,055
Derivative financial assets	9	8	523
Loans to customers and financial leases	10	38,985,679	45,236,844
Trading securities		-	333
Investments at fair value through other comprehensive income	11	30,410,368	18,801,478
Investment property	12	228,857	278,028
Property and equipment and intangible assets	13	1,433,633	1,710,795
Right-of-use assets	14	166,159	X
Other property	15	735,298	799,144
Current income tax assets		-	4,921
Deferred income tax assets	16	-	75,432
Other assets	18	469,802	553,253
Total assets		119,137,243	82,224,995
Liabilities			
Due to the National Bank of Ukraine	19	-	4,303,770
Due to credit institutions	20	5,734,932	5,825,397
Derivative financial liabilities	9	43,624	1,830
Due to customers	21	103,359,581	65,121,926
Provisions for guarantees, commitments and legal risks	17, 23, 27	478,949	589,528
Lease liabilities	14	131,747	X
Current income tax liabilities		21,723	-
Deferred income tax liabilities	16	83,681	-
Other liabilities	18	1,028,522	626,529
Total liabilities		110,882,759	76,468,980
Equity			
Share capital	22	13,837,000	13,837,000
Acquired title of ownership to shares		(518,439)	(518,439)
Result from transactions with shareholders		(1,102,304)	(1,102,304)
Additional paid-in capital		135,942	135,942
Other provisions	22	830,986	(347,763)
Accumulated deficit		(4,928,701)	(6,248,421)
Total equity		8,254,484	5,756,015
Total equity and liabilities		119,137,243	82,224,995

Authorized and signed on behalf of the Bank's management by:

Chairman of the Management Board



Kyrylo Shevchenko

Chief Accountant

Nataliia Khrustalova

14 May 2020

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**For the year ended 31 December 2019***(UAH thousands)*

	<i>Notes</i>	31 December 2019	31 December 2018 (reclassified)
Interest income calculated using effective interest rate			
Loans to customers		5,667,839	4,897,602
Investments at fair value through other comprehensive income		2,936,018	2,243,828
Deposit certificates of National Bank of Ukraine		726,308	796,914
Due from credit institutions		202,070	118,671
		9,532,235	8,057,015
Other interest income			
Trading securities		-	14,982
Financial leases		131,702	43,758
		131,702	58,740
		9,663,937	8,115,755
Interest expense			
Due to the National Bank of Ukraine		(50,597)	(185,256)
Due to customers		(6,720,606)	(4,888,782)
Due to credit institutions		(135,797)	(81,866)
		(6,907,000)	(5,155,904)
Other interest expense			
Lease liability		(17,050)	X
		(17,050)	X
		(6,924,050)	(5,155,904)
Net interest income, before credit loss expense		2,739,887	2,959,851
Credit loss expense	7, 8, 10, 11,27	(617,381)	(557,773)
Net interest income, after credit loss expense		2,122,506	2,402,078
Losses on initial recognition of financial assets		(1,787)	(2,605)
Result from operations with loans to customers at fair value through profit or loss		-	2
Net fee and commission income	24	1,064,566	760,891
Net gains/(losses) on derecognition of financial assets at amortized cost		407	(3,309)
Gains/(losses) on trading securities		11	(3,277)
Net gains on investments at fair value through other comprehensive income		65,771	30,966
Net gains/(losses) on derecognition of financial liabilities		(1,121)	-

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

	<i>Notes</i>	31 December 2019	31 December 2018 (reclassified)
Net gains on foreign exchange operations and precious metals	25	158,736	115,286
Result on operations with derivative financial instruments		141,878	177,604
Net gains on investment property		17,009	19,712
Other income	26	694,009	157,387
Non-interest income		2,139,479	1,252,657
Staff costs	28	(1,488,543)	(1,202,617)
Other operating expense	28	(1,186,764)	(934,431)
Depreciation and amortisation	13	(292,518)	(297,129)
Depreciation of right-of-use assets		(38,088)	X
Changes in expected credit losses on other assets and other provisions	27	88,900	(338,836)
Non-interest expense		(2,917,013)	(2,773,013)
Profit before income tax		1,344,972	881,722
Income tax expense	16	(55,976)	(113,024)
Net profit		1,288,996	768,698
Other comprehensive income			
<i>Other comprehensive income that will not be reclassified subsequently to profit or loss</i>			
Revaluation of property and equipment		(31,595)	(4,843)
Income tax related to revaluation of property and equipment		5,687	872
		(25,908)	(3,971)
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Net change in fair value of debt instruments at fair value through other comprehensive income		1,332,211	(566,237)
Reclassification of cumulative (gain)/loss on disposal of debt instruments at fair value through other comprehensive income to profit or loss	22	(65,771)	(30,966)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	22	104,408	11,470
Income taxes related to revaluation of investments at fair value through other comprehensive income	22	(135,467)	-
		1,235,381	(585,733)
Other comprehensive income/(loss), after income tax		1,209,473	(589,704)
Total comprehensive income/(loss)		2,498,469	178,994
Weighted average number of shares (in thousands)		13,837,000	13,837,000
Basic and diluted net earnings per share (in UAH)		0.09	0.06

Authorized and signed on behalf of the Bank's management by:

Chairman of the Management Board

Chief Accountant

14 May 2020

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Kyrlo Shevchenko

Nataliia Khrustalova

STATEMENT OF CHANGES IN EQUITY**For the year ended 31 December 2019***(UAH thousands)*

	Notes	Share capital	Acquired title of ownership to shares	Result from transactions with shareholders	Additional paid-in capital	Other provisions	Accumulated deficit	Total capital
As at 31 December 2017		13,837,000	(518,439)	(1,102,304)	135,942	278,424	(7,005,310)	5,625,313
Impact of adopting IFRS 9		-	-	-	-	(33,167)	(15,155)	(48,322)
Restated opening balance as at 1 January 2018 under IFRS 9		13,837,000	(518,439)	(1,102,304)	135,942	245,257	(7,020,465)	5,576,991
Total comprehensive income for the year		-	-	-	-	(589,704)	768,698	178,994
Change in revaluation of investments from PJSC "JSCB "KYIV"		-	-	-	-	-	30	30
Transfer as a result of retirement of assets		-	-	-	-	(3,316)	3,316	-
As at 31 December 2018		13,837,000	(518,439)	(1,102,304)	135,942	(347,763)	(6,248,421)	5,756,015
Total comprehensive income for the year	22	-	-	-	-	1,209,473	1,288,996	2,498,469
Transfer of accumulated revaluation reserve on disposal of equity instruments at fair value through other comprehensive income		-	-	-	-	59,353	(59,353)	-
Transfer as a result of retirement of assets		-	-	-	-	(90,077)	90,077	-
As at 31 December 2019		13,837,000	(518,439)	(1,102,304)	135,942	830,986	(4,928,701)	8,254,484

Authorized and signed on behalf of the Bank's management by:

Chairman of the Management Board



Kyrylo Shevchenko

Chief Accountant

Nataliia Khrustalova

14 May 2020

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STATEMENT OF CASH FLOWS (the direct method)**For the year ended 31 December 2019***(UAH thousands)*

	Notes	2019	2018
Cash flows from operating activities			
Interest received		10,666,928	8,259,913
Interest paid		(6,757,390)	(5,073,457)
Fees and commissions received		1,345,311	941,141
Fees and commissions paid		(298,538)	(204,301)
Net result on foreign exchange operations (realized)	25	168,029	(27,734)
Result on operations with derivative financial instruments		159,265	176,046
Other income received		220,244	154,232
Staff costs		(1,454,261)	(1,175,420)
Other operating expense		(1,127,629)	(898,099)
Trading result on investments in securities		-	268
Cash flows from operating activities before changes in operating assets and liabilities		2,921,959	2,152,589
<i>Net decrease/(increase) in operating assets</i>			
Precious metals		452	5,622
Due from credit institutions		320,286	3,011,562
Loans to customers and financial leases		1,695,103	(12,907,571)
Other assets		103,128	38,844
<i>Net (decrease)/increase in operating liabilities</i>			
Due to credit institutions		(460,014)	2,555,470
Due to customers		45,101,518	5,427,928
Other liabilities		300,293	210,558
Income taxes paid		-	X
Net cash generated from operating activities		49,982,725	495,002
Cash flows from investing activities			
Acquisition of investment securities		(231,286,990)	(271,887,105)
Proceeds on sale and repayment of investment securities		218,687,205	273,197,064
Acquisition of property and equipment and intangible assets		(212,379)	(212,773)
Proceeds on disposal of property and equipment		217,057	15,059
Proceeds on investment property		14,700	22,411
Proceeds on disposal of assets held for sale		-	48,571
Proceeds on disposal of other property	15	646,806	10,442
Net cash (used in)/generated from investing activities		(11,933,601)	1,193,669
Cash flows from financing activities			
Proceeds of borrowed funds form credit institutions		1,624,312	1,432,794
Repayment of borrowed funds form credit institutions		(508,228)	(80,214)
Proceeds of borrowed funds from the National Bank of Ukraine		-	15,787,606
Repayment of borrowed funds from the National Bank of Ukraine		(4,304,156)	(11,902,436)
Repayment of lease liability principal amount		(73,558)	X
Net cash generated from financial activities	34	(3,261,630)	5,237,750
Effect of exchange rate changes on cash and cash equivalents		(2,409,504)	(151,676)
Effect of expected credit losses on cash and cash equivalents		(984)	(3,597)
Net increase in cash and cash equivalents		32,377,006	6,771,148
Cash and cash equivalents at the beginning of the period	7	14,035,435	7,264,287
Cash and cash equivalents at the end of the period	7	46,412,441	14,035,435

Authorized and signed on behalf of the Bank's management by:

Chairman of the Management Board

Chief Accountant

14 May 2020

Usenko V. M.,
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Kyrylo Shevchenko

Nataliia Khrustalova

*(in thousands of Hryvnias, unless otherwise indicated)***1. General information****Organizational structure and operations**

PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK "UKRGASBANK" (the "Bank") was established on 21 July 1993 based on the merger of several commercial banks. Since June 2009 the Government of Ukraine controls over the Bank by holding majority stake of share capital.

The Bank is engaged in accepting deposits from individuals and legal entities and extending loans, transferring payments in Ukraine and abroad, exchanging currencies and providing other banking services to its corporate and retail customers. The Bank's Head Office is located in Kyiv. As at 31 December 2019, the Bank's network consisted of 250 registered outlets (including 250 operating outlets) (2018: 246 registered outlets, including 246 operating outlets) in different regions of Ukraine. The Bank's registered address is: Yerevanska St., 1, Kyiv, Ukraine. The Bank's Head Office is located at Bohdana Khmelnytskoho st., 16-22, Kyiv, Ukraine.

When implementing the Green Banking Strategy the priority activity of the Bank is to finance projects related to efficient use of energy resources and reduction of negative environmental impact.

At the present moment the Bank is the only bank in the Eastern Europe with its own technical office for conducting of professional analysis of the alternative energy projects and energy efficiency.

The Bank finances eco-projects on renewable energy, energy efficiency and ecology.

The Bank has implemented an environmental management system based on the principles of sustainable development and the standards of activity of the International Financial Corporation (PS IFC).

As at 31 December 2019 and 2018, the Bank's issued shares were held by the following shareholders:

Shareholder	31 December 2019, 31 December 2018,	
	%	%
Ministry of Finance of Ukraine	94.94	94.94
Other	5.06	5.06
Total	100.00	100.00

As at 31 December 2019 and 2018, the Bank's ultimate controlling party was the Ukrainian government represented by the Ministry of Finance of Ukraine.

These annual financial statements have been authorized for issue and signed by the Bank's management on 14 May 2020.

2. Operating environment and going concern

The Bank conducts its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, certain structural imbalances, low capital market liquidity, relatively high inflation and a significant level of domestic and foreign state debt.

Following the significant decline in 2014-2016, in 2018-2019 the Ukrainian economy started to demonstrate certain signs of recovery and growth. On 27 September 2019, Standard & Poor's upgraded Ukraine's sovereign credit rating to "B", a "stable" outlook, and Fitch also upgraded to "B" with a "positive" outlook.

Given the weakening of inflationary factors and the favorable dynamics of the national currency against the US dollar and the Euro, in 2019 the National Bank of Ukraine reduced the discount rate from 18% per annum to 13.5% per annum. In a favorable macroeconomic situation, it expected that the discount rate of National Bank of Ukraine will be subsequently decreased and monetary policy will be eased, which will have a positive impact on the economy of Ukraine.

Further economic growth depends on the implementation of the reforms planned by the Government of Ukraine, cooperation with the International Monetary Fund and other factors. At the same time, the main risks affecting the sustainability of the emerging economic trends are represented by the continuing tensions in geopolitical relations; lack of the clear consensus as to the directions of the institutional reforms, including public administration, judiciary system and reforms in core sectors of the economy; acceleration of labor emigration and low level of capital inflow.

(in thousands of Hryvnias, unless otherwise indicated)

3. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), and the requirements of the Law of On Accounting and Financial Statements in Ukraine No. 996-XIV dated 16 July 1999, concerning the preparation of financial statements.

Basis of measurement

These financial statements have been prepared on the historical cost basis, except for buildings that are carried at revalued amount, investment property that is valued at fair value, assets held for sale, which are valued at the lower of two – the carrying amount or fair value less cost to sell, and certain financial instruments that are measured at fair value at the end of year, as explained in the accounting policies below.

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leases that are within the scope of IAS 17 *Leases* (from 1 January 2019 — IFRS 16 *Leases*) and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurement is categorized into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- ▶ Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- ▶ Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- ▶ Level 3 inputs are unobservable inputs for the asset or liability.

Reclassification

While preparing the financial statements as at 31 December 2019 and for the year then ended, the Bank made reclassifications in the statement of profit or loss and other comprehensive income and in the notes to the financial statements prepared as of and for the year ended 31 December 2018:

- (1) As of 31 December 2019, the Bank changed its approach to presenting interest income on loans to customers and other income that was included in credit loss expense;
- (2) As of 31 December 2019, the Bank has changed its approach to presenting other comprehensive income that may be reclassified subsequently to profit or loss;
- (3) In accordance with IFRS, performance guarantees are not in the scope of IFRS 9 "Financial Instruments", and therefore performance guarantees, previously included to the Bank's financial guarantees, have been reclassified to non-financial commitments and contingencies.
- (4) As of 31 December 2019, the Bank has changed approach to presentation of information on due to customers by separating a segment of small and medium business customers (hereinafter referred to as "SMB").

(in thousands of Hryvnias, unless otherwise indicated)

	Note	Before reclassification	Reclassification	After reclassification
Interest income calculated using effective interest rate				
Loans to customers	(1)	5,148,673	(251,071)	4,897,602
		8,308,086	(251,071)	8,057,015
Credit loss expense	(1), (2)	(801,822)	244,049	(557,773)
Net interest income, after credit loss expense		2,409,100	(7,022)	2,402,078
Net gains on investments at fair value through other comprehensive income	(2)	19,496	11,470	30,966
Other income	(1)	161,835	(4,448)	157,387
Non-interest income		1,245,635	7,022	1,252,657
Other comprehensive income that may be reclassified subsequently to profit or loss				
Unrealised losses on investments measured at fair value through other comprehensive income	(2)	(605,229)	605,229	-
Realised gains on investments measured at fair value through other comprehensive income	(2)	21,214	(21,214)	-
Changes in allowance for expected credit losses on debt instruments measured at fair value through other comprehensive income	(2)	(1,718)	1,718	-
Net change in fair value of debt instruments at fair value through other comprehensive income	(2)	-	(566,237)	(566,237)
Reclassification of cumulative (gain)/loss on disposal of debt instruments at fair value through other comprehensive income to profit or loss	(2)	-	(30,966)	(30,966)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	(2)	-	11,470	11,470
Other comprehensive income/(loss), after income tax		(589,704)	-	(589,704)
Guarantees	(3)	4,218,663	(4,218,663)	-
Financial guarantees	(3)	-	1,769,727	1,769,727
		5,988,345	(2,448,936)	3,539,409
Performance guarantees	(3)	-	2,448,936	2,448,936
Commitments and contingencies		5,988,345	-	5,988,345
Current accounts				
- Legal entities	(4)	24,520,256	(2,153,108)	22,367,148
- Individuals	(4)	4,009,059	(2,494)	4,006,565
- Budget organizations	(4)	234,149	(234,149)	-
- SMB	(4)	-	2,389,751	2,389,751
		28,763,464	-	28,763,464
Term deposits				
- Legal entities	(4)	19,431,136	(3,821,694)	15,609,442
- Individuals	(4)	16,927,326	(3,465)	16,923,861
- Budget organizations	(4)	-	-	-
- SMB	(4)	-	3,825,159	3,825,159
		36,358,462	-	36,358,462
Due to customers		65,121,926	-	65,121,926

(in thousands of Hryvnias, unless otherwise indicated)

Going concern

These financial statements have been prepared using the assumption that the Bank is able to continue its activities on an ongoing basis in the near future. The Management and shareholders have the intention to continue economic activities of the Bank in Ukraine. Management believes that the use of assumption about the Bank's ability to continue its operations on an ongoing basis is appropriate, given the proper level of its capital adequacy, the obligations of shareholders to fulfill their obligations, including those relating to participation in the Bank's equity, as well as on the basis of historical experience, which indicates that short-term liabilities will be refinanced in the course of ordinary business activities.

Functional and presentation currency

Financial statements are presented in thousands of Hryvnias, unless otherwise indicated. The functional and presentation currency of these financial statements is Hryvnia ("UAH").

*(in thousands of Hryvnias, unless otherwise indicated)***4. Summary of accounting policies****Changes in accounting policies**

For the first time, the Bank has implemented a new standard and some amendments to standards that become effective for annual periods beginning on or after 1 January 2019. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset (Note 14).

Lessees shall also remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee generally recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Bank uses the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

Effect of adoption of IFRS 16 as of 1 January 2019 is presented in the table below:

	<u>Total</u>
Assets	
Right-of-use assets	49,349
Total assets	<u>49,349</u>
Liabilities	
Lease liability	49,349
Total liabilities	<u>49,349</u>

(a) The nature of the effect of initial application of IFRS 16

The Bank has leases for various items of property and equipment. Prior to the application of IFRS 16, the Bank has classified each lease (the Bank as a lessee) at the effective date of the lease as a finance lease or an operating lease. A lease was classified as a finance lease if virtually all the risks and rewards related to the leased asset were transferred to the Bank; otherwise, the lease was classified as operating lease. Finance leases were capitalized at the commencement date of the lease at the fair value of the leased property, or, if less, at the present value of the minimum lease payments. Lease payments were allocated between interest and the reduce obligations in lease payments. In the event of operating leases, the value of the leased property has not been capitalized and the lease payments has been recognized as lease expenses as a gain or loss on a straight-line basis over the lease term. All advance lease payments and accrued lease payments were recognized in the part of Other Assets and Other Liabilities, respectively.

As a result of the application of IFRS 16, the Bank has applied a single approach to the recognition and measurement of all leases other than short-term and low-value asset leases. The Bank applied the specific transitional requirements and practical simplifications required by the standard.

Leases, formerly classified as finance leases

For leases previously classified as finance leases, the Bank did not change the initial carrying amount of recognized assets and liabilities at the date of initial use (i.e., the right-of-use assets and lease liabilities were valued at an amount equal to lease assets and lease liabilities, recognized in application of IAS 17). The requirements of IFRS 16 apply to such leases from 1 January 2019.

*(in thousands of Hryvnias, unless otherwise indicated)*Leases, formerly classified as operating leases

For leases previously classified as operating leases, other than short-term leases and leases of low-value assets, the Bank recognized the right-of-use assets and lease liabilities. The right-of-use assets under most leases were measured at carrying amount, as if the standard had always been applied, except for the use of the lessee's incremental borrowing rate at the date of initial application. Under some leases, the right-of-use assets were recognized as being equal to the adjusted lease obligation to the amount of advance payments or accrued expenses previously recognized. The lease payments were recognized at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application.

The Bank has applied the practical simplifications required by the standard, as a result of which the Bank has:

- ▶ applied a single discount rate to the lease portfolio with reasonably similar characteristics;
- ▶ used, as an alternative to impairment test, its own assessment of whether the lease was onerous immediately before the date of initial application;
- ▶ chosen the exemption in the form of non-application of the recognition requirements with respect to the lease for which the lease term expires within 12 months from the date of initial application;
- ▶ excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- ▶ used the hindsight to determine the term of the lease, if the contract contained option to extend or terminate the lease.

Based on the above, as of 1 January 2019:

- ▶ the "Right-of-Use Assets" were recognized in the amount of UAH 49,349 thousand.
- ▶ the additional lease liabilities were recognized in the amount of UAH 49,349 thousand (included in the "Lease liability").

Set out below is a comparison of lease liabilities as of 1 January 2019, with operating leases as of 31 December 2018:

Operating lease contractual commitments as of 31 December 2018	79,635
Weighted average lessee's incremental borrowing rate as of 1 January 2019	17.32%
Operating lease discounted contractual commitments as of 1 January 2019	68,696
<i>Less:</i>	
Short-term lease contractual commitments	(10,678)
Low-value assets lease contractual commitments	(8,669)
<i>Plus:</i>	
Lease-related contractual commitments previously classified as finance leases	-
Payments in the periods provided for by the possibility (option) to continue leasing that are not recognized as of 31 December 2018.	-
Lease liabilities as of 1 January 2019	49,349

(b) The main provisions of new accounting policies

The main provisions of new accounting policies of the Bank applied as a result of the adoption of IFRS 16, used from the date of initial application, are set out below:

i. The Bank as a lessee

The Bank applies a single approach to the recognition and measurement of all leases other than short-term and low-value asset leases. The Bank recognizes lease liability in respect of the lease payments and right-of-use assets that are rights to use the underlying assets.

Right-of-use assets

The Bank recognizes the right-of-use assets at the commencement date of a lease (i.e., the date on which the underlying asset becomes available for use). The right-of-use assets are measured at initial cost, less accumulated depreciation and accumulated impairment losses, and adjustments for the revaluation of the lease liability. The initial cost of the right-of-use assets consists of the amount of the initial estimate of the lease liability, the initial direct costs and the lease payments made at the commencement date of a lease or prior to the commencement date of a lease,

(in thousands of Hryvnias, unless otherwise indicated)

less the received lease incentives. If the Bank does not have sufficient confidence that it will acquire title to the underlying asset at the end of the lease term, the recognized right-of-use asset is amortized on a straight-line basis prior to the earlier of two dates: the useful life of the right-of-use asset or the end of the lease term. The right-of-use assets are tested for impairment.

Lease liability

At the commencement date of a lease the Bank recognizes the lease liability at the present value of the lease payments that will be made during the lease term. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives to be received; variable lease payments that depend on the index or rate; and the amounts to be payable under residual value guarantees. Lease payments also include the exercise price of the option to purchase, if there is reasonable assurance that the Bank will take advantage of that opportunity, and the payment of penalties for terminating the lease, if the lease term reflects the potential option of termination of the lease. Variable payments, which do not depend on the index or rate, are recognized as expenses in the period in which occurs the event or condition that gives rise to such payments.

To calculate the present value of the lease payments, the Bank applies the lessee's incremental borrowing rate at the commencement date of a lease, if the interest rate implicit in the lease cannot be easily determined. After the lease takes effect, the lease liability increases to reflect the interest accrual and decreases to reflect the lease payments made. Also, in the event of modification, change of the lease term, change in the essence of fixed lease payments or change of option of purchase of the underlying asset, the carrying value of the lease liabilities is revalued.

Short-term and low-value asset leases

The Bank applies an exemption from recognition for short-term leases (that is, for agreements where the lease term is less than 12 months and do not include an option to purchase). The Bank also applies an exemption from recognition in relation to low-value assets for office equipment leases and other asset leases (i.e. up to UAH 150 thousand). Short-term lease payments and low-value asset leases are recognized as expenses on a straight-line basis over the lease term.

Significant judgments in determining the term of the lease in agreements with the option of the lease extension

The Bank defines the lease term as a non-cancellable lease period with periods in respect of which there is an option to extend the lease, if there is sufficient certainty that it will be realized or periods in respect of which there is an option to terminate the lease, if there is sufficient confidence that it will not be realized.

The Bank uses judgment to substantiate whether it is reasonably certain that it will exercise option to extend the lease. Whereby the Bank takes into account all relevant facts and circumstances that create an economic incentive for the Bank to exercise the option to extend the lease. After the commencement date of a lease, the Bank shall reevaluate the lease term in the event of significant events or changes in circumstances that may be controlled by the Bank that affect its decision to exercise (or not exercise) the option to extend the lease term (eg: change of business strategy).

ii. Operating leases — Bank as a lessor

Leases for which the Bank does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Lease income is recognized on a straight-line basis over the lease term and is included in net income from investment property in the income statement of profit or loss and other comprehensive income. Initial direct costs incurred in the process of negotiating and concluding operating leases are included in the carrying amount of the leased asset and are recognized over the lease term on the same basis as lease income. Contingent lease payments are recognized as income in the period in which they were received.

iii. Financial leases — Bank as a lessor

The Bank reflects the lease payments receivable in the amount equal to the net investment in the lease, starting from the commencement date of a lease term. Financial income is calculated using a scheme that reflects a constant periodic rate of return on the carrying amount of net investments. Initial direct costs are included in the initial amount of receivables on lease payments.

IFRIC Interpretation 23 "Uncertainty over Income Tax Treatment"

The interpretation addresses the accounting for income taxes under the conditions of an uncertain approach to tax interpretations that affect the application of IAS 12 *Income Taxes*. The interpretation does not apply to taxes or levies outside the scope of IAS 12 *Income Taxes*, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. In particular, the interpretation addresses the following issues:

- ▶ whether the entity treats the indefinite tax treatment separately;
- ▶ the assumptions made by the entity with respect to the review of tax treatment by the tax authorities;

(in thousands of Hryvnias, unless otherwise indicated)

- ▶ how an entity determines taxable profit (tax loss), tax base, unused tax losses, unused tax benefits and tax rates;
- ▶ how an entity considers changes in facts and circumstances.

The Bank determines whether to treat each indefinite tax treatment separately or together with one or more other indefinite tax interpretations, and applies an approach that will more accurately predict the outcome to resolve the uncertainty.

Given that the Bank complies with the requirements of tax laws, and based on its analysis of the applied practice, the Bank concluded that the tax treatment approaches applied by it would be acceptable to the tax authorities. This interpretation does not affect the Bank's financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments do not affect the Bank's financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

Amendments to IAS 19 consider the accounting in the events when plan amendment, curtailment or settlement occur during the reporting period. The amendments clarify that if plan amendment, curtailment or settlement occur during the annual reporting period, the entity shall determine the service cost of the current period in relation to the portion of the period remaining after the plan amendment, curtailment or settlement, taking into account the actuarial assumptions used to remeasurement of net defined benefit liability (asset) provided for by the plan and plan assets after the event. An entity shall also determine the net interest rate in respect of the portion of the period remaining after the plan amendment, curtailment or settlement, using the net defined benefit liability (asset) of the plan, reflecting the rewards defined by the plan and the assets of the plan after the event, as well as the discount rates that were used to remeasure this net defined benefit liability (asset) of the plan. These amendments did not affect the Bank's financial statements.

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

The amendments clarify that an entity applies IFRS 9 to long-term investments in associate or joint venture that do not apply the equity method but which, in essence, form part of the net investment in the associate or joint venture (long-term investments). This interpretation is important as it is intended that such long-term investments are subject to the expected credit loss model in IFRS 9.

The amendments also clarify that, when applying IFRS 9, an entity does not take into account the losses incurred by an 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 the application of IAS 28 *Investments in Associates and Joint Ventures*.

These amendments did not affect the Bank's financial statements as the Bank does not have such long-term investments in an associate or joint venture.

Annual Improvements to IFRSs 2015-2017 Cycle

IFRS 3 Business Combinations

These amendments clarify that if an entity obtains control over a business that is a joint venture, it must apply the step-by-step business combination requirements, including the revaluation of shares that were previously a participation interest in the assets and liabilities of a joint operation at fair value. Whereby, the acquirer must reassess all previously available participation interests in joint operations.

An entity shall apply these amendments to business combinations the effective date of which coincides with or occurs after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. These amendments did not affect the financial statements of the Bank since it does not have any operations within which the Bank obtains joint control.

*(in thousands of Hryvnias, unless otherwise indicated)**IFRS 11 Joint Arrangements*

A party that participates in (but does not have joint control over) a joint operation may obtain joint control of joint operations, the activities of which are business, within the meaning of this term as defined in IFRS 3. The amendments clarify that in such cases, the shares that were previously participation interests of the joint operation will not be revaluated.

An entity shall apply these amendments to transactions under which it obtains joint control and the effective date of which coincides with or occurs after the beginning of first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. These amendments did not affect the financial statements of the Bank since it does not have any operations within which the Bank obtains joint control.

IAS 12 Income Taxes

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

An entity shall apply these amendments for annual periods beginning on or after 1 January 2019. Earlier application is permitted. When applying these amendments for the first time, an entity shall apply them to the income tax consequences of dividends recognized on or after the earliest comparative period. As the Bank's current accounting policies are in compliance with the amendments, their application has not affected the Bank's financial statements.

IAS 23 Borrowing Costs

These amendments clarify that an entity should take into account loans received specifically for the acquisition of a qualifying asset as part of a common purpose loans when substantially all the work necessary to prepare the asset for its intended use or sale has been completed.

An entity shall apply these amendments in relation to borrowing costs incurred at the beginning of the annual reporting period in which it first applies these amendments or after that date. An entity shall apply these amendments for annual periods beginning on or after 1 January 2019. Earlier application is permitted. As the Bank's current accounting policies are in compliance with the amendments, their application has not affected the Bank's financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Foreign currency translation

Transactions in foreign currencies are initially recognized in the Bank's functional currency at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates effective at the reporting date. The foreign currency gains or losses are recognized in the statement of profit or loss and other comprehensive income as a net result of foreign exchange operations. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into UAH at the exchange rates at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the transaction dates.

The differences between a contractual exchange rate on a specific transaction in a foreign currency and the official exchange rate established by the National Bank of Ukraine at the date of such a transaction are also included in the result of trading activities in foreign currencies.

The official exchange rates of National Bank of Ukraine at the respective dates and used in the preparation of these financial statements are as follows:

Currency	31 December 2019	31 December 2018
USD	23.6862	27.6883
EUR	26.4220	31.7141

(in thousands of Hryvnias, unless otherwise indicated)

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets are recognized on the date of operation, i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, including transaction costs, except when financial assets and financial liabilities are measured at FVTPL.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- ▶ amortised cost;
- ▶ FVOCI;
- ▶ FVPL.

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Due from credit institutions, loans to customers and financial leases, and other financial investments

The Bank measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost only if both of the following conditions are met:

- ▶ the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- ▶ the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;
- ▶ the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ how managers of the business are remunerated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- ▶ the expected frequency, value and timing of sales are also important aspects of the Bank's business model assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(in thousands of Hryvnias, unless otherwise indicated)

Solely payments of principal and interest test (SPPI test)

As a second step of its classification process, the Bank assesses the contractual terms of financial asset to identify whether there are cash flows relating thereto exclusively in payments against principal and interest on the principal amount outstanding (the so-called SPPI test).

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

Under IFRS 9 the Bank measures the debt instruments at FVOCI when both of the following conditions are met:

- ▶ the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- ▶ The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains or losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position. Instead, an amount equal to the allowance for credit losses that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is reclassified to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

The Bank elects to classify irrevocably some of its equity investments as equity instruments measured at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to net profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the initial cost of such instrument. In which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and undrawn loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss and ECL allowance.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

(in thousands of Hryvnias, unless otherwise indicated)

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

Government grants

Government grants in the form of non-financial assets from the public authorities are recognized at net present value of future cash flows related to interest income compensation. Loss on initial recognition of preferential loans is presented on a net basis of revenue recognition of government grants in the profit or loss and other comprehensive income.

Further accounting for receivables for government grants are carried at amortized cost using the effective interest method and are subject to impairment with subsequent recognition of income and expenses in the profit or loss and other comprehensive income when the instrument is derecognised or if it was impaired or amortized.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted cash balances with the National Bank of Ukraine, due from credit institutions with maturities up to 90 days from the date of origination that are free from contractual encumbrances, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of fair value changes and are used by the Bank to manage its short-term commitments, including the overnight deposit certificates issued by the National Bank of Ukraine.

Due from credit institutions

In the normal course of business, the Bank grants loans or maintains deposits for various periods of time with other credit institutions. Due from credit institutions is initially measured at fair value. Due from credit institutions with fixed maturities is measured at amortized cost using the effective interest rate method and are accounted net of expected credit losses.

Precious metals

Precious metals are stated at the lower of net realizable value or cost. The net realizable value of precious metals is estimated based on quoted market prices. Results of translation differences on transactions with precious metals are presented in article "Net gains from operations with foreign currency and precious metals" of statement of profit or loss and other comprehensive income.

Repurchase and reverse repurchase agreements

Sale and repurchase agreements of securities ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or common practice to sell or re-pledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within due to credit institutions or customers. Securities purchased under agreements to resell (reverse repurchase agreements or "reverse repo") are recorded as due from credit institutions or loans to customers, as appropriate. The difference between sale and repurchase price is treated as interest income or expense and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains, less losses from trading securities, in profit and loss. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the course of its ordinary activities, the Bank uses various derivative financial instruments, including forward contracts and swaps in foreign exchange markets, which are concluded predominantly with Ukrainian banks. Derivative instruments are initially recognized at fair value at the date of the contract, after which they are revalued at fair value. All derivative instruments are recognized as assets when their fair value is positive and as liabilities if their fair value is negative.

Changes in the fair value of derivative instruments are recognized immediately as a result of transactions with derivative financial instruments of the Statement of Profit or Loss and Other Comprehensive Income. The Bank evaluates and calculates the fair value of forward contracts and recognizes its material changes in profit or loss.

(in thousands of Hryvnias, unless otherwise indicated)

Though the Bank performs the trade operations with derivative instruments for the purposes of hedging, these instruments do not meet the criteria of hedge accounting.

Embedded derivative financial instruments

The Bank accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

Borrowed funds

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation, other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the National Bank of Ukraine, due to credit institutions and due to customers. Upon initial recognition, borrowed funds are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit and loss when the borrowed funds are derecognized, as well as through the amortization process.

If the Bank purchases its own obligations, they are removed from the statement of financial position, and the difference between the carrying amount of the liability and the consideration paid is recognized in profit and loss.

Expected credit losses

The Bank performs estimation of expected credit loss allowance for financial assets measured at amortized costs or at fair value through other comprehensive income, financial guarantees, letters of credit and undrawn loan commitments.

The Bank has established a policy to perform an assessment, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument to one of follows stages described below:

- ▶ Stage 1: financial instruments for which there are no signs of a significant increase in credit risk. For these financial instruments the Bank recognises an allowance based on the 12 month expected credit loss;
- ▶ Stage 2: financial instruments for which there are signs of a significant increase in credit risk from the initial recognition, but no signs of impairment exist. For these financial instruments the Bank recognises an allowance for the lifetime expected credit loss;
- ▶ Stage 3: financial instruments for which there are signs of a significant increase in credit risk from the initial recognition and exists objective evidence of impairment. For these financial instruments the Bank recognises an allowance for the lifetime expected credit loss;
- ▶ POCI: purchased or originated credit impaired (POCI) assets – financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at initial recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL allowances are only recognised or derecognised to the extent that there is a subsequent change in the expected credit losses for the lifetime of the financial instrument.

Renegotiated loans and/or modifications

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. Restructuring, i.e. change in significant terms and conditions under the original agreement by entering into additional arrangements with a debtor due to its financial difficulties (as determined by the Bank) and the need to create favorable conditions for it to meet its obligations under the asset (change in interest rate; cancellation, wholly or in part, of financial sanctions (penalties, fines, forfeits) accrued for untimely payments of the principal and interest amounts and failed to be repaid by the debtor; change in the repayment schedule (terms and amounts of the principal, interest/fees); change in the fee amount etc.).

As a result of significant changes in the terms of the loan agreement, the Bank repurchases the original financial instrument and recognizes the new financial instrument.

(in thousands of Hryvnias, unless otherwise indicated)

The Bank determines the following modifications to contractual cash flows for financial instruments as significant:

- ▶ the conditions under which the net present value of the cash flows under the new terms discounted using the original effective interest rate (for a financial asset or liability with floating interest rate — the effective interest rate that was calculated at the latest change in the nominal interest rate) differs by at least 10% of the discounted present value of remaining cash flows of the original financial asset or liability;
- ▶ change of the currency of the financial instrument;
- ▶ change in the type of interest rate of a financial instrument (fixed to floating or vice versa);
- ▶ consolidation of several financial instruments or splitting of one financial instrument into several.

Similarly, with respect to financial assets, the Bank determines the following modification of contractual cash flows as material:

- ▶ The inclusion in the contract of the additional terms / exclusion of terms / changes in the terms of the contract that affect the result of SPPI test.

The Bank ceases to recognize an initial financial asset and recognizes a new financial asset if the revised or modified cash flows provided by the contract result in the cessation of recognition of the original financial asset. At the date of the modification, the Bank recognizes a new financial asset at its fair value, taking into account transaction costs associated with the origination of a new financial asset (with the exception of a new asset that is measured at fair value through profit or loss) and determines the amount of 12 months expected credit loss.

If, as a result of the modification, a new financial asset is impaired at initial recognition, the Bank recognises the lifetime expected credit losses for these financial assets.

The Bank continually analyzes restructured loans to ensure that all criteria and options for future payments are met.

Write off of loans

Loans are written off using the expected credit loss allowance based on the decision of the Management Board. Loans are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as other income in the statement of profit or loss and other comprehensive income in the period of recovery.

Investments at fair value through other comprehensive income

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance for expected credit losses that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated credit loss recognised in OCI is reclassified to the profit and loss upon derecognition of the asset.

Non-financial assets

Other non-financial assets, other than deferred tax, are assessed at each reporting date for any indication 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 recognized 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 amortization, if no impairment loss had been recognized.

(in thousands of Hryvnias, unless otherwise indicated)

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- ▶ the rights to receive cash flows from the asset have expired;
- ▶ the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement;
- ▶ the Bank either (a) has substantially transferred all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Taxation

The current income tax charge is calculated in accordance with the Ukrainian tax regulations.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Bank's taxable profit in the reporting year is determined by adjusting the financial result presented in the financial statements in accordance with International Financial Reporting Standards, the differences arising under the clauses of the Tax code of Ukraine. The Bank's current tax expense is calculated using tax rates that have been enacted during such reporting periods.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the balance sheet liability method. Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates set by tax legislation of Ukraine for respective reporting periods.

Also, Ukrainian tax regulations include other taxes and duties. These taxes are included as a component of administrative and operating expense.

Investment property

Investment properties, which comprise office premises are properties, held to earn rentals from long-term leases or for capital appreciation and are not occupied by the Bank. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, which is determined based on the market evidence as a result of valuations performed by independent appraisers, less any subsequently accumulated impairment losses. Revaluation is performed with sufficient regularity so that the carrying amounts did not differ significantly from those arrived at using fair value as at the reporting date. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

*(in thousands of Hryvnias, unless otherwise indicated)***Property and equipment**

Property and equipment, other than buildings and land plots, are carried at their historical cost, less any accumulated depreciation and recognized impairment losses, if any.

Upon the initial recognition at cost, buildings and land plots are carried at their revalued amounts, which are the fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the property and equipment revaluation reserve, which is included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss. In this case the increase is recognized in profit and loss. A revaluation deficit is recognized in profit and loss, except that a deficit directly offsetting a previous surplus on the same asset which is directly offset against the surplus in the property and equipment revaluation reserve.

In addition, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Furniture and equipment	3-10
Leasehold improvements	Over the relevant lease period
Motor vehicles	5

Residual value, useful lives, and depreciation methods are reviewed and adjusted as appropriate, at the end of each reporting year.

Costs related to repairs and renewals are charged when incurred and included in other operating and administrative expense, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software. Intangible assets acquired separately are measured on initial recognition at cost. Upon initial recognition, intangible assets are carried at cost, less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of three years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

An item of property and equipment and intangible assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on the disposal of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income.

Other property

The Bank recognizes as other property non-current assets that have been acquired by foreclosure of the collateral and are held for the purpose of sale. These assets do not conform the criteria for recognition as assets held for sale and cannot be recognized as non-current assets used in operating activities of the Bank or investment property. These assets are measured at the lower of two – cost or net realizable value.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past events, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(in thousands of Hryvnias, unless otherwise indicated)

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Retirement and other benefit obligations

The Bank has pension arrangements to the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense charged in the period the related salaries are earned.

Share capital and other reserves

Ordinary and preference shares are carried in equity.

Acquired title of ownership to shares of the Bank's own issue is deducted directly from equity. A gain or loss arising from purchase, sale, issue or cancellation of the Bank's treasury shares is not included in profit or loss.

The surplus of consideration received over the nominal value of shares issued is reflected as additional paid-in capital.

Other reserves included in equity (other comprehensive income) in the statement of financial position of the Bank comprise a revaluation reserve of investments measured at fair value through other comprehensive income and property and equipment revaluation reserve, including a revaluation reserve of land and buildings.

Profit or loss arising from transactions with shareholders recognized in equity as "Result from transactions with shareholders".

The Bank creates a reserve fund to cover unforeseen losses on all items of assets and off-balance liabilities. The amount of charges to the reserve fund should be not less than 5 percent of the Bank's profit until it reaches 25 percent of the Bank's regulatory capital. As at 31 December 2019 the Bank's reserve fund equals UAH 420,673 thousand (2018: UAH 343,803 thousand).

If, as a result of the Bank's activities, the amount of its regulatory capital decreases to the amount that is lower than its share capital, then annual charges to the reserve fund should be not less than 10 percent of the Bank's net profit until it reaches 35 percent of the Bank's share capital.

Segment reporting

The Bank's segment reporting is based on the following operating segments: individuals (retail banking), legal entities (corporate banking), clients of small and medium-sized enterprises, financial institutions, asset management, and other.

Contingencies

Contingent liabilities are not recognized in the statement of financial position. The information about such liabilities is disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position. The information about such assets is disclosed when an inflow of economic benefits is probable.

Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank, and the revenue can be reliably measured.

Interest income and expense are recognized on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount of the financial asset or financial liability.

(in thousands of Hryvnias, unless otherwise indicated)

In calculating the effective interest rate, the Bank considers all paid and/or received fees, duties, and transaction costs that form an integral part of income/expense on the financial instrument, in particular:

- a) financial instrument origination fees received/paid by the Bank and related to origination or acquisition of such a financial instrument;
- b) fees received/paid by the Bank on lending arrangements in the course of loan origination or acquisition as consideration for participation in the financial instrument's acquisition if it is probable that a loan commitment will lead to a specific lending arrangement;
- c) fees received/paid by the Bank when issuing debt securities that are accounted for at amortized cost.

Revenue on debt financial instruments is carried using the effective interest rate method, except for financial assets measured at fair value through profit or loss.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest received from the assets measured at fair value is classified as interest income.

Fee and commission income and expense (hereinafter, "fees") are income and expense on the services rendered/received the amount of which is calculated pro rata to the amount of an asset or liability or is fixed.

Where it is probable that a loan commitment will lead to a specific lending arrangement or loan tranche, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement or loan tranche, the loan commitment fees are recognized in the statement of profit or loss and other comprehensive income over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan or loan tranche, the loan commitment fee is recognized in the statement of profit or loss and other comprehensive income on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Other revenue is recognized in the statement of profit or loss and other comprehensive income in the period the relevant transaction is completed.

Application of new and revised International Financial Reporting Standards ("IFRS")

Adoption of new and revised IFRS

As at 31 December 2019 the following new standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's annual financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by the following:

- ▶ certain modifications for insurance contracts with direct participation features (method of variable remuneration);
- ▶ simplified approach (premium allocation approach) mainly for short-term contracts.

IFRS 17 will be effective for annual periods beginning on or after 1 January 2021, with comparative information required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 at the date of initial application. In 2019, the Bank will continue to assess the possible impact of IFRS 17 on its financial statements.

(in thousands of Hryvnias, unless otherwise indicated)

Amendments to IFRS 3 Business Combinations

In October 2018, the IASB issued amendments to IFRS 3 *Business Combinations*, which changed the definition of the term "business" and should help organizations determine whether an acquired set of activities and assets is a business. These amendments clarify the minimum requirements for business, eliminate the assessment of whether market participants can replace any missing item, add guidance to help organizations assess whether the acquired process is significant, narrow the definition of "business" and "return", and introduce an optional fair value concentration test. Along with the amendments, new illustrative examples were also presented.

As these amendments are applied prospectively to transactions or other events that occur on or after the date of their initial application, these amendments will not affect the Bank at the date of transition.

Amendments to IAS 1 and IAS 8 Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IFRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to reconcile material in different standards and clarify some aspects of this definition. According to the new definition, "information is material if it can reasonably be expected that its omission, distortion or withholding will affect the decisions of key users of general purpose financial statements made by them on the basis of those financial statements that provide financial information about a particular reporting entity."

It is expected that the amendments to the determination of material will not have a material impact on the Bank's financial statements.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Amendments to IFRS 9, IAS 39 and IFRS 7 include a number of exemptions that apply to all hedging relationship that are directly affected by the Interest Rate Benchmark Reform. The hedging relationship will be disrupted if the reform creates uncertainty about the timing and / or cash flows based on the interest rate benchmark for the hedged item or hedging instrument. The reform may result in uncertainties about the timing and/or cash flows based on the interest rate benchmark for the hedged item or hedging instrument during the period before replacing the existing interest rate benchmark with an alternative virtually risk-free interest rate. This can lead to uncertainty about estimating the probability of a forecasted transaction and assessing whether a hedging relationship will be highly effective.

The amendments will become effective on 1 January 2020, but early application is permitted. It is expected that the amendments will not have a material impact on the Bank's financial statements.

(in thousands of Hryvnias, unless otherwise indicated)

5. Significant accounting judgments and estimates

The preparation of financial statements in compliance with IFRS requires that Bank's management make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is as follows.

Key estimates in applying accounting policies

Fair value of financial instruments

Investments measured at fair value through other comprehensive income, trading securities and derivative financial instruments are stated at fair value.

The Bank considers that the accounting estimates and assumptions related to valuation of financial instruments where quoted market prices are not available is a key source of estimation uncertainty because: (a) they are highly susceptible to change from period to period because they require that management make assumptions about interest rates, volatility, exchange rates, credit rating of a counterparty, valuation adjustments and specific feature of the transactions and (b) the impact that recognition of a change in valuations would have on the assets reported in the statement of financial position as well as its income/expense could be material.

Had management used different assumptions regarding interest rates, volatility, exchange rates, credit rating of a counterparty, offer date and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted in a material impact on the Bank's net profit reported in the financial statements.

Expected credit loss allowance

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- ▶ the Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- ▶ the segmentation of financial assets when their ECL is assessed on a collective basis;
- ▶ development of ECL models, including the various formulae and the choice of inputs;
- ▶ determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- ▶ selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

More details are provided in Notes 10 and 29.

Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilized in future reporting periods. The estimation of such a probability is based on management's forecasts regarding future taxable profit and is complemented by the Bank's management judgments.

Fair value of buildings and land plots

As discussed in Note 4, buildings and land plots are carried at revalued amount, less any subsequent accumulated depreciation and impairment losses. The method used to estimate fair value is the comparative approach to evaluation. The comparative approach to evaluation is based on an analysis of the results of comparable sales of similar buildings.

(in thousands of Hryvnias, unless otherwise indicated)

The estimation of the fair value of buildings and land plots requires the exercise of judgment and the use of assumptions regarding the comparability of properties and other factors. Management engages external independent appraisers to estimate the fair value of property.

6. Segment information

For management purposes, the Bank has defined five operating segments based on its products and services, which are as follows:

Legal entities:	Mainly granting purpose loans, servicing deposits and current accounts for corporate and institutional customers.
Clients of small and medium-sized enterprises (hereinafter – "SMEs"):	Mainly customer servicing under targeted lending programs, deposits and current accounts of customers whose activities meet certain criteria and limits.
Individuals:	Mainly servicing individual customers' deposits and granting consumer loans, overdrafts, handling credit cards and funds transfer facilities.
Financial institutions:	Mainly placing funds with and attracting funds from other financial institutions.
Asset management and other:	Finance and other central functions.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance measurement. Segment performance, as explained in the table below, is measured differently from profit or loss in the financial statements. Income taxes are managed on a central basis and are not allocated to operating segments.

The segment information below is presented on the basis used by the Bank's chief operating decision maker to evaluate performance, in accordance with IFRS 8 *Operating Segments*. Management reviews discrete financial information for each of its segments, including estimates of operating results, assets, and liabilities. The segments are managed primarily on the basis of their performance, without analyzing intersegment funding and income and expense arising between them.

During 2019, the Bank received revenue from the loan transactions with one client in the amount of UAH 1,131,987 thousand. During 2018, the Bank received revenue from the loan transactions with one client in the amount of UAH 777,138 thousand.

(in thousands of Hryvnias, unless otherwise indicated)

The following tables summarize income and profit and certain other assets and liabilities information regarding the Bank's operating segments.

31 December 2019	Legal entities	SMB	Individuals	Financial institutions	Asset management and other	Total
Income						
Interest income	4,659,011	620,693	519,837	202,070	3,662,326	9,663,937
Fee and commission income	496,311	260,415	494,269	79,234	32,876	1,363,105
Gains on trading securities	-	-	-	-	11	11
Net gains on foreign exchange operations and precious metals	19,395	3,786	78,692	-	56,863	158,736
Result on operations with derivative financial instruments	-	-	-	-	141,878	141,878
Net gains on investment property	-	-	-	-	17,009	17,009
Net gains/(losses) on derecognition of financial assets at amortized cost	401	-	6	-	-	407
Net gains on investments at fair value through other comprehensive income	-	-	-	-	65,771	65,771
Change in allowance for impairment of other assets and other provisions	208,957	2,142	(36,166)	(25)	(86,008)	88,900
Other income	83,971	32,541	119,421	-	458,076	694,009
Total income	5,468,046	919,577	1,176,059	281,279	4,348,802	12,193,763
Expenses						
Interest expense	(4,412,767)	(605,511)	(1,702,328)	(186,394)	(17,050)	(6,924,050)
Fee and commission expense	(57,301)	(15,114)	(132,858)	(80,304)	(12,962)	(298,539)
Credit loss expense	(408,443)	(94,211)	(8,817)	(1,502)	(104,408)	(617,381)
Net gains/(losses) on derecognition of financial assets	(825)	-	(296)	-	-	(1,121)
Losses on initial recognition of financial assets	-	-	(1,787)	-	-	(1,787)
Staff costs	(407,123)	(227,944)	(693,120)	(32,896)	(127,460)	(1,488,543)
Depreciation and amortisation	(64,204)	(26,074)	(182,430)	(3,560)	(16,250)	(292,518)
Depreciation of right-of-use assets	(6,171)	(3,061)	(19,865)	(388)	(8,603)	(38,088)
Other operating expense	(194,735)	(88,255)	(641,500)	(28,974)	(233,300)	(1,186,764)
Total expenses	(5,551,569)	(1,060,170)	(3,383,001)	(334,018)	(520,033)	(10,848,791)
Segment results	(83,523)	(140,593)	(2,206,942)	(52,739)	3,828,769	1,344,972
Income tax expense					(55,976)	(55,976)
Net profit					3,772,793	1,288,996
Segment assets	31,584,619	5,187,405	3,678,183	27,769,693	50,917,343	119,137,243
Segment liabilities	(68,013,925)	(8,272,059)	(27,441,390)	(5,734,932)	(1,420,453)	(110,882,759)
Other segment information						
Capital expenditures	64,664	26,677	133,723	2,991	7,021	235,076

(in thousands of Hryvnias, unless otherwise indicated)

31 December 2018	Legal entities	SMB	Individuals	Financial institutions	Asset management and other	Total
Income						
Interest income	4,160,714	380,153	400,494	118,671	3,055,723	8,115,755
Fee and commission income	295,034	156,578	469,595	28,139	15,846	965,192
Net gains on foreign exchange operations and precious metals	-	-	4,498	-	110,788	115,286
Result from operations with loans to customers at fair value through profit or loss	-	2	-	-	-	2
Net gains on investments at fair value through other comprehensive income	-	-	-	-	30,966	30,966
Result on operations with derivative financial instruments	-	-	-	-	177,604	177,604
Net gains on investment property	-	-	-	-	19,712	19,712
Other income	27,825	16,017	110,669	325	2,551	157,387
Total income	4,483,573	552,750	985,256	147,135	3,413,190	9,581,904
Expenses						
Interest expense	(3,147,432)	(396,006)	(1,363,204)	(249,262)	-	(5,155,904)
Fee and commission expense	(5,636)	(2,264)	(165,887)	(22,460)	(8,054)	(204,301)
Credit loss expense	(593,096)	(62,452)	102,051	7,195	(11,471)	(557,773)
Losses on initial recognition of financial assets	-	-	(2,605)	-	-	(2,605)
Losses on trading securities	-	-	-	-	(3,277)	(3,277)
Staff costs	(378,524)	(185,519)	(583,673)	(10,521)	(44,380)	(1,202,617)
Depreciation and amortisation	(67,601)	(32,933)	(185,533)	(3,194)	(7,868)	(297,129)
Credit loss expense on other assets and other provisions	(157,010)	(49,170)	(126,157)	(2,317)	(4,182)	(338,836)
Net losses on derecognition of financial assets at amortized cost	(3,309)	-	-	-	-	(3,309)
Other operating expense	(246,413)	(78,775)	(569,121)	(5,768)	(34,354)	(934,431)
Total expenses	(4,599,021)	(807,119)	(2,894,129)	(286,327)	(113,586)	(8,700,182)
Segment results	(115,448)	(254,369)	(1,908,873)	(139,192)	3,299,604	881,722
Income tax expense					(113,024)	(113,024)
Net profit					3,186,580	768,698
Segment assets	38,200,856	4,974,052	3,689,172	7,327,013	28,033,902	82,224,995
Segment liabilities	(38,341,946)	(6,295,289)	(21,048,524)	(5,825,397)	(4,957,824)	(76,468,980)
Other segment information						
Capital expenditures	62,393	24,937	129,685	2,933	7,531	227,479

*(in thousands of Hryvnias, unless otherwise indicated)***7. Cash and cash equivalents**

Cash and cash equivalents comprise:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Current accounts with other credit institutions	26,511,949	4,264,022
Current accounts with the National Bank of Ukraine	9,151,774	1,966,874
Deposit certificates of the National Bank of Ukraine (overnight)	8,110,208	4,005,260
Cash on hand	1,695,604	1,488,310
Time deposits with credit institutions with maturities up to 90 days	947,487	2,314,566
	<u>46,417,022</u>	<u>14,039,032</u>
Minus – expected credit losses	(4,581)	(3,597)
Cash and cash equivalents	<u>46,412,441</u>	<u>14,035,435</u>

The current account with the National Bank of Ukraine represents the amounts for daily settlements and other operations of the Bank. There are no restrictions on access to funds placed on the current account with the National Bank of Ukraine.

As at 31 December 2019 obligatory reserves estimated in accordance with the requirements of the National Bank of Ukraine amounted to UAH 4,894,107 thousand (2018: UAH 3,089,656 thousand).

As at 31 December 2019 and 2018, the Bank complied with the requirements of the National Bank of Ukraine regarding obligatory reserve amounts.

Changes in expected credit losses during 2019 and 2018 were as follows:

	<u>Stage 1</u>
As at 1 January 2019	3,597
New assets originated or purchased	72
Assets repaid	(1,784)
Changes in expected credit losses	3,362
<i>Total credit loss expense before transition difference</i>	<i>1,650</i>
Exchange differences	(666)
As at 31 December 2019	<u>4,581</u>
	<u>Stage 1</u>
As at 1 January 2018	1,014
New assets originated or purchased	1,988
Assets repaid	(501)
Changes in expected credit losses	1,633
<i>Total credit loss expense before transition difference</i>	<i>3,120</i>
Exchange differences	(537)
As at 31 December 2018	<u>3,597</u>

*(in thousands of Hryvnias, unless otherwise indicated)***8. Due from credit institutions**

Due from credit institutions comprise:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Reverse REPO agreements	253,229	187,438
Other amounts due from credit institutions	40,673	540,186
Term deposits with maturities over 90 days or overdue	9,406	729,512
	<u>303,308</u>	<u>1,457,136</u>
Minus – expected credit losses	(9,738)	(730,081)
Due from credit institutions	<u>293,570</u>	<u>727,055</u>

As at 31 December 2019, the overdue balance of due from credit institutions amounted UAH 9,406 thousand (2018: UAH 729,512 thousand).

As at 31 December 2019, due from credit institutions in the amount of UAH 253,229 thousand (or 83.49% of the total amount of due from credit institution) was placed with three banks (2018: UAH 1,324,158 thousand in three banks or 90.87% of the total amount of due from credit institution).

As at 31 December 2019, reverse REPO agreements were secured by UDGB with the fair value of UAH 291,455 thousand (2018: UAH 202,121 thousand)

Other amounts due from credit institutions include guarantee deposits placed mainly for customer transactions, such as letters of credit, guarantees, performance guarantees and transactions with travel checks and payments cards.

An analysis of changes in gross carrying value for the year ended 31 December 2019 is as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
As at 1 January 2019	727,624	–	729,512	1,457,136
New assets originated or purchased	1,668,150	–	–	1,668,150
Assets repaid	(2,065,796)	–	–	(2,065,796)
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	–	–	–
Write-off	–	–	(718,517)	(718,517)
Exchange differences	(36,076)	–	(1,589)	(37,665)
As at 31 December 2019	<u>293,902</u>	<u>–</u>	<u>9,406</u>	<u>303,308</u>

An analysis of changes in gross carrying value for the year ended 31 December 2018 is as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
As at 1 January 2018	3,748,327	–	736,004	4,484,331
New assets originated or purchased	1,379,896	–	–	1,379,896
Assets repaid	(4,181,094)	–	(407)	(4,181,501)
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	–	–	–
Write-off	–	–	(5,190)	(5,190)
Exchange differences	(219,505)	–	(895)	(220,400)
As at 31 December 2018	<u>727,624</u>	<u>–</u>	<u>729,512</u>	<u>1,457,136</u>

(in thousands of Hryvnias, unless otherwise indicated)

Changes in expected credit losses during the year ending 31 December 2019 were the following:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	569	-	729,512	730,081
New assets originated or purchased	-	-	-	-
Assets repaid	(303)	-	-	(303)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Changes in expected credit losses	155	-	-	155
<i>Total credit loss expense before transition difference</i>	<i>(148)</i>	-	-	<i>(148)</i>
Write-off	-	-	(718,517)	(718,517)
Exchange differences	(89)	-	(1,589)	(1,678)
As at 31 December 2019	332	-	9,406	9,738

Changes in expected credit losses during the year ending 31 December 2018 were the following:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	10,438	-	736,004	746,442
New assets originated or purchased	1,165	-	-	1,165
Assets repaid	(315)	-	(407)	(722)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Changes in expected credit losses	(10,757)	-	-	(10,757)
<i>Total credit loss expense before transition difference</i>	<i>(9,907)</i>	-	<i>(407)</i>	<i>(10,314)</i>
Write-off	-	-	(5,190)	(5,190)
Exchange differences	38	-	(895)	(857)
As at 31 December 2018	569	-	729,512	730,081

9. Derivative financial instruments

The Bank enters into currency exchange operations whereby it is obliged to supply one currency in exchange for another under pre-determined exchange rates. Such transactions are entered into with Ukrainian and international banks. Delivery under such contracts not exceeding one month.

The Bank concludes contracts for the purchase of derivative financial instruments for hedging purposes, but these instruments do not qualify for hedge accounting.

Notional amounts in the tables below represent the accounts receivable and payable:

	31 December 2019				31 December 2018			
	Notional amount		Fair value		Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts								
Swaps/forwards	1,543,315	(1,586,930)	8	(43,623)	304,165	(304,084)	330	(249)
Spots	1,043	(1,044)	-	(1)	926,813	(928,201)	193	(1,581)
Total derivative assets/(liabilities)			8	(43,624)			523	(1,830)

*(in thousands of Hryvnias, unless otherwise indicated)***10. Loans to customers and financial leases**

Loans to customers and financial leases comprise:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Legal entities	35,512,812	42,268,804
SMB	5,267,192	4,929,854
Individuals	5,430,520	6,443,769
Gross loans to customers and financial leases	46,210,524	53,642,427
Minus – expected credit losses	(7,224,845)	(8,405,583)
Loans to customers and financial leases	38,985,679	45,236,844

As at 31 December 2019, the total amount of not overdue restructured loans amounted to UAH 1,950,002 thousand (2018: UAH 1,886,377 thousand).

During 2019, the Bank has performed foreclosure of collateral for repayment of loans to customers. The amount of collateral, which was used for repayment of loans to customers, was UAH 232,206 thousand and is subsequently accounted as other property (2018: UAH 74,642 thousand).

As at 31 December 2019 and 2018, loan portfolio included short- and long-term loans to legal entities and individual entrepreneurs to purchase new equipment, agricultural machinery and vehicles produced in Republic of Belarus and sold in Ukraine. The Bank receives compensation in the amount of 2/3 of the key policy rate of the National Bank of Ukraine on the date of the loan agreement, but not more than 8% per annum.

As at 31 December 2019 and 2018, total amount of these loans equalled to UAH 195,849 thousand and UAH 195,526 thousand, respectively.

As at 31 December 2019 and 2018, the amount of compensation received for loans to purchase new equipment, agricultural machinery and vehicles produced in Republic of Belarus, equalled to UAH 11,456 thousand and UAH 11,526 thousand, respectively.

An analysis of changes in the gross carrying value during the year ended 31 December 2019 is as follows:

<i>Legal entities</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
As at 1 January 2019	30,927,215	6,154,367	4,621,990	565,232	42,268,804
New assets	22,495,093	595,719	1,459,476	268,702	24,818,990
Repaid assets	(17,793,493)	(5,917,198)	(3,519,596)	(559,859)	(27,790,146)
Transfer to stage 1	8,129,765	(7,916,730)	(213,035)	-	-
Transfer to stage 2	(14,469,688)	14,678,941	(209,253)	-	-
Transfer to stage 3	(595,424)	(3,305,179)	3,900,603	-	-
Amounts written off	-	-	(1,073,759)	-	(1,073,759)
Exchange differences	(1,933,152)	(445,569)	(328,757)	(3,599)	(2,711,077)
As at 31 December 2019	26,760,316	3,844,351	4,637,669	270,476	35,512,812

<i>SMB</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
As at 1 January 2019	4,386,245	362,398	181,211	-	4,929,854
New assets	3,014,878	125,788	22,822	-	3,163,488
Repaid assets	(2,113,034)	(165,161)	(43,522)	-	(2,321,717)
Transfer to stage 1	275,713	(272,246)	(3,467)	-	-
Transfer to stage 2	(715,912)	719,572	(3,660)	-	-
Transfer to stage 3	(40,125)	(511,300)	551,425	-	-
Amounts written off	-	-	(6,628)	-	(6,628)
Exchange differences	(445,954)	(13,333)	(38,518)	-	(497,805)
As at 31 December 2019	4,361,811	245,718	659,663	-	5,267,192

(in thousands of Hryvnias, unless otherwise indicated)

<i>Individuals</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
As at 1 January 2019	2,744,136	7,708	3,691,741	184	6,443,769
New assets	1,600,611	2,530	136,804	2	1,739,947
Repaid assets	(1,430,553)	(15,638)	(113,675)	(186)	(1,560,052)
Transfer to stage 1	63,041	(56,375)	(6,666)	-	-
Transfer to stage 2	(133,822)	134,629	(807)	-	-
Transfer to stage 3	(78,241)	(57,162)	135,403	-	-
Amounts written off	-	-	(762,749)	-	(762,749)
Exchange differences	(5,519)	(34)	(424,842)	-	(430,395)
As at 31 December 2019	2,759,653	15,658	2,655,209	-	5,430,520

An analysis of changes in the gross carrying value during the year ended 31 December 2018 is as follows:

<i>Legal entities</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
As at 1 January 2018	25,678,468	4,814,816	4,134,216	-	34,627,500
New assets	21,798,861	9,360,649	660,807	565,232	32,385,549
Repaid assets	(18,013,708)	(4,663,601)	(606,027)	-	(23,283,336)
Transfer to stage 1	13,223,578	(13,115,162)	(108,416)	-	-
Transfer to stage 2	(11,150,947)	11,500,136	(349,189)	-	-
Transfer to stage 3	(148,250)	(1,648,198)	1,796,448	-	-
Amounts written off	-	-	(914,610)	-	(914,610)
Exchange differences	(460,787)	(94,273)	8,761	-	(546,299)
As at 31 December 2018	30,927,215	6,154,367	4,621,990	565,232	42,268,804

<i>SMB</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
As at 1 January 2018	1,927,238	26,287	102,372	-	2,055,897
New assets	4,154,384	112,318	67,003	-	4,333,705
Repaid assets	(1,128,951)	(153,860)	(82,379)	-	(1,365,190)
Transfer to stage 1	187,335	(121,569)	(65,766)	-	-
Transfer to stage 2	(677,842)	677,842	-	-	-
Transfer to stage 3	(3,188)	(175,038)	178,226	-	-
Amounts written off	-	-	(21,442)	-	(21,442)
Exchange differences	(72,731)	(3,582)	3,197	-	(73,116)
As at 31 December 2018	4,386,245	362,398	181,211	-	4,929,854

<i>Individuals</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
As at 1 January 2018	1,632,925	13,422	4,533,535	-	6,179,882
New assets	2,284,644	2,848	48,822	184	2,336,498
Repaid assets	(1,167,963)	(4,922)	(103,902)	-	(1,276,787)
Transfer to stage 1	81,620	(60,922)	(20,698)	-	-
Transfer to stage 2	(81,613)	83,139	(1,526)	-	-
Transfer to stage 3	(4,023)	(25,852)	29,875	-	-
Amounts written off	(371)	-	(726,486)	-	(726,857)
Exchange differences	(1,083)	(5)	(67,879)	-	(68,967)
As at 31 December 2018	2,744,136	7,708	3,691,741	184	6,443,769

Writing-off of credit exposure consists of:

- ▶ writing-off of non-performing loans of UAH 1,463,888 thousand (2018: UAH 1,417,319 thousand)
- ▶ discount reserve from financial restructuring of UAH 391,520 thousand (2018: UAH 245,590 thousand)

(in thousands of Hryvnias, unless otherwise indicated)

Expected credit losses on loans to customers and financial leases for the year that ended on 31 December 2019 were as follows:

Legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2019	179,100	670,376	3,728,671	-	4,578,147
New assets	144,179	-	8,130	-	152,309
Repaid assets	(23,135)	(56,956)	(437,325)	-	(517,416)
Transfer to stage 1	249,168	(246,551)	(2,617)	-	-
Transfer to stage 2	(824,653)	869,394	(44,741)	-	-
Transfer to stage 3	(290,422)	(1,191,884)	1,482,306	-	-
Change of reserve	1,114,806	190,901	(559,509)	27,352	773,550
<i>Total credit loss expense before transition difference</i>	<i>369,943</i>	<i>(435,096)</i>	<i>446,244</i>	<i>27,352</i>	<i>408,443</i>
Changes in impaired interest	-	-	589,038	-	589,038
Amounts written off	-	-	(1,073,759)	-	(1,073,759)
Exchange differences	(14,871)	(31,964)	(99,301)	-	(146,136)
As at 31 December 2019	534,172	203,316	3,590,893	27,352	4,355,733
SMB	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2019	36,666	15,151	100,466	-	152,283
New assets	13,012	-	9,243	-	22,255
Repaid assets	(1,142)	(2,716)	(7,049)	-	(10,907)
Transfer to stage 1	1,620	(1,616)	(4)	-	-
Transfer to stage 2	(99,456)	99,456	-	-	-
Transfer to stage 3	(10,733)	(120,240)	130,973	-	-
Change of reserve	93,486	19,741	(30,364)	-	82,863
<i>Total credit loss expense before transition difference</i>	<i>(3,213)</i>	<i>(5,375)</i>	<i>102,799</i>	-	<i>94,211</i>
Changes in impaired interest	-	-	20,249	-	20,249
Amounts written off	-	-	(6,628)	-	(6,628)
Exchange differences	(3,626)	(1,197)	(10,854)	-	(15,677)
As at 31 December 2019	29,827	8,579	206,032	-	244,438
Individuals	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2019	10,216	2,380	3,662,544	13	3,675,153
New assets	3,450	-	3,845	-	7,295
Repaid assets	(1,048)	(535)	(12,871)	(17)	(14,471)
Transfer to stage 1	1,825	(1,790)	(35)	-	-
Transfer to stage 2	(33,849)	34,101	(252)	-	-
Transfer to stage 3	(61,869)	(39,790)	101,659	-	-
Change of reserve	98,804	12,603	(95,418)	4	15,993
<i>Total credit loss expense before transition difference</i>	<i>7,313</i>	<i>4,589</i>	<i>(3,072)</i>	<i>(13)</i>	<i>8,817</i>
Changes in impaired interest	-	-	90,268	-	90,268
Amounts written off	-	-	(762,749)	-	(762,749)
Exchange differences	(261)	(260)	(386,294)	-	(386,815)
As at 31 December 2019	17,268	6,709	2,600,697	-	2,624,674

(in thousands of Hryvnias, unless otherwise indicated)

Expected credit losses on loans to customers and financial leases for the year that ended on 31 December 2018 were as follows:

Legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2018	322,732	498,503	3,760,702	-	4,581,937
New assets	77,011	223,276	133,083	-	433,370
Repaid assets	(33,732)	(71,561)	(81,152)	-	(186,445)
Transfer to stage 1	573,329	(573,329)	-	-	-
Transfer to stage 2	(111,632)	225,384	(113,752)	-	-
Transfer to stage 3	(11,274)	(337,179)	348,453	-	-
Change of reserve	(632,643)	715,459	263,355	-	346,171
<i>Total credit loss expense before transition difference</i>	<i>(138,941)</i>	<i>182,050</i>	<i>549,987</i>	-	<i>593,096</i>
Changes in impaired interest	-	-	340,045	-	340,045
Amounts written off	-	-	(914,610)	-	(914,610)
Exchange differences	(4,691)	(10,177)	(7,453)	-	(22,321)
As at 31 December 2018	179,100	670,376	3,728,671	-	4,578,147
SMB	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2018	15,196	1,274	95,224	-	111,694
New assets	33,407	1,315	3,850	-	38,572
Repaid assets	(1,736)	(943)	(9,427)	-	(12,106)
Transfer to stage 1	13,828	(4,403)	(9,425)	-	-
Transfer to stage 2	(20,729)	20,729	-	-	-
Transfer to stage 3	(11)	(22,145)	22,156	-	-
Change of reserve	(2,414)	19,518	18,881	-	35,985
<i>Total credit loss expense before transition difference</i>	<i>22,345</i>	<i>14,071</i>	<i>26,035</i>	-	<i>62,451</i>
Changes in impaired interest	-	-	1,463	-	1,463
Amounts written off	-	-	(21,442)	-	(21,442)
Exchange differences	(875)	(194)	(814)	-	(1,883)
As at 31 December 2018	36,666	15,151	100,466	-	152,283
Individuals	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2018	5,603	1,940	4,501,627	-	4,509,170
New assets	10,161	9	1,794	13	11,977
Repaid assets	(731)	(271)	(25,554)	-	(26,556)
Transfer to stage 1	27,549	(12,671)	(14,878)	-	-
Transfer to stage 2	(3,011)	4,373	(1,362)	-	-
Transfer to stage 3	(469)	(6,881)	7,350	-	-
Change of reserve	(28,511)	15,879	(74,840)	-	(87,472)
<i>Total credit loss expense before transition difference</i>	<i>4,988</i>	<i>438</i>	<i>(107,490)</i>	<i>13</i>	<i>(102,051)</i>
Changes in impaired interest	-	-	63,056	-	63,056
Amounts written off	(371)	-	(727,469)	-	(727,840)
Exchange differences	(4)	2	(67,180)	-	(67,182)
As at 31 December 2018	10,216	2,380	3,662,544	13	3,675,153

The following is information on undiscounted ECLs at initial recognition of purchased credit impaired loans to customers and finance leases, which were initially recognized for the years that ended 31 December 2019 and 2018:

	2019	2018
Legal entities	392,164	245,855
SMB	-	-
Individuals	-	78
Total undiscounted ECLs at initial recognition of POCI	392,164	245,933

*(in thousands of Hryvnias, unless otherwise indicated)***Collateral**

The following table summarizes total loan portfolio by types of collateral:

Type of collateral	31 December 2019			
	Legal entities	SMB	Individuals	Total
Deposits	2,136,353	224,167	74,306	2,434,826
Real estate	15,347,584	2,862,870	1,335,201	19,545,655
Other assets	9,937,649	1,620,852	1,257,187	12,815,688
Unsecured	8,091,226	559,303	2,763,826	11,414,355
Total	35,512,812	5,267,192	5,430,520	46,210,524

Type of collateral	31 December 2018			
	Legal entities	SMB	Individuals	Total
Deposits	1,875,935	136,802	19,329	2,032,066
Real estate	17,352,566	2,680,454	1,347,131	21,380,151
Other assets	13,773,636	1,818,283	1,275,700	16,867,619
Unsecured	9,266,667	294,315	3,801,609	13,362,591
Total impaired loans	42,268,804	4,929,854	6,443,769	53,642,427

The above amounts represent the carrying value of the loans, before expected credit losses, and do not represent the fair value of collateral. The Bank assesses the fair value of collateral at the loan origination, change of collateral structure, collateral repossession when the borrower is unable to repay the loan, and in cases and with frequency required by Ukrainian regulations.

As at 31 December 2019 and 2018, other assets include movable property, goods in turnover, etc.

In the absence of collateral or other credit quality enhancement mechanisms, the expected credit losses on loans to customers in Stage 3 as at 31 December 2019 would be higher at:

	31 December 2019
Legal entities	988,274
SMB	424,126
Individuals	30,718
	1,443,118

In the absence of collateral or other credit quality enhancement mechanisms, the expected credit losses on loans to customers in Stage 3 as at 31 December 2018 would be higher at:

	31 December 2018
Legal entities	823,379
SMB	77,353
Individuals	24,284
	925,016

The following table presents the structure of loans to customers and financial leases by types of clients and currency debt:

Types of clients	31 December 2019				31 December 2018			
	In foreign currency	In national currency	Total	Impaired	In foreign currency	In national currency	Total	Impaired
State entities and municipalities	1,354,652	10,334,511	11,689,163	1,268,372	2,867,259	14,826,132	17,693,391	1,279,128
Corporate clients	14,307,739	9,516,027	23,823,766	3,639,774	14,695,525	9,879,888	24,575,413	3,908,093
Micro	5,776	84,918	90,694	15,822	10,048	96,415	106,463	50,279
SME	2,868,178	2,308,203	5,176,381	643,841	2,912,655	1,910,736	4,823,391	130,932
Individuals	2,115,006	3,315,514	5,430,520	2,655,209	3,273,988	3,169,781	6,443,769	3,691,925
Total	20,651,351	25,559,173	46,210,524	8,223,018	23,759,475	29,882,952	53,642,427	9,060,357

(in thousands of Hryvnias, unless otherwise indicated)

The following table presents the structure of loans in terms of customer segments and maturities:

Types of clients	31 December 2019			31 December 2018		
	Within one year	More than one year	Total	Within one year	More than one year	Total
	State entities and municipalities	9,415,584	2,273,579	11,689,163	15,867,180	1,826,211
Corporate clients	8,908,407	14,915,359	23,823,766	11,026,742	13,548,671	24,575,413
Micro	57,777	32,917	90,694	77,254	29,209	106,463
SME	1,936,616	3,239,765	5,176,381	1,545,916	3,277,475	4,823,391
Individuals	976,463	4,454,057	5,430,520	3,259,759	3,184,010	6,443,769
Total	21,294,847	24,915,677	46,210,524	31,776,851	21,865,576	53,642,427

As of 31 December 2019, loans to customers and financial leases in the amount of UAH 16,326,838 thousand were granted to the ten biggest borrowers/groups of Bank's related counterparties (35.27% of the total of loans to customers); allowance for expected credit losses of UAH 425,327 thousand (2018: UAH 20,086,710 thousand, or 37.45%, and allowance for expected credit losses of UAH 1,288,445 thousand) were formed on these loans to customers and financial leases.

The loans are primarily granted to those customers which operate on the territory of Ukraine in the following industries:

	31 December 2019	31 December 2018
Electric power industry	10,834,715	11,150,251
Natural gas transportation	6,970,058	11,017,484
Individuals	5,430,520	6,443,769
Trade	4,600,691	4,546,349
Agriculture and food processing	3,961,126	4,843,488
Production	3,007,429	3,653,101
Municipality	2,456,176	1,824,497
Real estate	2,045,965	2,929,771
Construction	2,008,032	2,069,712
Transport	1,646,652	1,669,586
Metallurgy	1,313,503	1,285,917
Service sector	1,279,073	1,610,708
Telecommunications	603,014	6,391
Financial services	10,873	547,020
Other	42,697	44,383
Total	46,210,524	53,642,427

In the table below, the loans to customers under financial leasing agreements are distributed by segments and terms:

	31 December 2019			31 December 2018		
	Legal entities	SMB	Total	Legal entities	SMB	Total
Within one year						
Loans to customers under financial leasing agreements	5,618	62,572	68,190	516	30,954	31,470
Minus – expected credit losses	–	(115)	(115)	–	(7)	(7)
Short-term loans to customers under financial leasing agreements	5,618	62,457	68,075	516	30,947	31,463
More than one year						
Loans to customers under financial leasing agreements	159,282	492,998	652,280	120,959	511,739	632,698
Minus – expected credit losses	(15,997)	(3,694)	(19,691)	(1,613)	(1,633)	(3,246)
Long-term loans to customers under financial leasing agreements	143,285	489,304	632,589	119,346	510,106	629,452
Total loans to customers under financial leasing agreements	148,903	551,761	700,664	119,862	541,053	660,915

(in thousands of Hryvnias, unless otherwise indicated)

The following table presents the provision structure on financial lease by industry and Bank's customer segment:

	31 December 2019		31 December 2018	
	Legal entities	SMB	Legal entities	SMB
Production	7,141	20,827	3,634	22,406
Agriculture and food processing	57,662	–	516	–
Service sector	95,960	37,156	116,770	5,678
Trade	354	–	555	–
Transport	3,309	483,314	–	511,748
Other	473	5,424	–	–
	164,899	546,721	121,475	539,832

The following table presents the analysis of financial lease receivables as of 31 December 2019, which is included in the legal entity and SMB loan portfolio:

	Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Total
Gross investments in financial leases	445,617	294,526	85,589	55,575	19,362	900,669
Foregone financial revenue from future financial leases	(113,444)	(54,677)	(20,312)	(8,892)	(2,680)	(200,005)
Net investments in financial leases	332,173	239,849	65,277	46,683	16,682	700,664

The following table presents the analysis of financial lease receivables as of 31 December 2018, which is included in the legal entity and SMB loan portfolio:

	Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Total
Gross investments in financial leases	342,333	272,833	168,261	35,281	38,315	857,023
Foregone financial revenue from future financial leases	(100,107)	(59,574)	(24,311)	(9,129)	(2,987)	(196,108)
Net investments in financial leases	242,226	213,259	143,950	26,152	35,328	660,915

*(in thousands of Hryvnias, unless otherwise indicated)***11. Investments at fair value through other comprehensive income**

Investments at fair value through other comprehensive income include:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Ukrainian domestic government bonds (UDGB)	20,645,703	18,100,067
U.S. government bonds	7,205,450	-
State Mortgage Institution bonds	1,422,474	389,323
Municipal bonds	1,125,352	300,767
Companies' shares	11,389	11,321
Investments at fair value through other comprehensive income	<u>30,410,368</u>	<u>18,801,478</u>

At its own discretion, the Bank classified certain investments in share instruments as investments in share instruments which are measured at fair value through other comprehensive income on the grounds that they are not tradeable.

In 2019 the Bank wrote off the shares which are measured at fair value through other comprehensive income. AS the result, the Bank transferred the accumulated losses of UAH 59,353 thousand from revaluation reserve for investments at fair value through other comprehensive income to retained earnings.

The flow of gross carrying amount of investments at fair value through other comprehensive income includes:

<u>Investments at fair value through other comprehensive income</u>	<u>Stage 1</u>
Gross carrying amount as of 1 January 2019	18,817,687
New created and purchased assets	232,693,080
Assets repaid	(185,748,356)
Assets sold	(33,156,307)
Transfer to stage 1	-
Transfer to stage 2	-
Transfer to stage 3	-
Unwinding of discount (recognised in interest revenue)	-
Reclassification	-
Write-off	-
Exchange differences	(2,096,490)
Gross carrying amount as of 31 December 2019	<u>30,509,614</u>
<u>Investments at fair value through other comprehensive income</u>	<u>Stage 1</u>
Gross carrying amount as of 1 January 2018	20,565,344
New created and purchased assets	162,416,723
Assets repaid	(141,223,006)
Assets sold	(22,776,667)
Transfer to stage 1	-
Transfer to stage 2	-
Transfer to stage 3	-
Unwinding of discount (recognised in interest revenue)	-
Write-off	-
Exchange differences	(164,707)
Gross carrying amount as of 31 December 2018	<u>18,817,687</u>

(in thousands of Hryvnias, unless otherwise indicated)

Changes in expected credit losses during the year ending 31 December 2019 were the following:

<i>Investments at fair value through other comprehensive income</i>	Stage 1
Expected credit losses as of 1 January 2019	27,530
New created and purchased assets	104,408
Assets repaid	(4,195)
Assets sold	(14,274)
Transfer to stage 1	-
Transfer to stage 2	-
Transfer to stage 3	-
Change of reserve	-
Write-off	-
Exchange differences	(2,834)
Expected credit losses as of 31 December 2019	110,635

Changes in expected credit losses during the year ending 31 December 2018 were the following:

<i>Investments at fair value through other comprehensive income</i>	Stage 1
Expected credit losses as of 1 January 2018	26,234
New created and purchased assets	17,655
Assets repaid	(1,801)
Assets sold	(7,951)
Transfer to stage 1	-
Transfer to stage 2	-
Transfer to stage 3	-
Change of reserve	(6,185)
Write-off	-
Exchange differences	(422)
Expected credit losses as of 31 December 2018	27,530

As of 31 December 2019, UDGB measured at fair value of UAH 599,292 thousand (2018: UAH 178,682 thousand) were pledged on a long-term loan received from a credit institution (Note 20).

As of 31 December 2019, UDGB measured at fair value of UAH 488,196 thousand were pledged on direct REPO transactions with a credit institution (2018: no such operations) (Note 20).

As of 31 December 2018, companies' bonds measured at fair value of UAH 370,105 thousand were pledged as a provision of long-term loans received from the National Bank of Ukraine. As of 31 December 2019, there were no such operations.

As of 31 December 2018, UDGB measured at fair value of UAH 5,282,550 thousand were pledged on a short-term loan received from the National Bank of Ukraine. As of 31 December 2019, there were no such operations.

12. Investment property

The flow of investment property items was as follows:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Carrying amount as of 1 January	278,028	348,834
Additions	316	426
Reclassification to the category of other property	-	(110,349)
Transfer to/from property and equipment category	(51,796)	41,815
Fair value adjustment	2,309	(2,698)
Carrying amount as of 31 December	228,857	278,028

Net income from investment property includes rental income in the amount of UAH 14,700 thousand (2018: UAH 22,411 thousand).

As of 31 December 2018, investment property of carrying value UAH 51,978 thousand was used as a collateral to secure borrowings received from the National Bank of Ukraine (Note 19). As of 31 December 2019, there were no such operations.

*(in thousands of Hryvnias, unless otherwise indicated)***13. Property and equipment and intangible assets**

Movements in property and equipment and intangible assets were as follows:

	<i>Buildings and land plots</i>	<i>Furniture and equipment</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Construction in progress and items not put into operation</i>	<i>Intangible assets</i>	<i>Total</i>
Cost or revalued amount							
As at 1 January 2019	937,585	752,825	28,784	50,210	244,496	459,327	2,473,227
Additions	-	44,664	177	849	99,426	67,263	212,379
Disposals	(169,781)	(50,360)	(3,163)	(5,622)	(6,532)	(39,381)	(274,839)
Transfers	17,739	123,389	3,974	-	(145,102)	-	-
Revaluation	(68,267)	-	-	-	-	-	(68,267)
Impairment	-	-	-	-	(25,215)	-	(25,215)
Reclassification from investment property	51,796	-	-	-	-	-	51,796
As at 31 December 2019	769,072	870,518	29,772	45,437	167,073	487,209	2,369,081
Accumulated depreciation							
As at 1 January 2019	-	439,908	21,674	31,684	-	269,166	762,432
Depreciation charges	21,497	131,867	6,664	4,792	-	127,698	292,518
Disposals	(888)	(53,535)	(2,854)	(5,622)	-	(35,994)	(98,893)
Revaluation	(20,609)	-	-	-	-	-	(20,609)
As at 31 December 2019	-	518,240	25,484	30,854	-	360,870	935,448
Net book value							
As at 1 January 2019	937,585	312,917	7,110	18,526	244,496	190,161	1,710,795
As at 31 December 2019	769,072	352,278	4,288	14,583	167,073	126,339	1,433,633

	<i>Buildings and land plots</i>	<i>Furniture and equipment</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Construction in progress and items not put into operation</i>	<i>Intangible assets</i>	<i>Total</i>
Cost or revalued amount							
As at 1 January 2018	994,989	738,910	24,493	35,008	94,306	388,491	2,276,197
Additions	-	31,308	160	-	102,060	79,245	212,773
Disposals	(11,676)	(16,769)	(815)	(2,818)	-	(8,409)	(40,487)
Transfers	11,455	50,252	4,946	14,193	(80,846)	-	-
Revaluation	(30,443)	-	-	-	-	-	(30,443)
Reclassification to investment property	(42,420)	-	-	-	-	-	(42,420)
Reclassification from/(to) other property	15,680	(50,876)	-	-	128,976	-	93,780
Proceeds from repayment of loans to customers	-	-	-	3,827	-	-	3,827
As at 31 December 2018	937,585	752,825	28,784	50,210	244,496	459,327	2,473,227
Accumulated depreciation							
As at 1 January 2018	-	355,045	17,193	29,465	-	138,433	540,136
Depreciation charges	23,345	124,595	5,115	5,019	-	139,055	297,129
Disposals	(231)	(16,726)	(634)	(2,800)	-	(8,322)	(28,713)
Reclassification to investment property	(605)	-	-	-	-	-	(605)
Revaluation	(22,509)	-	-	-	-	-	(22,509)
Reclassification from/(to) other property	-	(23,006)	-	-	-	-	(23,006)
As at 31 December 2018	-	439,908	21,674	31,684	-	269,166	762,432
Net book value							
As at 1 January 2018	994,989	383,865	7,300	5,543	94,306	250,058	1,736,061
As at 31 December 2018	937,585	312,917	7,110	18,526	244,496	190,161	1,710,795

(in thousands of Hryvnias, unless otherwise indicated)

As at 31 December 2019, the valuation of the fair value of buildings and land plots was performed by an independent appraiser. The method applied to estimate the fair value of buildings includes comparative approach to evaluation. Key assumptions relate to the condition, quality and location of the buildings used as comparatives.

If the valuation of land and buildings was performed using historical cost model, the carrying value of land and buildings as at 31 December 2019 amounted to UAH 751,160 thousand (2018: UAH 851,406 thousand).

As of 31 December 2018, property and equipment with the carrying value in amount of UAH 228,442 thousand were used as a collateral to secure borrowings received from the National Bank of Ukraine (Note 19). As of 31 December 2019, there were no such operations.

As of 31 December 2019, property and equipment and intangible assets with an historical cost of UAH 365,476 thousand (2018: UAH 368,900 thousand) were fully depreciated, but are still used by the Bank.

14. Right-of-use assets and lease liabilities

Right-of-use assets and lease liabilities comprise:

	Right-of-use assets				Lease liability
	Buildings	Furniture and equipment	Motor vehicles	Total	
As at 1 January 2019	49,161	188	-	49,349	49,349
Additions	40,078	703	121,141	161,922	161,922
Early termination	(8,724)	-	-	(8,724)	(6,819)
Unwinding	(24,149)	(171)	(12,068)	(36,388)	-
Interest expense	-	-	-	-	17,050
Payments	-	-	-	-	(89,755)
As at 31 December 2019	56,366	720	109,073	166,159	131,747

For the year ended 31 December 2019, the Bank recognized expenses on short-term leases, leases of low-value assets and variable lease payments in the amount of UAH 44,522 thousand.

In 2019, the total cash outflow in connection with the lease amounted to UAH 134,277 thousand (2018: UAH 46,747 thousand).

15. Other property

As of 31 December 2019, other property with the carrying value of UAH 735,298 thousand (2018: UAH 799,144 thousand) was received as repayment of debts from the Bank's customers on non-performing loans:

	Land plots	Non-residential property	Residential property	Ownership rights on real estate	Movables, furniture and equipment	Total
Carrying amount						
As at 1 January 2019	157,198	471,664	105,192	36,520	28,570	799,144
Additions	4,501	236,533	5,565	6,003	18,961	271,563
Sale	(102,365)	(132,446)	(18,848)	-	-	(253,659)
Impairment	(3,613)	(55,747)	(9,547)	(1,476)	(3,944)	(74,327)
Write-off	-	(7,423)	-	-	-	(7,423)
As at 31 December 2019	55,721	512,581	82,362	41,047	43,587	735,298

(in thousands of Hryvnias, unless otherwise indicated)

	<i>Land plots</i>	<i>Non-residential property</i>	<i>Residential property</i>	<i>Ownership rights on real estate</i>	<i>Movables, equipment</i>	<i>Total</i>
Carrying amount						
As at 1 January 2018	281,786	357,678	64,237	36,706	357	740,764
Additions	6,135	23,236	46,947	-	-	76,318
Reclassification from "Assets held for sale"	1,199	10,600	2,703	-	343	14,845
Reclassification from/(to) "Property and equipment and intangible assets"	(13,482)	(131,174)	-	-	27,870	(116,786)
Reclassification from/(to) "Investment property"	(112,535)	222,884	-	-	-	110,349
Sale	(246)	(4,960)	(3,990)	-	-	(9,196)
Revaluation	(5,659)	(6,600)	(4,705)	(186)	-	(17,150)
As at 31 December 2018	157,198	471,664	105,192	36,520	28,570	799,144

As of 31 December 2018, the other property with the carrying value UAH 32,207 thousand was used as a collateral to secure long-term borrowings received from the National Bank of Ukraine (Note 19). As of 31 December 2019, there were no such operations.

16. Taxation

Income tax expenses comprise:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Current income tax expenses	26,643	-
Changes in deferred taxes — origination and reversal of temporary differences	159,113	112,152
Deferred tax recognized in other comprehensive income	(129,780)	872
Income tax expense	55,976	113,024

Reconciliation of the income tax expenses based on the current tax rates and actual income tax expense is as follows:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Profit before income tax	1,344,972	881,722
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	242,095	158,710
Non-deductible expense for taxation	6,460	85,381
Adjustments of the tax base due to reassessment of temporary differences and changes in laws	(2,830)	1,739
Changes in unrecognized deferred tax assets	(189,749)	(132,806)
Income tax expense	55,976	113,024

(in thousands of Hryvnias, unless otherwise indicated)

As at 31 December 2019 and 2018, deferred tax assets and liabilities and their movements for the respective periods were as follows:

	<i>Origination and reversal of temporary differences</i>			<i>Impact of adopting IFRS 9</i>	<i>Origination and reversal of temporary differences</i>		
	<i>In the statement of profit or loss</i>	<i>Within equity</i>	<i>2019</i>		<i>In the statement of profit or loss</i>	<i>Within equity</i>	<i>2018</i>
Tax effect of non-taxable temporary differences							
Accruals and provisions	-	-	-	(5,886)	5,886	-	-
Assessment of investments at fair value through other comprehensive income	-	(135,467)	(135,467)	(5,966)	5,966	-	-
Property and equipment and intangible assets	(8,865)	5,687	51,786	-	9,540	872	54,964
Liabilities for unused vacations	-	-	-	-	-	-	-
Tax losses carried forward	(210,217)	-	-	-	(267,222)	-	210,217
Deferred tax assets/ (liabilities), gross	(219,082)	(129,780)	(83,681)	(11,852)	(245,830)	872	265,181
Unrecognized deferred tax asset	189,749			11,852	132,806	-	(189,749)
Deferred tax assets/ (liabilities)	(29,333)	(129,780)	(83,681)	-	(113,024)	872	75,432
Deferred tax assets/ (liabilities), net	(29,333)	(129,780)	(83,681)	-	(113,024)	872	75,432

Preparation and provision of financial statements and tax returns for corporate income tax are made at different periods. Consequently, financial and tax accounting may have minor differences. These differences will be reflected in the tax accounting in the next reporting period.

In compliance with applicable tax laws the tax base for corporate income tax is the Bank's financial result before tax as disclosed in IFRS financial statements, adjusted in accordance with requirements of the Tax Code of Ukraine. Thus, tax accounting is made based on financial accounting with further tax adjustments for timely and accurate tax reporting.

17. Provisions for legal risks

Provisions for legal risks related to other property of the Bank, the ownership rights of which are likely to be lost, and legal claims for which it is probable that the Bank will incur losses.

The change in provisions for legal risks were as follows:

	<i>Provisions for legal risks</i>
As at 1 January 2019	115,089
Charge	142,830
Write-off	(4,987)
As at 31 December 2019	252,932
	<i>Provisions for legal risks</i>
As at 1 January 2018	7,669
Charge	118,585
Write-off	(11,165)
As at 31 December 2018	115,089

*(in thousands of Hryvnias, unless otherwise indicated)***18. Other assets and liabilities**

Other assets comprise:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Other financial assets		
Receivables for securities	507,270	511,185
Clearing payments for payment cards	100,940	74,510
Other income accrued	79,794	69,519
Other receivables for operations with banks	7,159	35,593
Receivables for operations with credit cards and international payment systems	11,677	15,205
Other	50	-
	<u>706,890</u>	<u>706,012</u>
Minus – expected credit losses on other financial assets	<u>(529,997)</u>	<u>(571,950)</u>
Total other financial assets	<u>176,893</u>	<u>134,062</u>
Other non-financial assets		
Prepayments	233,934	209,422
Receivable for property rights	148,233	180,100
Cash and precious metals, which are located in the temporarily occupied territory of the Autonomous Republic of Crimea and not controlled by the Ukrainian authorities of the Luhansk and Donetsk regions	48,261	50,374
Inventories	24,041	25,155
Receivables from employees	8,619	1,955
Receivables for financial leases	5,911	123,671
Taxes recoverable, other than income tax	462	852
Other	497	1,619
	<u>469,958</u>	<u>593,148</u>
Minus — allowance for impairment on other non-financial assets	<u>(177,049)</u>	<u>(173,957)</u>
Total other non-financial assets	<u>292,909</u>	<u>419,191</u>
Total other assets	<u>469,802</u>	<u>553,253</u>

An analysis of changes in the expected credit losses for other financial assets for the year ended 31 December 2019 is as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
As at 1 January 2019	1,929	3,079	566,943	571,951
New assets originated or purchased	2,372	5,814	454	8,640
Assets repaid	(688)	(6,192)	(13,898)	(20,778)
Transfer to stage 1	336	(96)	(240)	-
Transfer to stage 2	(181)	226	(45)	-
Transfer to stage 3	(88)	(2,726)	2,814	-
Changes in expected credit losses	(293)	326	(643)	(610)
<i>Total credit loss expense before transition difference</i>	<i>1,458</i>	<i>(2,648)</i>	<i>(11,558)</i>	<i>(12,748)</i>
Write-off	-	-	(25,743)	(25,743)
Exchange differences	(50)	-	(3,413)	(3,463)
As at 31 December 2019	<u>3,337</u>	<u>431</u>	<u>526,229</u>	<u>529,997</u>

(in thousands of Hryvnias, unless otherwise indicated)

An analysis of changes in the expected credit losses for other financial assets for the year ended 31 December 2018 is as follows:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	10,991	2,338	566,701	580,030
New assets originated or purchased	6,370	1,221	56	7,647
Assets repaid	(4,280)	(797)	(5,469)	(10,546)
Transfer to stage 1	295	(269)	(26)	-
Transfer to stage 2	(362)	3,436	(3,074)	-
Transfer to stage 3	(2,839)	(2,980)	5,819	-
Changes in expected credit losses	(8,123)	139	4,049	(3,935)
<i>Total credit loss expense before transition difference</i>	<i>(8,939)</i>	<i>750</i>	<i>1,355</i>	<i>(6,834)</i>
Write-off	-	-	(649)	(649)
Exchange differences	(123)	(9)	(465)	(597)
As at 31 December 2018	1,929	3,079	566,942	571,950

An analysis of changes in the expected credit losses for other non-financial assets for the year ended 31 December 2019 is as follows:

	Other assets
As at 1 January 2019	173,956
Accrued/(reversed)	1,379
<i>Total credit loss expense before transition difference</i>	<i>1,379</i>
Recovery	4,080
Amounts written off	(229)
Exchange differences	(2,137)
As at 31 December 2019	177,049

An analysis of changes in the expected credit losses for other non-financial assets for the year ended 31 December 2018 is as follows:

	Other assets
As at 1 January 2018	179,031
Accrued/(reversed)	(5,858)
<i>Total credit loss expense before transition difference</i>	<i>(5,858)</i>
Recovery	1,450
Amounts written off	-
Exchange differences	(666)
As at 31 December 2018	173,957

(in thousands of Hryvnias, unless otherwise indicated)

Other liabilities comprise:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Payables on operations with clients	526,438	180,461
Accruals for unused vacations	145,727	112,476
Accounts payable for operations with banks	90,171	785
Payments to Individual Deposits Guarantee Fund	44,357	37,809
Accounts payable for taxes and compulsory payments, except for income tax	34,310	78,821
Payables on operations with plastic cards	22,747	600
Accrued expenses for settlement and cash services	18,804	11,632
Payables on operations with clients on the purchase and sale of foreign currency, bank and precious metals	10,840	16,647
Obligations under a financial leases	7,354	119,097
Repairs and maintenance of property and equipment	6,623	6,111
Communications	3,690	3,516
Accounts payable for payments to employees	2,919	1,888
Payables to plastic cards transactions processing center	2,601	2,851
Retention of premises	2,496	1,530
Rent of premises	1,214	1,370
Reward to partners for attraction of customers	923	1,570
Accounts payable for acquiring assets	909	3,137
Other	106,399	46,228
Other liabilities	<u>1,028,522</u>	<u>626,529</u>

19. Due to the National Bank of Ukraine

Borrowings from the National Bank of Ukraine comprise:

	<u>Maturity</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Long-term refinancing borrowings from the National Bank of Ukraine	30 April 2019	-	106,131
Short-term refinancing borrowings from the National Bank of Ukraine	3 January 2019	-	2,998,271
	11 January 2019	-	1,199,368
Total borrowings from the National Bank of Ukraine		<u>-</u>	<u>4,303,770</u>

On 28 March 2019 the Bank fully prepaid the long-term loan.

As at 31 December 2018, the following assets were pledged as collateral to secure borrowings from the National Bank of Ukraine:

	<u>Notes</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
UDGB	11	-	5,461,232
Corporate bonds	11	-	370,105
Buildings and land plots - property and equipment	13	-	228,442
Buildings - investment property	12	-	51,978
Other property	15	-	32,207

*(in thousands of Hryvnias, unless otherwise indicated)***20. Due to credit institutions**

Due to credit institutions comprise:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Term deposits and loans	2,661,722	3,442,899
Current accounts	2,550,852	2,333,453
REPO agreements	484,312	-
Other due to credit institutions	38,046	49,045
Due to credit institutions	<u>5,734,932</u>	<u>5,825,397</u>

As of 31 December 2019, due to credit institutions comprise balances in the amount of UAH 2,673,913 thousand (46.63%), that were placed by three banks (2018: balances in the amount of UAH 2,544,956 thousand (43.69%) that were placed by three banks).

As of 31 December 2019, long-term borrowing received from one credit institution was secured by Ukrainian domestic government bonds with the fair value of UAH 599,292 thousand (2018: UAH 178,682 thousand) (Note 11).

As of 31 December 2019, the loans under REPO agreements received from one credit institution and were secured by Ukrainian domestic government bonds with the fair value of UAH 488,196 thousand (2018: nil) (Note 11). The mentioned UDGBs are measured at fair value through other comprehensive income and are not derecognised as the Bank retains substantially all the risks and rewards of these securities.

21. Due to customers

Due to customers on operating segments comprise:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Current accounts		
- Legal entities	55,937,034	22,367,148
- SMB	2,944,037	2,389,751
- Individuals	5,376,557	4,006,565
	<u>64,257,628</u>	<u>28,763,464</u>
Term deposits		
- Legal entities	14,863,783	15,609,442
- SMB	5,299,792	3,825,159
- Individuals	18,938,378	16,923,861
	<u>39,101,953</u>	<u>36,358,462</u>
Due to customers	<u>103,359,581</u>	<u>65,121,926</u>

As of 31 December 2019, due to customers in the amount of UAH 48,169,304 thousand (46.60%) including due to ten largest customers of the Bank (2018: UAH 18,824,336 thousand (28.91%)).

As of 31 December 2019, due to customers in "Legal entities" included due to budget organisations in the amount of UAH 329,792 thousand (2018: UAH 233,488 thousand) and in "SMB" included due to budget organisations in the amount of UAH 975 thousand (2018: UAH 661 thousand), respectively.

(in thousands of Hryvnias, unless otherwise indicated)

Due to customers by industry are summarized as follows:

	31 December 2019	31 December 2018
Individuals	24,347,021	20,936,385
Service sector	36,630,750	10,352,152
Transport	13,901,200	9,342,854
Energy	5,671,700	4,263,387
Financial services	4,580,683	2,072,336
Trade	3,724,882	2,973,856
Production	3,431,902	2,911,104
Metallurgy	2,233,261	2,701,974
Construction	2,176,954	1,998,828
Insurance	2,037,021	1,743,125
Agriculture and food processing	1,367,286	1,065,445
Other	3,256,921	4,760,480
Due to customers	103,359,581	65,121,926

As of 31 December 2019, the analysis of due to customers by industry in terms of "Individuals" in the amount of UAH 24,347,021 thousand (2018: UAH 20,936,385 thousand) included a share of due to customers in terms of "SMB" in the amount of UAH 32,086 thousand (2018: UAH 5,959 thousand)

As of 31 December 2019, category "Other" includes funds of non-resident legal entities of UAH 3,184,897 thousand (2018: UAH 4,643,027 thousand).

As of 31 December 2019, loans to customers secured by amounts due to customers of UAH 2,434,826 thousand (2018: UAH 2,032,066 thousand) (Note 10).

As of 31 December 2019, amounts due to customers secured financial commitments and contingencies in amount of UAH 1,011,289 thousand (2018: UAH 2,887,038 thousand) (Note 23).

22. Equity

Share capital

As of 31 December 2019, authorized issued share capital comprised 13,836,522,922 ordinary shared and 477,078 preferred shares (2018: 13,836,522,922 ordinary shared and 477,078 preferred shares) with the nominal value of UAH 1 per share. Ordinary shares give rights to their holders to participate in the General Shareholders' Meetings, receive dividends and in case of liquidation of the Bank, to receive part of the property of the Bank or its value in proportion to the value of the shares owned by the Bank in the order and in accordance with the procedure stipulated by the legislation of Ukraine and the Bank's charter. The shareholders-owners of preferred shares have a vote right in certain cases according to the Charter and are entitled to receive annual fixed amounts of dividends, except for certain cases envisaged by the laws.

The number of issued and fully paid shares is as follows:

	<i>Number of shares, thousand</i>		<i>Nominal value, thousand UAH</i>		<i>Nominal value, thousand UAH</i>	<i>Total, thousand UAH</i>
	<i>Ordinary</i>	<i>Preferred</i>	<i>Ordinary</i>	<i>Preferred</i>		
As at 31 December 2017	13,836,523	477	13,836,523	477	13,837,000	13,837,000
Issued and registered shares	—	—	—	—	—	—
As at 31 December 2018	13,836,523	477	13,836,523	477	13,837,000	13,837,000
Issued and registered shares	—	—	—	—	—	—
As at 31 December 2019	13,836,523	477	13,836,523	477	13,837,000	13,837,000

*(in thousands of Hryvnias, unless otherwise indicated)***Movements in other reserves**

Movements in other reserves were as follows:

	<i>Property and equipment revaluation reserve</i>	<i>Revaluation reserve for investments at fair value through other comprehensive income</i>	<i>Total</i>
As at 31 December 2017	338,994	(60,570)	278,424
Effect of adoption of IFRS 9	–	(33,167)	(33,167)
Adjusted opening balance as at 1 January 2018 under IFRS 9	338,994	(93,737)	245,257
Revaluation of property and equipment	(4,843)	–	(4,843)
Income tax related to revaluation of property and equipment	872	–	872
Net change in fair value of debt instruments at fair value through other comprehensive income	–	(566,237)	(566,237)
Reclassification of cumulative (gain)/loss on disposal of debt instruments at fair value through other comprehensive income to profit or loss	–	(30,966)	(30,966)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	–	11,470	11,470
Transfer as a result of retirement of assets	(3,316)	–	(3,316)
As at 31 December 2018	331,707	(679,470)	(347,763)
Revaluation of property and equipment	(31,595)	–	(31,595)
Income tax related to revaluation of property and equipment	5,687	–	5,687
Net change in fair value of debt instruments at fair value through other comprehensive income	–	1,332,211	1,332,211
Reclassification of cumulative (gain)/loss on disposal of debt instruments at fair value through other comprehensive income to profit or loss	–	(65,771)	(65,771)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	–	104,408	104,408
Income tax associated with revaluation of securities	–	(135,467)	(135,467)
Transfer of accumulated revaluation reserve on disposal of equity instruments at fair value through other comprehensive income	–	59,353	59,353
Transfer as a result of retirement of assets	(90,077)	–	(90,077)
As at 31 December 2019	215,722	615,264	830,986

*(in thousands of Hryvnias, unless otherwise indicated)***23. Commitments and contingencies****Legal issues**

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the amount of liabilities, arising from legal proceedings will not have a material adverse effect on the financial position or the results of future operations of the Bank (Note 17).

Taxation

The Ukrainian tax system is characterized by numerous taxes and frequent changes in the legislation. Tax regulations are often unclear, open to wide interpretation and, in some instances, are controversial. Instances of inconsistent treatment between local, regional and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not infrequent. Tax returns are subject to review and investigation by a number of authorities that are authorized to impose penalties and interest charges. These facts expose entities operating in Ukraine to more significant risks than those in the countries with more developed tax systems.

Management believes that it has complied with all existing tax legislation requirements. However, no certainties exist that the tax authorities will apply another treatment to the Bank's compliance with the effective legislation and assess fines and penalties.

Commitments and contingencies

As at 31 December 2019 and 2018, contractual commitments and contingencies were as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Credit-related commitments		
Financial guarantees	1,913,913	1,769,727
Loan commitments	4,500,252	38,095
Letters of credit	1,727,018	1,731,587
	<u>8,141,183</u>	<u>3,539,409</u>
Performance guarantees	915,041	2,448,936
	<u>915,041</u>	<u>2,448,936</u>
Commitments and contingencies	<u>9,056,224</u>	<u>5,988,345</u>

As at 31 December 2019 and 2018, loan commitments are represented by revocable commitments to the Bank's strategic customers.

Changes in expected credit losses under the financial guarantees for the year ended 31 December 2019 were as follows:

Legal entities	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	2,174	32,925	112,469	147,568
New guarantees	80,278	-	1,178	81,456
Expired guarantees	(7,237)	(32,396)	(74,390)	(114,023)
Transfer to stage 1	199	(165)	(34)	-
Transfer to stage 2	(17)	35	(18)	-
Transfer to stage 3	(112,571)	-	112,571	-
Change of reserve	51,919	(374)	(21,153)	30,392
<i>Total credit loss expense before transition difference</i>	<i>12,571</i>	<i>(32,900)</i>	<i>18,154</i>	<i>(2,175)</i>
Exchange differences	(6,544)	-	(18,053)	(24,597)
As at 31 December 2019	<u>8,201</u>	<u>25</u>	<u>112,570</u>	<u>120,796</u>

(in thousands of Hryvnias, unless otherwise indicated)

SMB	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	21	-	-	21
New guarantees	11	-	-	11
Expired guarantees	(5)	-	-	(5)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change of reserve	(27)	-	-	(27)
<i>Total credit loss expense before transition difference</i>	<i>(21)</i>	<i>-</i>	<i>-</i>	<i>(21)</i>
Exchange differences	-	-	-	-
As of 31 December 2019	-	-	-	-

Changes in expected credit losses under the financial guarantees for the year ended 31 December 2018 were as follows:

Legal entities	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	1,247	-	142,752	143,999
New guarantees	3,717	58,395	1,178	63,290
Expired guarantees	(927)	(1,170)	(944)	(3,041)
Transfer to stage 1	8,119	(8,119)	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change of reserve	(9,992)	(14,955)	(27,511)	(52,458)
<i>Total credit loss expense before transition difference</i>	<i>917</i>	<i>34,151</i>	<i>(27,277)</i>	<i>7,791</i>
Exchange differences	10	(1,226)	(3,006)	(4,222)
As at 31 December 2018	2,174	32,925	112,469	147,568

SMB	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	56	-	-	56
New guarantees	26	-	-	26
Expired guarantees	(3)	-	-	(3)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change of reserve	(58)	-	-	(58)
<i>Total credit loss expense before transition difference</i>	<i>(35)</i>	<i>-</i>	<i>-</i>	<i>(35)</i>
Exchange differences	-	-	-	-
As at 31 December 2018	21	-	-	21

Changes in expected credit losses under the performance guarantees for the year ended 31 December 2019 were as follows:

Legal entities	Total
As at 1 January 2019	35,788
Accrued/(reversed)	(29,654)
<i>Total credit loss expense before transition difference</i>	<i>(29,654)</i>
Exchange differences	(1,212)
As at 31 December 2019	4,922

(in thousands of Hryvnias, unless otherwise indicated)

SMB	Total
As at 1 January 2019	-
Accrued/(reversed)	-
<i>Total credit loss expense before transition difference</i>	-
Exchange differences	-
As at 31 December 2019	-

Changes in allowances for expected credit losses under performance guarantees for the year ended 31 December 2018 were as follows:

Legal entities	Total
As at 1 January 2018	3,997
Accrued/(reversed)	33,306
<i>Total credit loss expense before transition difference</i>	33,306
Exchange differences	(1,515)
As at 31 December 2018	35,788

SMB	Total
As at 1 January 2018	3
Accrued/(reversed)	(3)
<i>Total credit loss expense before transition difference</i>	(3)
Exchange differences	-
As at 31 December 2018	-

Below is the analysis of changes in allowances for expected credit losses under the loan commitments for the year ended 31 December 2019:

Legal entities	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	-	229,660	44,530	274,190
New loan commitments	3,881	-	-	3,881
Expired loan commitments	-	(344)	(13,727)	(14,071)
Transfer to stage 1	84,733	(84,733)	-	-
Transfer to stage 2	(10,459)	10,506	(47)	-
Transfer to stage 3	(549)	(350,314)	350,863	-
Change of reserve	7,472	195,811	(374,673)	(171,390)
<i>Total credit loss expense before transition difference</i>	85,078	(229,074)	(37,584)	(181,580)
Exchange differences	-	(540)	(864)	(1,404)
As at 31 December 2019	85,078	46	6,082	91,206

SMB	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	-	2,432	255	2,687
New loan commitments	213	48	1	262
Expired loan commitments	-	(1)	(884)	(885)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(10)	10	-	-
Transfer to stage 3	(988)	-	988	-
Change of reserve	785	(2,442)	(332)	(1,989)
<i>Total credit loss expense before transition difference</i>	-	(2,385)	(227)	(2,612)
Exchange differences	-	-	(25)	(25)
As at 31 December 2019	-	47	3	50

(in thousands of Hryvnias, unless otherwise indicated)

Individuals	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	-	154	14,031	14,185
New loan commitments	-	-	147	147
Expired loan commitments	-	(61)	(5,546)	(5,607)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(1,408)	1,420	(12)	-
Transfer to stage 3	(1,195)	(5,454)	6,649	-
Change of reserve	2,603	3,942	(5,404)	1,141
<i>Total credit loss expense before transition difference</i>	-	(153)	(4,166)	(4,319)
Exchange differences	-	-	(823)	(823)
As at 31 December 2019	-	1	9,042	9,043

Below is the analysis of changes in allowances for expected credit losses under the loan commitments for the year ended 31 December 2018:

Legal entities	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	-	22,233	60,000	82,233
New loan commitments	-	88,794	152,580	241,374
Expired loan commitments	-	(132,142)	(118,543)	(250,685)
Transfer to stage 1	38,673	(38,673)	-	-
Transfer to stage 2	-	16,000	(16,000)	-
Transfer to stage 3	-	(2,772)	2,772	-
Change of reserve	(38,673)	278,180	(36,279)	203,228
<i>Total credit loss expense before transition difference</i>	-	209,387	(15,470)	193,917
Exchange differences	-	(1,960)	-	(1,960)
As at 31 December 2018	-	229,660	44,530	274,190

SMB	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	-	300	2,302	2,602
New loan commitments	-	4,460	336	4,796
Expired loan commitments	-	(94)	(2,019)	(2,113)
Transfer to stage 1	1,136	(607)	(529)	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change of reserve	(1,136)	(1,580)	170	(2,546)
<i>Total credit loss expense before transition difference</i>	-	2,179	(2,042)	137
Exchange differences	-	(47)	(5)	(52)
As at 31 December 2018	-	2,432	255	2,687

Individuals	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	-	64	16,465	16,529
New loan commitments	-	9	1,111	1,120
Expired loan commitments	-	(67)	(8,019)	(8,086)
Transfer to stage 1	6,556	(873)	(5,683)	-
Transfer to stage 2	-	405	(405)	-
Transfer to stage 3	-	(462)	462	-
Change of reserve	(6,556)	1,078	10,274	4,796
<i>Total credit loss expense before transition difference</i>	-	90	(2,260)	(2,170)
Exchange differences	-	-	(174)	(174)
As at 31 December 2018	-	154	14,031	14,185

Provisions for claims, guarantees and commitments are recorded as liabilities.

As of 31 December 2019, financial commitments and contingencies were secured by cash collateral in amount of UAH 981,558 thousand (2018: UAH 2,817,079 thousand) (Note 21).

*(in thousands of Hryvnias, unless otherwise indicated)***24. Net fee and commission income**

Net fee and commission income comprise:

	31 December 2019	31 December 2018
Settlements operations	894,328	637,750
Credit servicing of the customers	156,939	108,913
Agency operations in the foreign exchange market	142,075	117,377
Guarantees and letters of credit	131,841	80,666
Operations with securities	17,611	7,320
Other	20,311	13,166
Fee and commission income	1,363,105	965,192
Settlements operations	(262,971)	(183,971)
Guarantees and letters of credit	(24,247)	(8,631)
Agency operations in the foreign exchange market	(4,359)	(3,491)
Other	(6,960)	(8,208)
Fee and commission expense	(298,539)	(204,301)
Net fee and commission income	1,064,566	760,891

25. Net gains on foreign exchange operations and precious metals

Net gains on foreign exchange operations and precious metals comprise:

	31 December 2019	31 December 2018
Dealing operations	168,029	(27,734)
Translation differences	(9,293)	143,020
Net gains on foreign exchange operations and precious metals	158,736	115,286

26. Other income

Other income comprise:

	31 December 2019	31 December 2018
Positive result from sale of assets held for sale and other property	393,148	4,154
Fees from insurance companies and banks	109,580	87,457
Penalties received	59,183	19,114
Positive result from sale of property and equipment and intangible assets	39,099	5,156
Recovery of previously written-off assets	38,132	860
Compensation costs for utilities of premises leased	10,769	10,248
Surplus cash collection at ATMs	2,748	3,152
Recovery of litigation expenses	2,631	3,348
Recovery of registration costs	1,308	1,023
Income from early repayment of customers term deposits	681	1,969
Gain from acquired ownership of due to customers	-	740
Other	36,730	20,166
Total other income	694,009	157,387

There have been cases in Bank's operations when the accounts, which are to be closed, have balances, which the customer does not appeal to. Gain from acquired ownership of due to customers includes clients' funds that the Bank recognized as income in accordance with the Civil Code of Ukraine, because of the expiration of ownership of the balances.

During 2019, the Bank received repayment of penalties by the mortgaged property of debtors. The amount of collateral, which was used for repayment of loans to customers is UAH 41,518 thousand and is accounted as other property (2018: UAH 59 thousand).

*(in thousands of Hryvnias, unless otherwise indicated)***27. Changes in expected credit losses on other assets, other provisions for impairment and provisions for guarantees, commitments and legal risks**

The table below discloses charges for credit loss expenses on financial instruments, recorded in the statement of profit or loss and other comprehensive income for the year ended 31 December 2019:

	Notes	Stage 1	Stage 2	Stage 3	POCI	Total
Cash and cash equivalents	7	1,650	-	-	-	1,650
Due from credit institutions	8	(148)	-	-	-	(148)
Loans to customers and financial leases	10	374,043	(435,882)	545,971	27,339	511,471
Investments at fair value through other comprehensive income	11	104,408	-	-	-	104,408
Other financial assets	18	1,458	(2,648)	(11,558)	-	(12,748)
Financial guarantees	23	12,550	(32,900)	18,154	-	(2,196)
Loan commitments	23	85,078	(231,612)	(41,977)	-	(188,511)
Total credit loss expense		579,039	(703,042)	510,590	27,339	413,926

The statement of profit or loss and other comprehensive income for the year ended 31 December 2019 also include changes in the following other provisions:

- ▶ creation of provisions for other non-financial assets in the amount of UAH 1,379 thousand (Note 18);
- ▶ creation of provisions for legal risks in the amount of UAH 142,830 thousand (Note 17);
- ▶ reversal of provisions on performance guarantees in the amount of UAH 29,654 thousand (Note 23).

The table below discloses charges for credit loss expenses on financial instruments, recorded in the statement of profit or loss and other comprehensive income for the year ended 31 December 2018:

	Notes	Stage 1	Stage 2	Stage 3	POCI	Total
Cash and cash equivalents	7	3,120	-	-	-	3,120
Due from credit institutions	8	(9,907)	-	(407)	-	(10,314)
Loans to customers and financial leases	10	(111,608)	196,559	468,532	13	553,496
Investments at fair value through other comprehensive income	11	11,470	-	-	-	11,470
Other financial assets	18	(8,939)	750	1,355	-	(6,834)
Financial guarantees	23	882	34,151	(27,277)	-	7,756
Loan commitments	23	-	211,656	(19,772)	-	191,884
Total credit loss expense		(114,982)	443,116	422,431	13	750,578

The statement of profit or loss and other comprehensive income for the year ended 31 December 2018 also include changes in the following other provisions:

- ▶ reversal of provisions for other non-financial assets in the amount of UAH 5,858 thousand (Note 18);
- ▶ creation of provisions for legal risks in the amount of UAH 118,585 thousand (Note 17);
- ▶ creation of provisions on performance guarantees in the amount of UAH 33,303 thousand (Note 23).

*(in thousands of Hryvnias, unless otherwise indicated)***28. Staff costs and other operating expense**

Staff costs and other operating expense comprise:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Salaries and bonuses	1,197,888	973,665
Charges on payroll	224,123	173,755
Other staff costs	66,532	55,197
Staff costs	<u>1,488,543</u>	<u>1,202,617</u>
Professional services	172,978	137,401
Payments to the Individual Deposit Guarantee Fund	168,171	135,170
Repairs and maintenance of property and equipment	144,921	122,949
Communications	119,752	99,520
Result of revaluation of buildings and land plots, assets held for sale, other property	113,850	22,764
Taxes, other than income tax	78,283	54,533
Office supplies	68,307	85,923
Lease and maintenance of premises	63,760	55,655
Software support	50,246	45,305
Marketing and advertising	43,199	38,021
Charity	38,746	39,859
Reward to partners for attraction of customers	30,154	15,812
Security	29,930	25,172
Expenses for the accumulation of values	18,055	13,090
Business trips	8,805	9,233
Costs of enforcement of judgments	–	506
Fines and penalties	370	177
Other	37,237	33,341
Other operating expense	<u>1,186,764</u>	<u>934,431</u>

29. Risk management

The Bank's risk management system is based on its size, business model, scale of activity, types and complexity of operations. The risk management system includes: risk identification, risk assessment, mitigation and limitation or risk avoidance, risk monitoring and control, stress testing, capital adequacy assessment and liquidity.

Risk management system is based on the distribution of obligations between the divisions of the Bank with application of the model of three security lines:

- ▶ first line – at the level of business divisions and divisions of support for the Bank's performance;
- ▶ second line – at the level of risk management divisions including the risk management department and management of social and environmental risks, and the department of compliance;
- ▶ third line – at the level of Internal Audit Department related to inspection and assessment of efficiency of the functioning of the risk management system.

Risk management structure*Supervisory Board*

The Supervisory Board defines and approves the strategy of risk management, credit policy, risk appetite statement, individual risk management policies, the plan for ensuring continuous activity, the plan for financing crisis situations, strategy and operational plan for management of non-performing assets and foreclosed property, determines the risk appetite and sets the limits of risk, recognizes the sources of capitalization and other Bank financing, considers reporting on the Bank's risk profile, reviews the results of stress-testing, approves the appointment and dismissal of CRO, identifies cases of prohibition (veto) of CRO, ensures the functioning and control over the effectiveness of the risk management system.

(in thousands of Hryvnias, unless otherwise indicated)

Risk Management Committee of the Supervisory Board

The Risk Management Committee of the Supervisory Board ensures the availability and maintenance in the current state of the internal regulation acts regulating the risk management process and the Bank's credit policy, regularly monitors and analyzes the current risk profile adopted by the Bank, monitors the compliance with the risk limits established by the Bank, monitors compliance with the risk appetite indicators specified in the risk appetite statement.

Management Board

The Management Board is responsible for the overall risk management and for implementation of risk strategies and principles approved by the Supervisory Board. The Management Board has delegated some authority to operational risk management collegial structures of the Bank sets limits and powers of these collective structures.

Collegial structures of the Board

Credit Council, Credit Committee, Committee for Methodological Support for Retail, Small and Microbusiness Risk Management, Commission for Problem Borrowing of Borrowers, Commission for monitoring credit operations of clients, credit commissions for directories manage credit risk within the limits of powers delegated by the Management Board.

The Assets and Liabilities Management Committee manages the liquidity risk, interest rate risk and market risk within the limits of the powers delegated by the Management Board.

The Operational Risk Management Committee manages the operational risk within the limits of the powers delegated by the Management Board.

The Information Security Management Committee manages information risk as a component of operational risk within the limits of the powers delegated by the Management Board.

CRO (Chief Risk Officer) and its subdivisions on risk management

The CRO and its subordinate divisions for risk management ensure timely detection, measurement, monitoring, control, reporting of significant risks, prepare and submit risk reports to the Supervisory Board, the Risk Management Committee of the Supervisory Board, the Management Board, collegial bodies of the Management Board, develop and maintain the Bank's actual methodology, tools and models of risk assessment, ensure coordination of work on risk management with other structural units of the Bank, calculate the risk profile of the Bank, provide monitoring and prevention of violations of risk appetite and risk limits, control the approximation of risk indicators to the approved limits of risk and risk limits, and initiate measures to prevent their violations, carry out stress testing, prepare conclusions for the adoption of credit decisions regarding new loans, as well as on changing the conditions for existing loans, prepare conclusions on the risks inherent in new products before their introduction for the adoption of appropriate management.

Risk appetite statement

The Bank determines (declares) the aggregate risk-appetite by setting aggregate risk limits and risk-appetite for individual risks by setting risk limits for significant risks, which are defined by the current Risk Management Strategy in JSB "UKRGASBANK":

- ▶ Credit risk;
- ▶ Liquidity risk;
- ▶ Interest rate risk;
- ▶ Market risks;
- ▶ Operating risk;
- ▶ Compliance risk;
- ▶ Environmental risk;
- ▶ Social risk.

The statement is developed in accordance with the assumptions underlying the Bank's Budget, taking into account the prudential requirements of the National Bank of Ukraine (including those set for systemically important banks) and covenants, which the Bank has undertaken to comply with agreements with international financial institutions.

Aggregate risk appetite includes requirements to maintain the target credit rating on an international scale, compliance with capital ratios and capital buffers, including expected changes in prudential requirements and the regulatory environment.

(in thousands of Hryvnias, unless otherwise indicated)

Risk-appetite for credit risk includes a system of indicators to control the quality of the loan portfolio (the share of non-performing assets and foreclosed assets), the value of credit risk, limiting the risk of concentration on the largest borrowers, industries and more.

Risk-appetite for liquidity risk includes minimum liquidity coverage ratios (LCRs) in all currencies and separately in foreign currencies, a net stable funding ratio (NSFR), and a limit on the concentration ratio of liabilities.

Risk-appetite for interest rate includes the sensitivity of net interest income and the economic value of capital to parallel/non-parallel shifts in yield curves in major currencies.

Risk appetite for market risks is set as the maximum values of items sensitive to market risk and the value at risk, calculated by a parametric model based on the Student's t-distribution with 7 degrees of freedom with a confidence interval of 99% over the horizon of 10 trading days.

Risk-appetite for operational risk is set as the maximum amount of direct losses from the implementation of operational risk for the year. At the same time, regardless of the cost of the incident and the amount of potential damage, the Bank has established zero tolerance for operational risks associated with incidents of internal fraud, negligence, disruption of the continuity of critical business processes.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

The Supervisory Board approved the Credit Policy, which defines the main lines of lending and regulates the basic principles and conditions for the acceptance of credit risk. To manage the risk of concentration of the loan portfolio, the Bank monitors the structure of loan portfolio and, if necessary, establishes appropriate limits.

As of 31 December 2019, the total amount of indebtedness under loan agreements and off-balance sheet liabilities, guarantees and letters of credit, which the Bank recognized as non-performing, amounted to UAH 7,834,661 thousand. (2018: UAH 8,106,500 thousand), including

- ▶ bad debt of UAH 5,306,229 thousand (2018: UAH 6,366,868 thousand);
- ▶ indebtedness in respect of which the Bank expects repayment due to restructuring in the amount of UAH 2,528,432 thousand (2018: UAH 1,739,632 thousand).

Derivative financial instruments

Credit risk arising from derivative financial instruments is limited to a nominal amount under the relevant contracts.

Credit-related commitments risks

Bank makes guarantees available to its customers, which may require that the Bank to pay on their behalf. Such payments are collected from customers based on the terms of the letters of credit. They expose the Bank to risks that are similar to risks from loans and are mitigated by the same control processes and policies.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

The credit rating of Ukraine, according to the international rating agencies, as at 31 December 2019, corresponded to a speculative level of B (2018: CCC+). The change in the rating took place both due to the increase of the sovereign credit rating of Ukraine by two international rating agencies and due to the change in the Bank's approach to determining the rating based on the ratings of several international rating agencies:

- ▶ if there are two different ratings, the rating of the rating agency that is lower is taken into account;
- ▶ if there are three rating differences, the rating of the rating agency that is the lower of the two highest is taken into account.

Investments at fair value through other comprehensive income, in particular, Ukrainian domestic government bonds and unrated municipal bonds, were assigned by the Bank to the B level category in accordance with the sovereign credit rating of Ukraine.

Other balances of cash and cash equivalents, due from credit institutions and investments at fair value through other comprehensive income are classified with reference to current credit ratings assigned by international rating agencies. In the event a counterparty does not have an international rating assigned to it at the reporting date, the Bank used the ratings assigned by international rating agencies, by the parent companies, and if the counterparty is owned by the

(in thousands of Hryvnias, unless otherwise indicated)

government or the state, the corresponding sovereign rating of the owner's country was used. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB-. Financial assets, which have ratings lower than BBB-, are classified as speculative grade according to acceptable international practice. The following table details the credit ratings of financial assets of the Bank:

	AAA – A	BBB – B	Lower than B	Unrated	31 December 2019
Cash and cash equivalents (other than cash on hand)	24,262,370	3,164,519	17,289,947	–	44,716,836
Due from credit institutions	17,449	22,892	–	253,229	293,570
Derivative financial assets	–	–	–	8	8
Investments at fair value through other comprehensive income	7,205,461	23,200,189	–	4,718	30,410,368

As of 31 December 2018, the classification by credit ratings of financial assets of the Bank:

	uaAAA – A	uaBBB – B	Lower than B	Unrated	31 December 2018
Cash and cash equivalents (other than cash on hand)	2,349,501	3,729,085	6,459,323	9,216	12,547,125
Due from credit institutions	495,162	34,357	10,097	187,439	727,055
Derivative financial assets	–	193	–	330	523
Trading securities	–	–	333	–	333
Investments at fair value through other comprehensive income	10	–	18,496,050	305,418	18,801,478

As of 31 December 2018, the classification by credit ratings of financial assets of the Bank, taking into account the changed approach to determining the rating according to the ratings of several international rating agencies will be as follows (taking into account the updated classification, Ukraine's credit rating as of 31 December 2018, corresponded to the level of B-):

	AAA – A	BBB – B	Lower than B	Unrated	31 December 2018
Cash and cash equivalents (other than cash on hand)	3,671,212	8,866,697	–	9,216	12,547,125
Due from credit institutions	510,238	29,378	–	187,439	727,055
Derivative financial assets	193	–	–	330	523
Trading securities	–	333	–	–	333
Investments at fair value through other comprehensive income	10	18,796,816	–	4,652	18,801,478

Impairment assessment

The Bank calculates expected credit losses based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted using EIR. Cash shortfall is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive. The mechanics of the ECL calculations are outlined below. The key elements of the calculation are as follows:

Probability of Default (PD)	<i>Probability of the Probability of Default</i> is an estimate of the likelihood of counterparties fail to discharge their Default (PD) contractual obligations.
Exposure at Default (EAD)	<i>The amount of debt on an asset that the counterparty is likely to fail to perform at any future date</i> , taking into account the expected changes in this amount after the reporting date, including payment of the principal amount of debt and the amount of accrued income.
Loss Given Default (LGD)	<i>Estimated losses as the result of counterparties default.</i> LGD is calculated using a few scenarios. Estimates of probabilities for all scenarios and sub-types of loss in the event of default are combined in the overall assessment. The probability of scenario non-performing debt maintenance is calculated based on historical data. The level of losses in the case of default of loans with collateral is determined on the basis collateral foreclosure value, taking into account the potential shortage of funds in comparison with the book value (discount) and the term of realization.

(in thousands of Hryvnias, unless otherwise indicated)

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore transfers it to Stage 3 (credit-impaired) for ECL calculations in all cases when the debt becomes 90 days past due on its contractual payments or in the following cases, regardless of the number of days of debt overdue:

- ▶ Internal rating of the borrower indicates default or near-default;
- ▶ The debtor (or any legal entity within the debtor's group) files for bankruptcy;
- ▶ The terms of the agreement have been changed, without which the client would not be able to perform further debt servicing.

Significant increase in credit risk

In order to determine the existence of a significant increase in credit risk since the initial recognition of a financial instrument, the Bank uses certain lists of events that contain signs of an increase in credit risk. Regardless of the occurrence of events containing signs of an increase in credit risk, it is considered that overdue payments over 30 days is evidence of a significant increase in credit risk since the initial recognition of a financial instrument.

The estimation of the probability of default is performed using the distribution of borrowers by the number of days past due. Other input data used in models are the economic indicators.

Impairment assessment on individual and collective basis

Dependent on the factors below, the Bank calculates ECLs either on individual or on collective basis.

The Bank calculates the ECLs on an individual basis for assets included in Stage 2 or Stage 3 and whose outstanding balance of debt per group of counterparties exceeds the limit set for the respective business segment.

The Bank combines financial assets that are assessed on collective basis in homogeneous groups, depending on the internal characteristics of loans, for example, the maturity of payments, type of product, etc.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- ▶ GDP growth;
- ▶ inflation (consumer price index), to the corresponding month of the previous year (%);
- ▶ discounted rates of National Bank of Ukraine;
- ▶ unemployment rates;
- ▶ foreign exchange rates;
- ▶ prices for iron ore;
- ▶ prices for wheat;
- ▶ growth real wages to YoY.

The Bank has carried out the statistical analysis of dependence of default probability of the Bank's customers from economic indicators. The Bank has identified the indicators most closely related to the level of borrowers' defaults in each of the portfolio segments.

For obtaining forecast information, the Bank uses external sources (forecasts by the NBU, the Cabinet of Ministers of Ukraine, the Ministry of Finance of Ukraine and other government bodies, IMF forecasts, the World Bank and other leading international organizations, forecasts by leading international rating agencies (companies), such as Moody's, Fitch Ratings, S&P Global Ratings and Bloomberg information system data. The table below gives the forecast values of the economic indicators used in economic scenario for calculation of the ECL.

(in thousands of Hryvnias, unless otherwise indicated)

Key drivers	ECL scenario	Probability, %	2020	2021
GDP growth, %	Upside	25	11.4	9.7
	Base case	50	10.5	9.0
	Downside	25	9.8	8.3
Unemployment rates	Upside	25	8.0	7.6
	Base case	50	8.5	8.5
	Downside	25	9.3	9.5

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The table below shows the credit quality by class of loan-related asset in the statement of financial position, based on the Bank's credit rating system.

31 December 2019	Notes	High grade	Standard grade	Sub-standard grade	Impaired	Total	
Cash and cash equivalents (other than cash on hand)	7	Stage 1	44,656,964	64,454	-	-	44,721,418
Due from credit institutions	8	Stage 1	21,724	18,949	253,229	-	293,902
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	9,406	9,406
Loans to customers and financial leases at amortized cost:	10						
- Legal entities		Stage 1	2,324,692	18,832,901	5,602,723	-	26,760,316
		Stage 2	-	2,692,099	1,152,252	-	3,844,351
		Stage 3	49,267	282,452	1,619,889	2,686,061	4,637,669
		POCI	-	-	270,476	-	270,476
- SMB		Stage 1	1,189,833	1,998,640	1,173,338	-	4,361,811
		Stage 2	3,379	109,870	132,469	-	245,718
		Stage 3	5,577	56,647	510,344	87,095	659,663
- Individuals		Stage 1	2,588,997	170,593	38	25	2,759,653
		Stage 2	177	10,176	5,305	-	15,658
		Stage 3	-	96,078	1,103	2,558,028	2,655,209
Investments at fair value through other comprehensive income	11	Stage 1	29,089,341	1,431,662	-	-	30,521,003
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	-	-
High grade	23						
- Legal entities		Stage 1	406,927	4,485,500	1,682,457	-	6,574,884
		Stage 2	-	8,662	584,715	-	593,377
		Stage 3	-	1,386	11,609	38,600	51,595
- SMB		Stage 1	279,290	249,943	129,449	-	658,682
		Stage 2	50	7,331	11	-	7,392
		Stage 3	-	8	-	-	8
- Individuals		Stage 1	884,545	27,578	373	1,116	913,612
		Stage 2	-	1,848	511	-	2,359
		Stage 3	-	2,018	95	7,379	9,492
Financial guarantees and letters of credit:	23						
- Legal entities		Stage 1	159,847	2,359,306	245,932	-	2,765,085
		Stage 2	-	417	478,658	-	479,075
		Stage 3	-	147,963	-	-	147,963
- SMB		Stage 1	15,300	12,921	13,456	-	41,677
		Stage 2	400	-	-	-	400
		Stage 3	-	-	-	-	-
Total			81,676,310	33,069,402	13,868,432	5,387,710	134,001,854

(in thousands of Hryvnias, unless otherwise indicated)

31 December 2018	Notes		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents (other than cash on hand)	7	Stage 1	12,078,407	19,913	452,402	-	12,550,722
Due from credit institutions		Stage 1	520,804	129,552	77,268	-	727,624
		Stage 2	-	-	-	-	-
	8	Stage 3	-	-	-	729,512	729,512
Loans to customers and financial leases at amortized cost:							
	10						
- Legal entities		Stage 1	5,279,861	19,440,666	6,206,688	-	30,927,215
		Stage 2	2,556	1,156,568	4,995,243	-	6,154,367
		Stage 3	-	-	1,936,427	2,685,563	4,621,990
		POCI	-	-	74,462	490,770	565,232
- SMB		Stage 1	688,147	2,127,124	1,570,974	-	4,386,245
		Stage 2	15,345	198,833	148,220	-	362,398
		Stage 3	-	14,475	93,167	73,569	181,211
- Individuals		Stage 1	2,593,909	149,951	143	133	2,744,136
		Stage 2	22	5,774	1,912	-	7,708
		Stage 3	-	1,961	101	3,689,679	3,691,741
		POCI	-	-	-	184	184
Trading securities		Stage 1	333	-	-	-	333
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	-	-
Investments at fair value through other comprehensive income	11	Stage 1	18,434,359	4,652	-	-	18,439,011
		Stage 2	-	-	-	-	-
		Stage 3	389,997	-	-	-	389,997
High grade	23						
- Legal entities		Stage 1	1,187,160	2,260,427	1,309,638	-	4,757,225
		Stage 2	-	156,290	1,719,736	-	1,876,026
		Stage 3	-	-	65,017	470,216	535,233
- SMB		Stage 1	199,115	353,428	359,757	-	912,300
		Stage 2	4,671	88,714	31,512	-	124,897
		Stage 3	-	1	-	255	256
- Individuals		Stage 1	867,601	26,478	123	141	894,343
		Stage 2	-	1,549	656	-	2,205
		Stage 3	-	3,507	95	11,279	14,881
Financial guarantees and letters of credit:							
	23						
- Legal entities		Stage 1	85,429	353,202	692,629	-	1,131,260
		Stage 2	-	128,280	286,878	-	415,158
		Stage 3	-	-	2,800	213,992	216,792
- SMB		Stage 1	3,319	8,000	4,079	-	15,398
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	-	-
Total			<u>42,351,035</u>	<u>26,629,345</u>	<u>20,029,927</u>	<u>8,365,293</u>	<u>97,375,600</u>

(in thousands of Hryvnias, unless otherwise indicated)

The following table describes the grouping on balances rating categories.

Description of the internal rating level	Number of days past due	Level of internal rating	Rating of external international rating agency (Fitch), non-resident counterparties	Rating of external international rating agency (Fitch), resident counterparties
High grade	Overdue payments are not present	A1, A2, A3	AAA+ to BBB	According to the established interbank rating for resident banks with the value of 1, 2 and B (rating of Ukraine), which includes domestic government bonds and municipal bonds and which applies to Operational Department of the NBU and PJSC "SETTLEMENT CENTER" in accordance with p. 41 of the NBU regulation #351 dated 30 June 2016.
Standard grade	From 1 to 30 days, from 31 to 60 days	B1, B2, B3	BB+ to B	According to the established intrabank rating for resident banks with a value of 3 (values of the international scale rating "B" and below or "NR") and other issuers by category of investment available for sale, which have no rating and are referred to Stage 1
Sub-standard grade	From 61 to 90 days	C1, C2, C3, D1, D2, D3	CCC to C	According to the established interbank rating for resident banks with a value of 4 (values of the international scale rating "B" and below or "NR") and other issuers by category of investment available for sale, which have no rating and are referred to Stage 2
Impaired	More than 90 days	E	D	According to the established intrabank rating for resident banks with a value of 5 (values of the international scale rating D and below or NR) and other issuers by category of investment available for sale, which have no rating and are referred to Stage 3

Geographical concentration

The following table summarizes geographical concentration of monetary assets and liabilities:

	31 December 2019			Total
	Ukraine	OECD countries	CIS and other foreign banks	
Assets				
Cash and cash equivalents	19,097,979	27,248,016	66,446	46,412,441
Precious metals	1,428	-	-	1,428
Due from credit institutions	257,492	36,078	-	293,570
Derivative financial assets	8	-	-	8
Loans to customers and financial leases	38,985,679	-	-	38,985,679
Investments at fair value through other comprehensive income	23,204,907	7,205,461	-	30,410,368
Other assets	176,893	-	-	176,893
	81,724,386	34,489,555	66,446	116,280,387
Liabilities				
Due to credit institutions	4,620,895	1,114,037	-	5,734,932
Derivative financial liabilities	43,624	-	-	43,624
Due to customers	103,359,581	-	-	103,359,581
Provisions for guarantees and commitments	478,949	-	-	478,949
Lease liability	131,747	-	-	131,747
Other liabilities	657,550	-	-	657,550
	109,292,346	1,114,037	-	110,406,383
Difference between assets and liabilities	(27,567,960)	33,375,518	66,446	5,874,004

(in thousands of Hryvnias, unless otherwise indicated)

	31 December 2018			Total
	Ukraine	OECD countries	CIS and other foreign banks	
Assets				
Cash and cash equivalents	7,970,269	6,055,046	10,120	14,035,435
Precious metals	1,754	-	-	1,754
Due from credit institutions	197,536	529,519	-	727,055
Derivative financial assets	523	-	-	523
Loans to customers and financial leases	45,236,844	-	-	45,236,844
Trading securities	333	-	-	333
Investments at fair value through other comprehensive income	18,801,468	10	-	18,801,478
Other assets	134,062	-	-	134,062
	72,342,789	6,584,575	10,120	78,937,484
Liabilities				
Due to the National Bank of Ukraine	4,303,770	-	-	4,303,770
Due to credit institutions	2,769,075	3,020,624	35,698	5,825,397
Derivative financial liabilities	1,830	-	-	1,830
Due to customers	65,121,926	-	-	65,121,926
Provisions for guarantees and commitments	589,528	-	-	589,528
Other liabilities	316,805	-	-	316,805
	73,102,934	3,020,624	35,698	76,159,256
Difference between assets and liabilities	(760,145)	3,563,951	(25,578)	2,778,228

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations as they fall due without incurring unacceptable losses, or as a result of its inability to manage unplanned cash outflows, changes in funding sources and/or off-balance sheet liabilities. To mitigate this risk, management uses different sources of funding in addition to the main base of deposits. Management of the Bank also performs day-to-day liquidity management activities, with due account for balances on the correspondent accounts and cash inflow/outflow projections; management of current liquidity (up to 1 month) through identification of the Bank's requirements for liquid assets and assessment of the liquidity gaps for the period; management of liquidity over one month through assessment of mismatch between maturities on assets and liabilities and development of remedial measures to maintain the Bank's relevant liquidity levels in the future.

Analysis of financial liabilities grouped based on dates from reporting date to maturity date is carried out in accordance with relevant agreement.

As of 31 December 2019 and 2018, the Bank complied with the regulatory requirements of the National Bank of Ukraine regarding the minimum level of liquidity coverage ratio in all currencies and separately in foreign currencies (regulatory values as of 31 December 2019 are not less than 100%, as of 31 December 2018 — not less 80%) for the liquidity coverage ratio in all currencies and not less than 50% for the liquidity coverage ratio in foreign currencies). The values of liquidity coverage ratios in all currencies and separately in foreign currencies are as follows:

	31 December 2019	31 December 2018
All-currency LCR, liquidity coverage ratio for all currencies	199.01%	103.78%
Foreign currency LCR, liquidity coverage ratio in foreign currency	143.77%	64.03%

Analysis of assets and liabilities of the Bank by the estimated dates of their recovery or repayment is discussed in Note 31.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the information on undiscounted cash flows of financial liabilities as at 31 December 2019 and 2018 based on the remaining time to maturity according to the terms of agreements. Gross settled derivative instruments that are presented in terms of amounts receivable and payable as per maturities. Liabilities that are subject to repayment on demand are to be repaid on the earliest possible date. However, the Bank expects that most customers will not demand repayment on the earliest possible date.

(in thousands of Hryvnias, unless otherwise indicated)

Financial liabilities as at 31 December 2019	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Due to credit institutions	3,232,702	1,411,506	1,151,353	136,128	5,931,689
<i>Gross settled derivative financial instruments:</i>					
Amounts payable	(1,529,595)	-	-	-	(1,529,595)
Due to credit institutions	1,573,219	-	-	-	1,573,219
Due to customers	88,551,534	14,911,856	887,177	1,674	104,352,241
Lease liability	16,862	43,890	82,652	-	143,404
Other liabilities	657,550	-	-	-	657,550
Total undiscounted financial liabilities	92,502,272	16,367,252	2,121,182	137,802	111,128,508

Financial liabilities as at 31 December 2018	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Due to the National Bank of Ukraine	4,291,693	26,981	-	-	4,318,674
Due to credit institutions	3,704,960	919,729	1,301,912	-	5,926,601
<i>Gross settled derivative financial instruments:</i>					
Amounts payable	(668,531)	-	-	-	(668,531)
Due to credit institutions	670,360	-	-	-	670,360
Due to customers	50,096,209	14,175,039	1,745,708	197,542	66,214,498
Other liabilities	316,805	-	-	-	316,805
Total undiscounted financial liabilities	58,411,496	15,121,749	3,047,620	197,542	76,778,407

The table below shows the contractual maturity of commitments and contingencies of the Bank. Each undrawn loan commitments are included in the period containing the earliest date when a customer may require its fulfillment. For issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be required for settlement.

	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
31 December 2019	4,228,146	1,192,740	2,720,297	-	8,141,183
31 December 2018	2,257,594	1,264,365	17,450	-	3,539,409

The Bank expects that not all of the commitments and contingencies will be drawn before expiry of the commitments.

Operating risk

Operating risk is direct or potential risk of losses for proceeds and equity due to imperfection, error, deficiency, delay and damage caused by internal processes, staff and systems or external events (e.g. fraud or natural disaster).

Operating risk management is the responsibility of the Bank's Management Board, which is authorized to establish principles to ensure the methodology for effective management and monitoring of operating risks. Operating Risk Management Committee is a collegial body of the Management Board the function of which include implementing operating risk management policies, improving business processes, implementing internal control systems/additional controls, developing measures based on reviews of operating incidents.

*(in thousands of Hryvnias, unless otherwise indicated)***Interest rate risk**

Interest rate risk is the actual or potential risk to the Bank's earnings and capital arising from adverse changes in interest rates on the market. This risk affects both the profitability of the Bank and the economic value of its assets, liabilities and off-balance sheet instruments. The table below shows the sensitivity to possible changes in interest rates, with the unchangeable value of all other variables of statement of profit or loss and other comprehensive income of the Bank.

Sensitivity of profit or loss and other comprehensive income reflects the effect of the assumed changes in interest rates on net interest income for one year, which is a result of gaps between maturities of assets and liabilities before revision of interest rate that reflects maturity before revision of the base rate for instruments with floating (variable) interest rate and maturity for instruments with fixed interest rate.

Sensitivity of profit or loss and other comprehensive income (method of liquidity gaps before revision)

	31 December 2019					Total
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	
Assets	52,925,718	12,777,521	27,679,382	15,026,617	5,586,296	113,995,534
Liabilities	84,947,616	8,665,638	13,341,046	2,003,152	130,938	109,088,390
Difference between assets and liabilities	(32,021,898)	4,111,883	14,338,336	13,023,465	5,455,358	4,907,144
1%	(307,059)	34,247	53,818			(218,994)
-1%	307,059	(34,247)	(53,818)			218,994

	31 December 2018					Total
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	
Assets	16,970,291	8,006,516	34,086,304	13,822,375	4,209,962	77,095,448
Liabilities	46,427,125	10,368,420	15,378,348	2,881,020	196,180	75,251,093
Difference between assets and liabilities	(29,456,834)	(2,361,904)	18,707,956	10,941,355	4,013,782	1,844,355
1%	(282,463)	(19,672)	70,219			(231,916)
-1%	282,463	19,672	(70,219)			231,916

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges and security prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risks for non-trading positions are managed and monitored using sensitivity analysis.

*(in thousands of Hryvnias, unless otherwise indicated)***Foreign currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Assets and Liabilities Management Committee sets limits on positions by foreign currencies based on the requirements of the National Bank of Ukraine. Currency positions are monitored on a daily basis.

The major foreign currency denominated positions of assets and liabilities as at 31 December 2019 are as follows:

	UAH	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	18,355,004	24,668,283	3,151,372	237,782	46,412,441
Precious metals	-	-	-	1,428	1,428
Due from credit institutions	257,492	36,078	-	-	293,570
Loans to customers and financial leases	21,236,596	8,209,145	9,539,938	-	38,985,679
Investments at fair value through other comprehensive income	10,873,389	18,944,838	592,141	-	30,410,368
Investment property	228,857	-	-	-	228,857
Property and equipment and intangible assets	1,433,633	-	-	-	1,433,633
Right-of-use assets	166,159	-	-	-	166,159
Other property	735,298	-	-	-	735,298
Current income tax assets	-	-	-	-	-
Deferred income tax assets	-	-	-	-	-
Other assets	424,679	14,427	30,600	96	469,802
Total assets	53,711,107	51,872,771	13,314,051	239,306	119,137,235
Liabilities					
Due to credit institutions	281,186	2,619,914	2,791,408	42,424	5,734,932
Due to customers	45,387,590	48,047,045	9,811,624	113,322	103,359,581
Provisions for guarantees, commitments and legal risks	347,891	11,241	119,817	-	478,949
Lease liability	131,747	-	-	-	131,747
Current income tax liabilities	21,723	-	-	-	21,723
Deferred income tax liabilities	83,681	-	-	-	83,681
Other liabilities	578,163	224,575	184,485	41,299	1,028,522
Total liabilities	46,831,981	50,902,775	12,907,334	197,045	110,839,135
Net long/(short) recognized position	6,879,126	969,996	406,717	42,261	
Assets receivable	1,500,967	40,569	13,211	1,551	1,556,298
Assets payable	-	(1,066,987)	(504,132)	(28,689)	(1,599,808)
Net long/(short) unrecognized position	1,500,967	(1,026,418)	(490,921)	(27,138)	
Total long/(short) recognized and unrecognized position	8,380,093	(56,422)	(84,204)	15,123	

(in thousands of Hryvnias, unless otherwise indicated)

The major foreign currency denominated positions of assets and liabilities as at 31 December 2018 are as follows:

	UAH	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	7,000,660	5,410,923	1,419,550	204,302	14,035,435
Precious metals	-	-	-	1,754	1,754
Due from credit institutions	197,535	19,282	510,238	-	727,055
Loans to customers and financial leases	25,778,131	9,006,081	10,452,632	-	45,236,844
Trading securities	333	-	-	-	333
Investments at fair value through other comprehensive income	11,507,245	6,573,096	721,137	-	18,801,478
Investment property	278,028	-	-	-	278,028
Property and equipment and intangible assets	1,710,795	-	-	-	1,710,795
Assets held for sale	-	-	-	-	-
Other property	799,144	-	-	-	799,144
Current income tax assets	4,921	-	-	-	4,921
Deferred income tax assets	75,432	-	-	-	75,432
Other assets	520,691	9,781	22,775	6	553,253
Total assets	47,872,915	21,019,163	13,126,332	206,062	82,224,472
Liabilities					
Due to the National Bank of Ukraine	4,303,770	-	-	-	4,303,770
Due to credit institutions	285,074	1,756,752	3,735,790	47,781	5,825,397
Due to customers	36,407,432	19,775,870	8,807,033	131,591	65,121,926
Provisions for guarantees, commitments and legal risks	453,825	11,001	124,702	-	589,528
Other liabilities	453,054	139,912	33,562	1	626,529
Total liabilities	41,903,155	21,683,535	12,701,087	179,373	76,467,150
Net long/(short) recognized position	5,969,760	(664,372)	425,245	26,689	
Assets receivable	140,887	863,983	318,753	16,052	1,339,675
Assets payable	(108,697)	(360,557)	(841,444)	(30,285)	(1,340,983)
Net long/(short) unrecognized position	32,190	503,426	(522,691)	(14,233)	
Total long/(short) recognized and unrecognized position	6,001,950	(160,946)	(97,446)	12,456	

The following table presents the currencies in which the Bank has significant positions as at 31 December for monetary assets and liabilities. The analysis involves calculation of the impact of a possible change in exchange rates against the Ukrainian Hryvnia on the statement of profit or loss and other comprehensive income (due to the presence of non-trading monetary assets and liabilities which fair value is sensitive to changes in exchange rates). The negative value shown in the table reflects the potential net decrease in the statement of profit or loss and other comprehensive income or equity, and the positive values reflect the potential net increase.

Currency	Increase in foreign currency exchange rate, %	Effect on profit before tax	Increase in foreign currency exchange rate, %	Effect on profit before tax
	31 December 2019	31 December 2019	31 December 2018	31 December 2018
USD	11.00%	(6,206)	6.00%	(9,657)
EUR	13.00%	(10,947)	8.00%	(7,796)
Currency	Decrease in foreign currency exchange rate, %	Effect on profit before tax	Decrease in foreign currency exchange rate, %	Effect on profit before tax
	31 December 2019	31 December 2019	31 December 2018	31 December 2018
USD	(14.00%)	7,899	(6.00%)	9,657
EUR	(15.00%)	12,631	(8.00%)	7,796

*(in thousands of Hryvnias, unless otherwise indicated)***30. Fair value measurements**

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique.

The estimated fair value has been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument or pay in the transfer of liabilities.

The Bank uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable either directly or indirectly; and
- ▶ Level 3: techniques, which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis and fair value of buildings

Some of the Bank's financial assets and financial liabilities as well as the Bank's buildings are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of these financial assets and financial liabilities are determined (in particular the valuation techniques and inputs used):

Assets/liabilities	Fair value hierarchy	Valuation techniques and key inputs
Trading securities	2	Discounted cash flows.
Investments at fair value through other comprehensive income		Future cash flows are estimated based on the inputs that are observable either directly or indirectly. The estimates use one or more observable quoted prices for orderly transactions in the markets that are not considered active.
Investments at fair value through other comprehensive income	3	Discounted cash flows. Future cash flows are estimated based on both observable and unobservable inputs. Unobservable inputs include assumptions regarding future financial performance of the issuer its risk profile and economic performance of the industry and geographical jurisdiction where the issuer operates.
Derivative financial instruments	2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (observable foreign exchange rates at the end of the reporting period) and forward exchange rates discounted at a rate reflecting a credit risk from different counterparties.
Buildings and land plots, investment property	3	The Bank engages professional independent appraisers to determine the fair value of its buildings and land plots and investment real estate by using the comparative approach to evaluation and income approach for items for which there are no market comparatives. In the comparative approach to evaluation the prices of market-based sales of comparable properties in the immediate proximity are adjusted with reference to differences in main parameters (such as floor space of the property). The main parameter used in this valuation technique is the price per square meter of a property.

(in thousands of Hryvnias, unless otherwise indicated)

The table below provides an analysis of the assets and liabilities recognized in the statement of financial position at fair value on initial recognition using a three-level fair value hierarchy:

	31 December 2019			Total
	Level 1	Level 2	Level 3	
Assets measured at fair value				
Investments at fair value through other comprehensive income	7,205,461	23,193,529	11,378	30,410,368
Derivative financial assets	-	8	-	8
Investment property	-	-	228,857	228,857
Buildings and land plots	-	-	769,072	769,072
	7,205,461	23,193,537	1,009,307	31,408,305
Total liabilities measured at fair value				
Derivative financial liabilities	-	43,624	-	43,624
Total	-	43,624	-	43,624

	31 December 2018			Total
	Level 1	Level 2	Level 3	
Assets measured at fair value				
Trading securities	-	333	-	333
Investments at fair value through other comprehensive income	10	18,790,156	11,312	18,801,478
Derivative financial assets	-	523	-	523
Investment property	-	-	278,028	278,028
Buildings and land plots	-	-	937,585	937,585
	10	18,791,012	1,226,925	20,017,947
Total liabilities measured at fair value				
Derivative financial liabilities	-	1,830	-	1,830
Total	-	1,830	-	1,830

Movements in Level 3 financial instruments measured at fair value

The table below shows changes in the amounts of Level 3 assets and liabilities that are measured at fair value:

Financial assets	As at 1 January 2019	Total gains/ (losses) recognized in the statement of profit or losses	Acquisition	Sale	Repayment	Revaluation surplus recognized as part of equity	Transfers from Level 1 and Level 2	As at 31 December 2019
Investments at fair value through other comprehensive income	11,312	-	-	-	-	66	-	11,378

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

Financial assets	31 December 2019		31 December 2018	
	Carrying amount	Impact of possible alternative assumptions	Carrying amount	Impact of possible alternative assumptions
Investments at fair value through other comprehensive income	11,378	(11,378)	11,312	(11,312)

*(in thousands of Hryvnias, unless otherwise indicated)***Fair value of financial assets and liabilities not carried at fair value**

The estimated fair values of financial assets and liabilities are determined using market prices, discounted cash flows and other appropriate valuation techniques and may not be indicative of the fair value of those instruments at the date these financial statements are authorized for issue. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Cash and cash equivalents and due from credit institutions comprise by balances on correspondent accounts and short-term placements. Due to short-term life of those financial instruments and corresponding actual interest rates to those prevailing money market interest rates for similar financial instruments, the carrying amounts of cash and cash equivalents, due from banks balances approximate their fair value.

To determine fair value, projected cash flows are discounted at market rates established at the reporting date for similar instruments.

Financial assets/financial liabilities	Fair value hierarchy	Valuation techniques and key outputs		
Loans to customers and financial leases	3	Discounted cash flows.		
Due from credit institutions		Future cash flows are estimated based on both observable and unobservable inputs. Unobservable inputs include assumptions regarding future financial performance of the counterparty, its risk profile and economic performance of the industry and geographical jurisdiction where the counterparty operates. The most significant outputs included a discount rate reflecting the credit risk of counterparties.		
Due to the National Bank of Ukraine	3	Discounted cash flows.		
Due to credit institutions		Future cash flows are estimated based on unobservable inputs.		
Due to customers				
31 December 2019				
	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed				
Cash and cash equivalents	46,412,441	-	-	46,412,441
Due from credit institutions	-	-	293,570	293,570
Loans to customers and financial leases	-	-	39,141,552	39,141,552
Total	46,412,441	-	39,435,122	85,847,563
Liabilities for which fair values are disclosed				
Due to credit institutions	-	-	5,734,932	5,734,932
Due to customers	-	-	103,489,515	103,489,515
Total	-	-	109,224,447	109,224,447

(in thousands of Hryvnias, unless otherwise indicated)

	31 December 2018			Total
	Level 1	Level 2	Level 3	
Assets for which fair values are disclosed				
Cash and cash equivalents	14,035,435	–	–	14,035,435
Due from credit institutions	–	–	727,055	727,055
Loans to customers and financial leases	–	–	44,886,482	44,886,482
Total	14,035,435	–	45,613,537	59,648,972
Liabilities for which fair values are disclosed				
Due to the National Bank of Ukraine	–	–	4,303,770	4,303,770
Due to credit institutions	–	–	5,825,397	5,825,397
Due to customers	–	–	65,213,414	65,213,414
Total	–	–	75,342,581	75,342,581

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	46,412,441	46,412,441	14,035,435	14,035,435
Due from credit institutions	293,570	293,570	727,055	727,055
Loans to customers and financial leases	38,985,679	39,141,552	45,236,844	44,886,482
Financial assets	85,691,690	85,847,563	59,999,334	59,648,972
Financial liabilities				
Due to the National Bank of Ukraine	–	–	4,303,770	4,303,770
Due to credit institutions	5,734,932	5,734,932	5,825,397	5,825,397
Due to customers	103,359,581	103,489,515	65,121,926	65,213,414
Total financial liabilities	109,094,513	109,224,447	75,251,093	75,342,581

*(in thousands of Hryvnias, unless otherwise indicated)***31. Analysis of assets and liabilities by maturities**

The table below summarizes assets and liabilities according to the periods when they are expected to be recovered or settled. See Note 29 for the Bank's contractual undiscounted repayment obligations.

	31 December 2019			Total	31 December 2018			Total
	Within one year	More than one year	Maturity undefined		Within one year	More than one year	Maturity undefined	
Cash and cash equivalents	46,412,441	-	-	46,412,441	14,035,435	-	-	14,035,435
Precious metals	1,428	-	-	1,428	1,754	-	-	1,754
Derivative financial assets	8	-	-	8	523	-	-	523
Due from credit institutions	293,570	-	-	293,570	727,055	-	-	727,055
Loans to customers and financial leases	19,799,715	19,185,964	-	38,985,679	25,776,930	19,459,914	-	45,236,844
Trading securities	-	-	-	-	333	-	-	333
Investments at fair value through other comprehensive income	17,522,122	12,888,246	-	30,410,368	8,851,026	9,950,452	-	18,801,478
Investment property	-	-	228,857	228,857	-	-	278,028	278,028
Property and equipment and intangible assets	-	-	1,433,633	1,433,633	-	-	1,710,795	1,710,795
Right-of-use assets	-	-	166,159	166,159	X	X	X	X
Other property	-	-	735,298	735,298	-	-	799,144	799,144
Current income tax assets	-	-	-	-	-	4,921	-	4,921
Deferred income tax assets	-	-	-	-	-	75,432	-	75,432
Other assets	469,802	-	-	469,802	553,253	-	-	553,253
Total	84,499,086	32,074,210	2,563,947	119,137,243	49,946,309	29,490,719	2,787,967	82,224,995
Due to the National Bank of Ukraine	-	-	-	-	4,303,770	-	-	4,303,770
Due to credit institutions	4,518,277	1,216,655	-	5,734,932	4,559,270	1,266,127	-	5,825,397
Derivative financial liabilities	43,624	-	-	43,624	1,830	-	-	1,830
Due to customers	102,510,829	848,752	-	103,359,581	63,310,853	1,811,073	-	65,121,926
Lease liability	8,522	123,225	-	131,747	X	X	X	X
Provisions for guarantees and commitments	478,949	-	-	478,949	589,528	-	-	589,528
Current income tax liabilities	21,723	-	-	21,723	-	-	-	-
Deferred income tax liabilities	-	83,681	-	83,681	-	-	-	-
Other liabilities	1,028,522	-	-	1,028,522	626,529	-	-	626,529
Total	108,610,446	2,272,313	-	110,882,759	73,391,780	3,077,200	-	76,468,980
Net amount	(24,111,360)	29,801,897	2,563,947	8,254,484	(23,445,471)	26,413,519	2,787,967	5,756,015

The Bank's management believes that negative liquidity gap (liquidity gap between financial assets and financial liabilities repayable within one year as at 31 December 2019 amounted to UAH 24,011,574 thousand) that arose is under control and does not threaten the Bank's ability to settle its liabilities in full and in a timely manner. Thus, the Bank has an access to secondary reserve of liquid funds represented by:

- ▶ Unencumbered securities - Ukrainian domestic government bonds in the amount of UAH 9,345,681 thousand, bonds of the State Mortgage Institution in the amount of UAH 1,422,474 thousand that have a high degree of liquidity and were included in the category of repayable after one year. Liquid funds may be received either through the sale of the said securities or attraction of a refinancing borrowing from the National Bank of Ukraine with the securities used as a collateral. As at 31 December 2019, the fair value of securities that may be considered as a cover for the cumulative liquidity gap in the category of repayable within one year amounted to UAH 10,768,156 thousand.;
- ▶ stable balances on current and other customer accounts determined based on Bank's own methods, which are based on statistical analysis of fluctuations in current customer account balances. As of 31 December 2019, the stable balances on current and other accounts were estimated to be equal to UAH 23,390,432 thousand. Based on the going concern assumption actual maturity of the stable balances may be considered as undefined.

Thus, the negative liquidity gap that arose as at 31 December 2019 in the amount of UAH 24,011,573 thousand based on the estimated maturities of the abovementioned financial instruments has changed to a positive liquidity gap and may be estimated in the amount of UAH 10,147,014 thousand.

*(in thousands of Hryvnias, unless otherwise indicated)***32. Related party transactions**

The Bank grants loans and advances to customers, 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 directly or indirectly through one or more intermediaries to control the other party or exercise significant influence over the party when making financial and operational decisions. Terms and conditions of transactions with related parties are established on a daily basis and may differ from the market terms.

As at 31 December 2019, the Bank was by 94.94% a state-owned bank under control of the Ministry of Finance of Ukraine (2018: 94.94%). Correspondingly transactions and balances with related parties comprise transactions with government, government-related entities (both directly and indirectly), key management personnel and entities, if any, that are controlled, jointly controlled, or significantly influenced by them.

A government-related entity is an entity that is controlled, jointly controlled or significantly influenced by the government.

Government refers to government agencies and similar bodies whether local, national or international.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely their legal form. The balances and transactions with related parties as at end of period and relevant amounts of profit and losses for period are as follows:

	31 December 2019			31 December 2018		
	State controlled entities	Other related parties	Key management personnel	State controlled entities	Other related parties	Key management personnel
Assets						
Cash and cash equivalents	8,110,208	-	-	4,005,260	-	-
Current accounts with the National Bank of Ukraine	9,151,774	-	-	1,966,874	-	-
Current accounts and overnight placements with other credit institutions	57,902	-	-	450,392	-	-
Due from credit institutions	4,265	-	-	10,097	-	-
Loans to customers, gross	12,709,211	660	19,274	17,948,725	446	16,869
Less: expected credit losses/allowance for impairment	(1,198,944)	(4)	(444)	(523,536)	-	(39)
Trading securities	-	-	-	333	-	-
Investments at fair value through other comprehensive income	23,201,673	-	-	18,798,301	-	-
Liabilities						
Due to the National Bank of Ukraine	-	-	-	4,303,770	-	-
Due to credit institutions	1,181,916	2,123	-	98,678	43,535	-
Due to customers — deposits	4,209,084	88,062	53,494	6,129,630	92,045	44,723
Due to customers — current accounts	44,834,192	35,202	22,621	13,236,590	5,484	18,111
Commitments and guarantees issued	5,658,909	5,051	8,855	4,615,112	2,397	6,643

(in thousands of Hryvnias, unless otherwise indicated)

	31 December 2019			31 December 2018		
	State controlled entities	Other related parties	Key management personnel	State controlled entities	Other related parties	Key management personnel
Statement of profit or loss and other comprehensive income						
Interest income on loans to customers	2,390,792	114	1,643	1,872,874	317	942
Interest income on trading securities	-	-	-	14,982	-	-
Interest income on investments at fair value through other comprehensive income	2,781,858	-	-	2,243,827	-	-
Interest income on deposit certificates of the National Bank of Ukraine	726,308	-	-	796,914	-	-
Interest expense on due to the National Bank of Ukraine	50,597	-	-	185,256	-	-
Interest expense on due to credit institutions	15,271	1,456	-	7,141	465	-
Interest expense on due to customers	2,522,675	17,078	3,145	2,209,948	2,573	1,705
Allowance for impairment of loans: (accruals)/reversals	(675,408)	(4)	(405)	61,624	1	86
Gains/(losses) on trading securities	11	-	-	(3,277)	-	-
Net gains on investments at fair value through other comprehensive income	65,771	-	-	30,966	-	-
Other operating expense	168,171	-	-	135,170	-	-

Concentration risk is determined by the Bank as the risk of possible losses due to concentration of risk in specific instruments, operations and industries.

The Bank's activities relate to a significant scale of operations with state-owned companies resulting in concentration of credit and investment risks in relation to certain counterparties and groups of related counterparties and industries.

As at 31 December 2019, 43% of assets and 51% of liabilities were concentrated in operations with state-owned companies, the National Bank of Ukraine, state banks and government authorities (2018: 52% of assets and 37% of liabilities).

The Bank manages concentration risk in its loan and investment portfolios by setting limits for counterparties and groups of counterparties.

Remuneration to key management personnel comprises the following:

	31 December 2019	31 December 2018
Salaries and bonuses	114,161	83,667
Total remuneration to key management personnel	114,161	83,667

*(in thousands of Hryvnias, unless otherwise indicated)***33. Capital adequacy**

The Bank's policy is to maintain a strong capital base to maintain investor creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also considered and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The regulator, the National Bank of Ukraine, sets and monitors capital requirements for the Bank as a whole and monitors compliance with these requirements on the basis of reporting to national standards. The Bank as a whole and its individual banking operations are directly supervised by the local regulator.

Under the current capital requirements set by the National Bank of Ukraine, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2019 and 2018 the minimum level required by the National Bank of Ukraine was 10%. The Bank complied with the statutory capital ratios during the periods ended 31 December 2019 and 2018.

The Bank analyzes its activities to meet minimum capital requirements, including capital adequacy requirements calculated in accordance with the requirements of the Basel Accord of 1988, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. As at 31 December 2019 and 2018, the minimum level required by Basel I was 8% and the minimum Tier 1 capital adequacy ratio was — 4%.

Analytical bases for calculation of capital adequacy according to the NBU requirements and requirements of Basel I are different, therefore are not comparable.

As of 31 December 2019 and 2018, the Bank's capital adequacy ratio on this basis was as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Base capital	7,024,638	5,891,810
Supplementary capital	196,656	169,895
Deductible	6,660	333,669
Regulatory Capital	7,214,634	5,728,036
N2 ratio	15.23%	12.07%
N3 ratio	14.83%	12.41%

The following table shows the composition of the capital position calculated in accordance with the requirements of Basel I as at 31 December 2019 and 2018:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Tier 1 capital	8,525,802	7,130,650
Tier 2 capital	(271,318)	(1,450,067)
Total capital	<u>8,254,484</u>	<u>5,680,583</u>
Risk weighted assets	<u>59,889,856</u>	<u>55,792,995</u>
Tier 1 capital ratio	14.24%	12.78%
Total capital ratio	13.78%	10.18%

While preparing the financial statements for 2019, the Bank changed its approach to the calculation of capital and risk-weighted assets, comparative information as at 31 December 2018 was changed accordingly.

As at 31 December 2019 and 2018 the Bank was in compliance with the capital ratio calculated in accordance with the Basel Accord.

*(in thousands of Hryvnias, unless otherwise indicated)***34. Changes in liabilities arising from financing activities**

	<i>Due to the National Bank of Ukraine</i>	<i>Due to credit institutions (long- term)</i>	<i>Lease liabilities</i>	<i>Total</i>
Carrying amount at 31 December 2017	414,104	335,909	X	750,013
Additions	15,787,606	1,432,794	X	17,220,400
Repayment	(11,900,075)	(80,389)	X	(11,980,464)
Exchange differences	-	2,519	X	2,519
Other	2,135	7,790	X	9,925
Carrying amount at 31 December 2018	4,303,770	1,698,623	X	6,002,393
Additions	-	1,624,312	211,271	1,835,583
Repayment	(4,304,156)	(508,228)	(73,558)	(4,885,942)
Exchange differences	-	(355,106)	-	(355,106)
Other	386	(6,435)	(5,966)	(12,015)
Carrying amount at 31 December 2019	-	2,453,166	131,747	2,584,913

The item "Other" includes accrued and paid interest, as well as changes in the amount of liabilities due to early termination of leases.

(in thousands of Hryvnias, unless otherwise indicated)

35. Subsequent events

After the reporting date, the Board of the National Bank of Ukraine decided to reduce the discount rate from 13.5% per annum, set dated 13 December 2019, to 11% per annum dated 31 January 2020, to 10% per annum dated 13 March 2020, and up to 8% annual dated 24 April 2020, respectively. The National Bank of Ukraine continued to ease monetary policy and support Ukraine's economy as the world economy cooled.

At the same time, the spread of the coronavirus pandemic (COVID-19), which began in 2020, is expected to lead to a recession in the global economy and a significant slowdown in economic activity in Ukraine. The introduction by the Government of a temporary restriction on business and social activity in March 2020, combined with a significant reduction in global demand and investors' reassessment of risks in developing countries, could negatively affect Ukraine's economy and foreign trade, complicate funding and negatively affect the banking system in the country and lead to further devaluation of the national currency to major currencies. Thus, the official exchange rate of the Hryvnia to US dollar of the National Bank of Ukraine has changed from UAH 23.6862 for US dollar as of 1 January 2020 to 26.6897 Hryvnias for the US dollar as of 14 May 2020.

Factors such as declining liquidity and profitability of the corporate sector, including due to temporary restrictions on business activity, and the devaluation of the Hryvnia against foreign currencies may adversely affect the quality of service of the Bank's loan portfolio. The Bank's management analyses loans for impairment taking into account the above risk factors and will reflect changes in allowances for expected credit losses, if necessary, in subsequent reporting periods. At the same time, when calculating expected credit losses as of 31 December 2019, the Bank used the models that contain macroeconomic forecasts available as of that date.

The stabilization of Ukraine's economy in the near future depends on reducing the spread of the pandemic and the success of the Government's actions, and ensuring continuous financial support for Ukraine from international donors and international financial institutions.

Management monitors the state of development of the current situation and will take measures, if necessary, to minimize any negative consequences to the extent possible.