

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

Management report

Financial statements

*for the year ended 31 December 2018
together with independent auditor's report
Translation from Ukrainian original*

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Management report

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Management report of JSB “UKRGASBANK”

1. The prospects for further development of JSB “UKRGASBANK”.

In 2019, Ministry of Finance, IFC and JSB “UKRGASBANK” (hereinafter referred to as the Bank, too) plan to start assessing and structuring the financial instrument for IFC to enter into the Bank’s capital.

In the future, the Bank shall continue its activity in achieving the established strategic objectives.

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.

The Bank plans the following for the period 2019-2021 (CARG):

- Increase of deposits of the customers at the level of 8%;
- Increase of loans of the customers at the level of 16%.

Following the results of 2021, the Bank expects the following:

- Make net profit in the amount of 2 bln. UAH;
- Profitability of capital at the level of 22%;
- Ratio of administrative and other operation expenses to operation profit at the level of 47%
- Ratio of administrative and other operation expenses to average net assets at the level of 3,5%.

The Bank plans to develop three key business areas: small and medium business, corporate banking, retail business and alternative sale channels.

Small and Medium Business

The Bank has a joint project in development the small and medium business (hereinafter referred to as SMB, too) with International Finance Corporation (hereinafter referred to as IFC, too). IFC estimate the potential of SMB market as 5.7 bln. UAH. This program foresees the optimization of existing business-model, improvement of management of sales and work with the customers. The increase of the customer base up to 68 thous. customers by 2021 is expected on the account of development of the alternative channels of sales, introduction of the digital decisions, development of transaction banking, optimization of credit processes, improvement of business-analytics, creation of targeted customer products and programs, increasing of the attention to micro-segment, and activation of existing customer base.

Main expected indices as of 1 January 2022:

- Net credit portfolio 8.1 bln. UAH;
- Portfolio of customer funds 10.5 bln. UAH;
- Net non-interest income 0.4 bln. UAH.

Corporate Business

Today, the corporate business 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. Replacement of the portfolio of the entities of public sector shall be achieved by way of crediting of the “green” projects of private entities, for example, projects of renewable energy, agro-holdings (replacement of outdated equipment, use of biomass), construction companies (in terms of energy efficiency). 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.

Main expected indices as of 1 January 2022:

- Net credit portfolio 48 bln. UAH;
- Portfolio of customer funds 43 bln. UAH;
- Net non-interest income 0,7 bln. UAH.

Retail Business and Alternative Sales Channels

Before 2021, the Bank plans to increase the customer base up to 4 mln. 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 payroll programs is planned. Besides, the Bank shall introduce the unique “green” products at the market (roof solar power plants, electric cars, and green mortgage loans)

Main expected indices as of 1 January 2022:

- Net credit portfolio 6 bln. UAH;
- Portfolio of customer funds 29 bln. UAH;
- Net non-interest income 0.9 bln. UAH.

2. Information on the Development of JSB “UKRGASBANK”

During 2018, the banking sector performed without significant internal or external shocks – the banks actively attracted funds and provided credits. For the first time after the crisis, the sector made profit in the amount of 21,7 bln. UAH. The introduction of martial law in ten regions of Ukraine did not have a significant impact on the banking sector: deposits of the population and business have not decreased, banks remain liquid and uninterruptedly carry out all payments. This indicates a renewal of customer confidence in the banking system. Formed after the last crisis, the margin of safety guarantees a high degree of stability to the banks even in adverse circumstances.

The results of the assessment of the stability of the banking sector have confirmed the sufficient capitalization of banks under the conditions of the basic macroeconomic scenario. At the same time, financial institutions must build up the capital to have a safety margin in the event of a crisis. In 2018 stress test of the largest banks identified, that about a half of analyzed financial institutions may require additional capital under the conditions of deep crisis. Financial institutions without sufficient safety margin in case of crisis must fundamentally restructure own balances and revise the business - models.

As of 01 January 2019 in Ukraine, there are 77 banks, 37 banks out of them are the banks with foreign capital. JSB “UKRGASBANK” is a member of the group of the banks with the State share, and it ranks 4th in terms of assets.

In 2018, 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 153 cities and towns of Ukraine 246 active sales points are available for the customers.

Assets of the Bank as of 01 January 2019 constitute 82 bln. UAH, having increased during 2018 on 13 bln. UAH or on 19%.

- Credit portfolio of the customers – 45.2 bln. UAH, including:
 - Credit portfolio of the corporate business 37.6 bln. UAH;
 - Credit portfolio of the small and medium business constitutes 4.8 bln. UAH;
 - Credit portfolio of the retail business constitutes 2.8 bln. UAH;
- Customer's funds – 65.1 bln. UAH, including:
 - Portfolio of the corporate customers' funds constitutes 38.0 bln. UAH;
 - Portfolio of the small and medium business customers' funds constitutes 6.2 bln. UAH;
 - Portfolio of the retail business' funds constitutes 20.9 bln. UAH.

Portfolio of the securities as of 01 January 2019 constitutes 18.8 bln. UAH, reducing for 2018 on 2.1 bln. UAH or 10%.

The Bank actively attracted the funding from international financial institutions. Thus, as of 01.01.2019, the portfolio of assets of international financial institutions constitutes 1.7 bln. UAH, having increased during 2018 on 1.4 bln. UAH or in five times.

During 2018, the Bank actively developed documentary operations, having increased the portfolio of documentary operations for the year in two times, which as of 01 January 2019 constituted 8,8 bln. UAH, including open letters of credit 0.2 bln. UAH, received letters of credit 1.5 bln. UAH, securities provided 4.3 bln. UAH, securities received 1.3 bln. UAH, instruments of own liabilities 1.5 bln. UAH.

As of 01 January 2019, the number of the customers of the Bank constitutes 1 430 thousands, including: 1 366 thousands – retail business customers, 58 thousands – small and medium business customers, 6 thousands – corporate customers.

As of 01 January 2019, about 852 thousand payment cards issued by JSB “UKRGASBANK” are in circulation, more than 440 thousands out of them are active. During 2018, the Bank actively developed own multi-platform mobile application “ECO Bank”, which was downloaded and installed by users for more than 100 thousand times.

During 2018, the Bank received the following recognitions:

- The best “ECO-bank” (Business Magazine);
- The Leader in the operations with small and medium business (Business Magazine);
- Included into TOP-5 of the most sustainable banks (Ministry of Finance rating);
- Included into TOP-10 of Ukrainian banks with the best conditions for agrarians (Landlord Magazine and Audit and Consulting Company Kreston GCG);
- Included into TOP-20 of the most famous Ukrainian brands (Vlast Deneg Magazine (Power of Money));
- The second Bank among “The Most Professional Banks” (Business Magazine);
- Included into TOP-10 of rating of corporate reputation management quality “Reputation Activists” (Focus Magazine);
- “Corporate Bank” for the highest increase of hryvnia loans for the legal entities (Financial Club Issue);
- “Clean Bank” for the best ratio of credits of 1-2 Class for physical persons and 1-3 Class for legal entities and the credit portfolio amount (Financial Club Issue).

The Bank performs in accordance with the Measures of Strategic Reform of the State Banking Sector (strategic principles) (hereinafter referred to as Measures), Basic 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, Basic 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 2018, limits for financing of 73 projects, with the general capacity of 462 MWt for 259 mln. Euro and 32 mln. USD were approved, out of them:

- 60 projects – solar power plants, with the general capacity 420 MWt for the amount of 228 mln. Euro and 19 mln. USD;
- 6 projects – hydro power plants, with the general capacity 3 MWt for the amount of 5 mln. Euro and 0,3 mln. USD;
- 5 projects – biomass/biogas, with the general capacity 21 MWt for the amount of 9 mln. Euro and 13 mln. USD;
- 2 projects – wind power plants, with the general capacity 18 MWt for the amount of 17 mln. Euro.

As of 01.01.2019 the credit portfolio of eco-products and other obligations in credit provision of the Bank constitutes 17.5 bln. UAH.

The Bank has created a team for assessment and analysis of social and ecological risks, the necessary normative documents have been developed, and the projects credited by the Bank are evaluated from the point of view of social and ecological risks.

The Bank complies with the set goals for the withdrawal of the State from capital.

During 2018, the Bank adhered tightly to the obligations undertaken as foreseen by Memorandum of Understanding related to support of privatization (sale) of the Bank, including limits of covenants.

Within the frames of extension of cooperation with IFC in 2018 project of development of small and medium business was launched and successfully completed in the Bank.

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

Before 1 January 2018, derivatives embedded in other financial instruments or other host contracts were treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at fair value through profit or loss.

From 1 January 2018, with the introduction of IFRS 9, 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.

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

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.

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.

The credit rating of Ukraine, according to the international rating agencies, as at 31 December 2018, corresponded to a speculative level of CCC+ (2017: CCC).

Investments measured at fair value through other comprehensive income, in particular Ukrainian domestic government bonds and unrated municipal bonds, were assigned by the Bank to the category of Lower than B- in accordance with the sovereign credit rating of Ukraine.

Other balances of cash and cash equivalents, due from credit institutions and investments available for sale 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 national rating agencies. 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.

The following table details the credit ratings of financial assets of the Bank:

	<i>uaAAA – A-</i>	<i>uaBBB – B-</i>	<i>Lower than B-</i>	<i>Unrated</i>	<i>31 December 2018</i>
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 measured at fair value through other comprehensive income	10	–	18,496,050	305,418	18,801,478

(thousand UAH)

Translation from Ukrainian original

(thousand UAH)

	<i>uaAAA – A-</i>	<i>uaBBB – B-</i>	<i>Lower than B-</i>	<i>Unrated</i>	<i>31 December 2017</i>
Cash and cash equivalents (other than cash on hand)	–	–	6,266,697	–	6,266,697
Due from credit institutions	1,164,003	2,241,627	100	333,824	3,739,554
Derivative financial assets	–	50	–	860	910
Trading securities	–	–	315,094	–	315,094
Investments available for sale	7	–	20,573,555	3,101	20,576,663

Geographical concentration

The following table summarizes geographical concentration of monetary assets and liabilities:

(thousand UAH)

	<i>31 December 2018</i>			
	<i>Ukraine</i>	<i>OECD countries</i>	<i>CIS and other foreign banks</i>	<i>Total</i>
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 measured at fair value through other comprehensive income	18,801,468	10	–	18,801,478
Other assets	59,431	–	–	59,431
	72,268,158	6,584,575	10,120	78,862,853
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	(834,776)	3,563,951	(25,578)	2,703,597

(thousand UAH)

	<i>31 December 2017</i>			
	<i>Ukraine</i>	<i>OECD countries</i>	<i>CIS and other foreign banks</i>	<i>Total</i>
Assets				
Cash and cash equivalents	7,264,287	–	–	7,264,287
Precious metals	7,958	–	–	7,958
Due from credit institutions	352,773	3,318,528	68,253	3,739,554
Derivative financial assets	910	–	–	910
Loans to customers and financial leases	33,646,433	–	–	33,646,433
Trading securities	315,094	–	–	315,094
Investments available for sale	20,576,656	7	–	20,576,663
Other assets	189,054	–	–	189,054
	62,353,165	3,318,535	68,253	65,739,953
Liabilities				
Due to the National Bank of Ukraine	414,104	–	–	414,104
Due to credit institutions	1,946,930	–	–	1,946,930
Derivative financial liabilities	3,775	–	–	3,775
Due to customers	60,646,118	–	–	60,646,118
Provisions for guarantees and commitments	209,392	–	–	209,392
Other liabilities	73,822	–	–	73,822
	63,294,141	–	–	63,294,141
Difference between assets and liabilities	(940,976)	3,318,535	68,253	2,445,812

Translation from Ukrainian original

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. 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 1 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 by remaining contractual maturities

The tables below summarize the information on undiscounted cash flows of financial liabilities as at 31 December 2018 and 2017 based on the remaining time to maturity. 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.

(thousand UAH)

<i>Financial liabilities as at 31 December 2018</i>	<i>Up to 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
Gross settled derivative financial instruments:					
- amounts payable	(668,531)	–	–	–	(668,531)
- amounts receivable	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

(thousand UAH)

<i>Financial liabilities as at 31 December 2017</i>	<i>Up to 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	87,181	254,503	108,811	–	450,495
Due to credit institutions	1,695,756	13,034	284,447	–	1,993,237
Gross settled derivative financial instruments:					
- amounts payable	(1,139,386)	–	–	–	(1,139,386)
- amounts receivable	1,143,162	–	–	–	1,143,162
Due to customers	47,746,975	12,845,605	824,711	82,208	61,499,499
Other liabilities	73,822	–	–	–	73,822
Total undiscounted financial liabilities	49,607,510	13,113,142	1,217,969	82,208	64,020,829

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.

Translation from Ukrainian original

(thousand UAH)

	<i>Up to 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>
31 December 2018	2,325,277	2,773,525	889,543	–	5,988,345
31 December 2017	1,353,100	5,160,700	538,584	161,290	7,213,674

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 an 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.

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)

(thousand UAH)

	<i>31 December 2018</i>					
	<i>Up to 1 month</i>	<i>From 1 to 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>
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

Translation from Ukrainian original

(thousand UAH)

	31 December 2017					Total
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	
Assets	13,034,202	8,794,395	19,484,002	17,176,738	5,530,433	64,019,770
Liabilities	48,448,249	4,687,910	8,673,407	1,046,519	151,068	63,007,153
Difference between assets and liabilities	(35,414,047)	4,106,485	10,810,595	16,130,219	5,379,365	1,012,617
1%	(339,587)	34,202	40,577			(264,808)
-1%	339,587	(34,202)	(40,577)			264,808

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.

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 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 2018 are as follows:

	(thousand UAH)				
	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 measured 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					
Amounts due to 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	
Off-balance items					
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	

Translation from Ukrainian original

The major foreign currency denominated positions of assets and liabilities as at 31 December 2017 are as follows:

	(thousand UAH)				
	<i>UAH</i>	<i>USD</i>	<i>EUR</i>	<i>Other currencies</i>	<i>Total</i>
Assets					
Cash and cash equivalents	6,405,125	696,893	148,614	13,655	7,264,287
Precious metals	–	–	–	7,958	7,958
Due from credit institutions	309,426	2,826,203	339,701	264,224	3,739,554
Loans to customers and financial leases	17,748,295	10,156,133	5,742,005	–	33,646,433
Trading securities	347	314,747	–	–	315,094
Investments available for sale	9,421,464	9,671,266	1,483,933	–	20,576,663
Investment property	348,834	–	–	–	348,834
Property and equipment and intangible assets	1,736,061	–	–	–	1,736,061
Assets held for sale	60,508	–	–	–	60,508
Other property	740,764	–	–	–	740,764
Current income tax assets	4,921	–	–	–	4,921
Deferred income tax assets	187,584	–	–	–	187,584
Other assets	515,526	52,417	15,713	–	583,656
Total assets	37,478,855	23,717,659	7,729,966	285,837	69,212,317
Liabilities					
Amounts due to National Bank of Ukraine	414,104	–	–	–	414,104
Due to credit institutions	250,048	1,287,794	340,997	68,091	1,946,930
Due to customers	31,720,689	21,561,912	7,202,229	161,288	60,646,118
Provisions for guarantees, commitments and legal risks	13,140	–	196,252	–	209,392
Other liabilities	345,231	9,041	10,661	2,662	367,595
Total liabilities	32,743,212	22,858,747	7,750,139	232,041	63,584,139
Net long/(short) recognized position	4,735,643	858,912	(20,173)	53,796	
Off-balance items					
Assets receivable	961,247	185,442	208,342	7,546	1,362,577
Assets payable	(93,674)	(1,086,693)	(98,945)	(86,130)	(1,365,442)
Net long/(short) unrecognized position	867,573	(901,251)	109,397	(78,584)	
Total long/(short) recognized and unrecognized position	5,603,216	(42,339)	89,224	(24,788)	

The tables below indicate the currencies to which the Bank had significant exposure as at 31 December 2018 and 2017 on its non-trading monetary assets and liabilities and its estimated cash flows. The analysis includes the effect of a possible change in the currency exchange rate of UAH against foreign currencies with all other variables remaining unchanged in the Bank's statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities that are available in the Bank's portfolio). A negative amount in the table reflects a potential net decrease in profit or in equity while a positive amount reflects a net potential increase in profit or in equity.

	(thousand UAH)			
<i>Currency</i>	<i>Increase in foreign currency exchange rate % 31 December 2018</i>	<i>Effect on profit before tax 31 December 2018</i>	<i>Increase in foreign currency exchange rate % 31 December 2017</i>	<i>Effect on profit before tax 31 December 2017</i>
USD	6.00%	(9,657)	14.00%	(5,928)
EUR	8.00%	(7,796)	22.00%	19,629

	(thousand UAH)			
<i>Currency</i>	<i>Decrease in foreign currency exchange rate % 31 December 2018</i>	<i>Effect on profit before tax 31 December 2018</i>	<i>Decrease in foreign currency exchange rate % 31 December 2017</i>	<i>Effect on profit before tax 31 December 2017</i>
USD	-6.00%	9,657	-10.00%	4,234
EUR	-8.00%	7,796	-9.00%	(8,030)

4. Corporate Governance report

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”, 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.
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 legislation of Ukraine, Corporate Governance Principles approved by decision of National Commission on Securities and Fund Market dated 22.07.2014 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 03.12.2018 No. 814-пш.
- 2) In case the Bank deviated from the provisions of the Corporate Governance Code described in para 2 and para 3 item 1 of this part, 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	Scheduled	Extraordinary
	X	
Date	26 April 2018	
Quorum of Meeting	98,68515%	
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 2017 and making decision following the review of this report. 4. On approval of the report of Supervisory Board of JSB "UKRGASBANK" for 2017 and making decision following the review of this report. 5. On approval of the report and conclusions of Audit Commission of JSB "UKRGASBANK" for 2017 and making decision following the review of this report. 6. On approval of annual results of activity (annual report) of JSB "UKRGASBANK" for 2017, review of report (conclusions) of external independent auditor and approval of measures based on the results of review of the report. 7. On compensation of losses and distribution of profit of JSB "UKRGASBANK" following the results of the Bank's activity in 2017. 8. On approval of the amount of annual dividends. 9. On approval of the report on accomplishment of main areas of activity of JSB "UKRGASBANK" of 2016-2017. 10. On establishment of the main areas of activity of JSB "UKRGASBANK" for 2018-2019. 11. On recognition of JSB "UKRGASBANK" as having conducted a public offer of securities. 12. 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. 13. On introduction of changes into the Provisions on General Meeting of Shareholders of PUBLIC JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK" by way of approval of its new revision. 14. On introduction of changes into the Provisions on Supervisory Board of PUBLIC JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK" by way of approval of its new revision. 15. On introduction of changes into the Provisions on Management Board of PUBLIC JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK" by way of approval of its new revision. 16. On introduction of changes into the Provisions on Shares and Dividend Policy of PUBLIC JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK" by way of approval of its new revision. 17. On approval of the Provisions on principles of formation of Supervisory Board of PUBLIC JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK" in new revision. 18. On termination of powers of the Chairman and Supervisory Board of JSB "UKRGASBANK". 19. On election of members of Supervisory Board of JSB "UKRGASBANK". 20. On election of Chairperson of Supervisory Board of JSB "UKRGASBANK". 21. 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". 22. On early termination of powers of the Chairperson and members of Audit Commission of JSB "UKRGASBANK". 23. On election of members of Audit Commission of JSB "UKRGASBANK". 24. On election of Chairperson of Audit Commission of JSB "UKRGASBANK". 25. On approval of the conditions of civil agreements to be awarded with the Chairperson and members of Audit Commission 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 Audit Commission of JSB "UKRGASBANK". <p><u>Persons who submitted proposals to the list of issues of agenda:</u> Ministry of Finance of Ukraine.</p>	

Translation from Ukrainian original

General Meeting Type	Scheduled	Extraordinary
	X	
Date	26 April 2018	
Quorum of Meeting	98,68515%	
	<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 26 April 2018, 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 are not 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 of Management Board of JSB “UKRGASBANK” for 2017 attached. <p>Issue 4</p> <ol style="list-style-type: none"> 1. Approve the report of Supervisory Board of JSB “UKRGASBANK” for 2017 attached. <p>Issue 5</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 2017 fiscal year and reliability of annual financial statements for 2017 attached. <p>Issue 6</p> <ol style="list-style-type: none"> 1. Approve the annual results of activity, specifically annual financial statement (annual report) of JSB “UKRGASBANK” for 2017 attached. 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 2017, including the conclusion of auditor. <p>Issue 7</p> <ol style="list-style-type: none"> 1. Establish the following procedure of distribution of profit and compensation of losses: <ol style="list-style-type: none"> 1.1. 10% of the profit amount constituting 62 781 164,47 UAH. shall be put to reserve fund of JSB “UKRGASBANK”. 1.2. The remaining amount of 565 030 480,26 UAH. shall be used to compensate the losses of previous years. <p>Issue 8</p> <ol style="list-style-type: none"> 1. Considering the limitations established by Article 31 of the Law of Ukraine “On Joint Stock Companies”, do not pay dividends for shares of JSB “UKRGASBANK” based on the results of 2017. 	

Translation from Ukrainian original

General Meeting Type	Scheduled	Extraordinary
	X	
Date	26 April 2018	
Quorum of Meeting	98,68515%	
	<p>Issue 9</p> <ol style="list-style-type: none"> 1. Approve the report on accomplishment of main areas of activities of JSB “UKRGASBANK” for 2016-2017 attached. <p>Issue 10</p> <ol style="list-style-type: none"> 1. Determine the main areas of activity of JSB “UKRGASBANK” for 2018-2019 in accordance with the annex. <p>Issue 11</p> <ol style="list-style-type: none"> 1. Recognize JSB “UKRGASBANK” as having conducted a public offer of securities. 2. Approve the text of notice related to the fact that JSB “UKRGASBANK” is recognized as having conducted a public offer of securities. <p>Issue 12</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 25 April 2017 (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 legislation of Ukraine. <p>Issue 13</p> <ol style="list-style-type: none"> 1. Introduce the changes into the Provisions 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 25 April 2017 (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 26 April 2018, Provisions on General Meeting of Shareholders of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached. <p>Issue 14</p> <ol style="list-style-type: none"> 1. Introduce the changes into the Provisions on Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 25 April 2017 (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 26 April 2018, Provisions on Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached. <p>Issue 15</p> <ol style="list-style-type: none"> 1. Introduce the changes into the Provisions on Management Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 25 April 2017 (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 26 April 2018, Provisions on Management Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached. <p>Issue 16</p> <ol style="list-style-type: none"> 1. Introduce changes into the Provisions 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 25 April 2017 	

Translation from Ukrainian original

General Meeting Type	Scheduled	Extraordinary
	X	
Date	26 April 2018	
Quorum of Meeting	98,68515%	
	<p>(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 26 April 2018, Provisions on shares and dividend policy of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached.</p> <p>Issue 17</p> <ol style="list-style-type: none"> 1. Approve the Provisions on principles of formation of Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached. <p>Issue 18</p> <ol style="list-style-type: none"> 1. Terminate from 26 April 2018 the powers of the Chairman and members of Supervisory Board of JSB “UKRGASBANK”: <ol style="list-style-type: none"> 1.1. Artem Valentynovych Shevaliov – the Chairman of Supervisory Board of JSB “UKRGASBANK”, independent member of Supervisory Board of JSB “UKRGASBANK”. 1.2. Oksana Serhiivna Markarova – member of Supervisory Board of JSB “UKRGASBANK”. 1.3. Teymour Mamedovych Bagirov – independent member of Supervisory Board of JSB “UKRGASBANK”. 1.4. Yuri Bohdanovych Butsa – member of Supervisory Board of JSB “UKRGASBANK”. 1.5. Yulia Ihorivna Pashko – independent member of Supervisory Board of JSB “UKRGASBANK”. 1.6. Shrenik Davda – independent member of Supervisory Board of JSB “UKRGASBANK”. 1.7. Valentyna Vitaliivna Yashchuk – member of Supervisory Board of JSB “UKRGASBANK”. <p>Issue 19</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"> • Oksana Serhiivna Markarova, representative of shareholder – State of Ukraine; • Artem Valentynovych Shevaliov, representative of shareholder – State of Ukraine; • Yulia Ihorivna Pashko, representative of shareholder – State of Ukraine; • Teymour Mamedovych Bagirov, independent member; • Slawomir Roman Konias, independent member; • Shrenik Davda, independent member; • Yuri Olehovych Draganchuk, independent member. <p>Issue 20</p> <ol style="list-style-type: none"> 1. Elect Artem Valentynovych Shevaliov as Chairman of Supervisory Board of JSB “UKRGASBANK”. <p>Issue 21</p> <ol style="list-style-type: none"> 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”. 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. 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 	

Translation from Ukrainian original

General Meeting Type	Scheduled	Extraordinary
	X	
Date	26 April 2018	
Quorum of Meeting	98,68515%	
	<p>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>Issue 22</p> <ol style="list-style-type: none"> 1. Terminate from 26 April 2018 the powers of the Chairman and members of Audit Commission of JSB “UKRGASBANK”: <ol style="list-style-type: none"> 1.1. Andriy Anatoliyovych Gurmanchuk – representative of Ministry of Finance of Ukraine – Chairman of Audit Commission of JSB “UKRGASBANK” 1.2. Tetjana Valeriivna Malakhova – representative of Ministry of Finance of Ukraine – member of Audit Commission of JSB “UKRGASBANK”. 1.3. Roman Andriyovych Dorosh – representative of State Audit Service of Ukraine – member of Audit Commission of JSB “UKRGASBANK”. <p>Issue 23</p> <p>Considering that in accordance with Item 15.3 Clause 15 of Articles of Association of the Bank, three (3) members of Audit Commission shall be elected, all above mentioned candidates are elected to Audit Commission, specifically:</p> <ul style="list-style-type: none"> • Andriy Anatoliyovych Gurmanchuk – representative of Ministry of Finance of Ukraine; • Iryna Vasylivna Garbarenko – representative of Ministry of Finance of Ukraine; • Yulia Valeriivna Lykhota – representative of State Audit Service of Ukraine. <p>Issue 24</p> <ol style="list-style-type: none"> 1. Elect Andriy Anatoliyovych Gurmanchuk as Chairman of Audit Commission of JSB “UKRGASBANK”. <p>Issue 25</p> <ol style="list-style-type: none"> 1. Approve the conditions of civil agreements with the Chairman and members of Audit Commission of JSB “UKRGASBANK”, in particular: <ol style="list-style-type: none"> 1.1. Term of office of the Chairman and members of Audit Commission of JSB “UKRGASBANK” shall constitute three (3) years (till 25 April 2021 inclusive). 1.2. The Chairman and members of Audit Commission of JSB “UKRGASBANK” shall fulfill the functions imposed on them by the Articles of Association of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK “UKRGASBANK”, Provisions on Audit Commission of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK “UKRGASBANK” and relevant civil agreements on free of charge basis (with compensation of documented expenses related to the activity as members of Audit Commission of JSB “UKRGASBANK” following the procedure established by Provisions on Audit Commission of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK “UKRGASBANK”). 1.3. The Chairman and members of Audit Commission of JSB “UKRGASBANK” shall be vested with the rights, obligations and bear responsibility specified by Articles of Association and Provisions on Audit Commission of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK “UKRGASBANK”. 2. Elect K.Ye. Shevchenko, Chairman of Management Board of JSB “UKRGASBANK”, as authorized person to sign on behalf of JSB “UKRGASBANK” the civil agreements with the Chairman and members of Audit Commission of JSB “UKRGASBANK”. the civil agreements with the Chairman and members of Audit Commission of JSB “UKRGASBANK” must be signed on 26 April 2018. 	

Translation from Ukrainian original

General Meeting Type	Scheduled	Extraordinary
		X
Date	11 September 2018	
Quorum of Meeting	98,66197%	
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 termination of powers of the Chairman and Supervisory Board of JSB “UKRGASBANK”. 4. On election of members of Supervisory Board of JSB “UKRGASBANK”. 5. On election of Chairperson of Supervisory Board of JSB “UKRGASBANK”. 6. 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><u>Persons who submitted proposals to the list of issues of agenda:</u> –.</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"> 7. Establish that the Tabulation Commission of JSC “JSB “UKRGASBANK” during the extraordinary general meeting of shareholders of JSB “UKRGASBANK” called for 11 September 2018, shall consist of three (3) persons. 8. Elect the following persons to Tabulation Commission of JSB “UKRGASBANK”: 9. Mrs. Iryna Vasylivna Konoval; 10. Mrs. Olena Viktorivna Kotsiuba; 11. Mr. Denis Vadymovych Ivanushkin. 12. Elect Mrs. Iryna Vasylivna Konoval a Head of Tabulation Commission. <p>Issue 2</p> <ol style="list-style-type: none"> 13. 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 are not 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. Terminate from 11 September 2018 the powers of the Chairman and members of Supervisory Board of JSB “UKRGASBANK”: <ol style="list-style-type: none"> 1.1. Artem Valentynovych Shevaliov – the Chairman of Supervisory Board of JSB “UKRGASBANK”, independent member of Supervisory Board of JSB “UKRGASBANK”. 1.2. Oksana Serhiivna Markarova – member of Supervisory Board of JSB “UKRGASBANK”. 1.3. Yulia Ihorivna Pashko – independent member of Supervisory Board of JSB “UKRGASBANK”. 1.4. Teymour Mamedovych Bagirov – independent member of Supervisory Board of JSB “UKRGASBANK”. 1.5. Shrenik Davda - independent member of Supervisory Board of JSB “UKRGASBANK”. 1.6. Slawomir Roman Konias – independent member of Supervisory Board of JSB “UKRGASBANK”. 1.7. Yuri Olehovych Draganchuk – independent member of Supervisory Board of JSB “UKRGASBANK”. 	

Translation from Ukrainian original

	<p>Issue 4</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> <ol style="list-style-type: none"> 1. Oksana Serhiivna Markarova, representative of shareholder – State of Ukraine; 2. Artem Valentynovych Shevaliov, representative of shareholder – State of Ukraine; 3. Teymour Mamedovych Bagirov, independent member; 4. Shrenik Davda, independent member; 5. Slawomir Roman Konias, independent member; 6. Yuri Oleksandrovych Blashchuk, independent member; 7. Oksana Yulianivna Volchko, independent members. <p>Issue 5</p> <ol style="list-style-type: none"> 1. Elect Shrenik Davda as Chairman of Supervisory Board of JSB “UKRGASBANK”. <p>Issue 6</p> <ol style="list-style-type: none"> 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”. 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. 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”.
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What body did register the shareholders for participation in general meeting of shareholders last time?

	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 last general meeting (if controlled)?

	Yes	No
National Commission for Securities and Fund Market		X
Shareholders collectively owning more than 10 percent		X

What was the method of voting for the agenda issues at the general meeting last time?

	Yes	No
Card raising		X
Bulletins (secret ballot)	X	
Hand raising		X
Other (specify)		

Translation from Ukrainian original

What are the main reasons for calling for the last extraordinary meeting?

	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)		

Was general meeting of shareholders conducted during the reported year in the form of absentee voting?

No, it was not.

In case the extraordinary general meeting was called for, initiators shall be indicated:

	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 simple 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 general meeting was called for and conducted.

4) Information on Supervisory Board and Management Board.

Composition of Supervisory Board

	Number of persons
Members of supervisory board – shareholders	
Members of supervisory board – representatives of shareholders	1
Members of supervisory board – independent directors	5

Supervisory Board Committees

	Yes	No
Audit	X	
Assignments	X	
Remuneration	X	
Other (specify)		
Committee on Remuneration, Assignments and Corporate Governance of JSB “UKRGASBANK” Supervisory Board. Risk Management Committee of the Supervisory Board of JSB “UKRGASBANK” Committee on Attraction of Investments and Realization of Development Strategy of JSB “UKRGASBANK” 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”. Committee of the Supervisory Board for Raising Funds by JSB “UKRGASBANK” on the International Capital Market Through “Green” Bonds Issue Mechanism. IT Development Committee of JSB “UKRGASBANK” Supervisory Board.		

If the performance of the committees is assessed, the information about their competence and efficiency shall be provided, as well as the information related to the number of meetings and what exactly committees of Supervisory Board.

During 2018, 18 meetings of Supervisory Board Committees took place to consider 49 issues.

Audit Committee during 2018 conducted 4 meetings in praesentia, to discuss nine issues, provide seven recommendations to Supervisory Board and one recommendation to Management Board.

In accordance with Provisions on Audit Committee approved by decision of Supervisory Board dated 19 November 2014 (Minutes of Meeting No. 14), and requirements of legislation the competence of the Committee includes the following during 2018:

1. Performance of supervision over the activity of Internal Audit Department and ensuring of assessment of efficiency and quality of this Department;
2. Performance of supervision over the reliability and completeness of financial and other accountability of the Bank;
3. Ensuring the efficiency of internal control efficiency;
4. Ensuring the meeting of requirements of the legislation and internal procedures of the Bank;
5. Periodic inspection and provision of proposals related to approval of Provisions on the internal audit;
6. Revision and assessment of annual working plan of internal audit;
7. Revision and monitoring of response of the Management Board to the recommendations and problematic issues identified by the internal audit and inspections;
8. Preliminary studying and review of other issues falling under the competence of Supervisory Board.

In 2018, Audit Committee used methods and procedures specified in the Provisions on Audit Committee allowing effectively organize the process of implementation of assigned powers.

Mr. T.M. Bagirov, Chairman of the Committee, called meetings of Audit Committee in the form of 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 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.

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, and Supervisory Board.

It shall be noted, that three out of four meetings of Audit Committee in 2018 were conducted under condition of 100% presence of Audit Committee members, and at one meeting two out of three members of Audit Committee were present; 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.

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 2018 there were no comments by Audit Committee to independence of external audit performance.

Risk Management Committee during 2018 conducted 7 meetings, 5 of them in praesentia, reviewed 27 issues, provided 17 recommendations to Supervisory Board, and 1 recommendation to Management Board.

In accordance with the Provisions on Risk Management Committee approved by the decision of Supervisory Board dated September 01, 2017 (Minutes of Meeting No. 16), and requirements of effective legislation the competence of Risk Management Committee in 2018 included the following:

1. Preliminary review of the draft strategies and policies of risk management, credit policy, procedure of performance of transactions with the persons connected with the bank, and other documents in the area of risk management, to be reviewed and/or approved by Supervisory Board;
2. Within the frames of implementation of control over the efficiency of risk management system functioning preliminary review of the issues related to the elimination of deficiencies, identified by the National Bank of Ukraine and other bodies of governmental power and management, which within their respective authority perform the oversight of the Bank’s activity, by division of internal audit and audit company, based on the results of external audit;
3. Definition of the list, format and periodicity of the reports on risks to be submitted to the Risk Management Committee and/or Supervisory Board;
4. Submission to Supervisory Board of proposals related to improvement of the risk management system.

In 2018, the Committee used the methods and procedures of activities defined in the Provisions on Risk Management Committee; thus allowed effectively organizing the process of implementation of the authorities imposed.

The Chairmen of the Committee (Yu.I. Pashko till 26.04.2018, A.V. Shevaliov from 17.07.2018 and from 24.09.2018) 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.

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 the Management Board of the Bank, Risk Management Department, Compliance and Methodology Department, Internal Audit Department and Supervisory Board.

All meetings of the Risk Management Committee in 2018 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 obligations and proper implementation by the Chairperson of authorities in arrangement of the activity of the Committee.

It shall be noted that due to election of the new composition of the Supervisory Board in accordance with the decision of the General Meeting of shareholders of JSB “UKRGASBANK” dated 26.04.2018 (Minutes of Meeting No. 1), further process of election of the new composition of the Risk Management Committee, and with repeated election of the composition of the Supervisory Board in accordance with the decisions of extraordinary meeting of JSB “UKRGASBANK” dated 11.09.2018 (Minutes of Meeting No. 2) and, correspondent re-election of the composition of the Committee, the issues related to the profile of credit risk of the Bank, liquidity risk, market and operational risks as of 01.04.2018 and as of 01.07.2018 were reviewed at the meeting of the Committee on 19.10.2018 (Minutes of Meeting No. 5).

It must be separately noted that, due to the potential imposition of the martial law in Ukraine and its influence on the activity of JSB “UKRGASBANK”, on 26 November 2018 a joint meeting of the Management Board and Risk Management Committee was arranged to identify the priority actions by Management Board and structural divisions of the Bank, as well as to commission the Management Board in case of imposition of the martial law in Ukraine to approve further measures related to the regime of work of the personnel, performance of the banking transactions, servicing the customers, etc., and operatively inform the customers, shareholders and Supervisory Board of the Bank of the measured undertaken.

Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance during 2018 conducted 3 meetings in praesentia, reviewed 7 issues, provided 7 recommendations to Supervisory Board.

In accordance with the requirements of effective legislation, the competence of Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance in 2018 included the following:

1. Preliminary review of the issues, namely:
 - On termination of powers of the Chairman and/or members of Management Board;
 - On election of the Chairman and/or members of Management Board;
 - On the approval of the conditions of the contracts to be awarded to the Chairman/members of Management Board;
 - On approval of modifications to the conditions of the contracts to be awarded to the Chairman/members of Management Board;
 - On awarding the bonus to Chairman and members of Management Board;
 - On establishment of the committees of Supervisory Board, determination of their personal composition, preparation of proposals related to periodic rotation of members of Supervisory Board between the committees;
2. Development of:
 - Internal regulation instrument for the assignments/remuneration and its periodic revision;
 - Succession plans for the chairperson and members of Supervisory Board/ chairperson and members of Management Board;
 - Rules (code) of ethical conduct of officials;

3. Preparation of proposals to Supervisory Board related to the following issues:
 - Improvement of the system of corporate governance of the Bank, preparation and training of the members of Supervisory Board and Management Board;
 - Remuneration to members of Management Board;
 - Form and essential conditions of the agreements and contract for the members of Management Board;
 - Level and structure of remuneration for persons performing the managerial functions.

In 2018, the Committee used methods and procedures specified in the Provisions on Supervisory Board, allowing effectively organize the process of implementation of assigned powers.

The Chairmen of the Committee (A.V. Shevaliov before 26.04.2018, Sh.D. Davda from 24.09.2018) called meeting of the Committee in the form of in praesentia, chaired it, 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 made to the notice of Supervisory Board and Management Board.

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 the Management Board and Supervisory Board.

During 2018, two out of three meetings of the Committee were conducted in 100% presence of the Committee members, and one meeting took place under the presence of two out of three members of the Committee, that testifies to the responsible attitude of the members of the Committee to the fulfillment of their duties and due execution by the Chairman of the powers of organization of the Committee work.

Committee of Supervisory Board of JSB “UKRGASBANK” on attraction of investments and realization of development strategy during 2018 conducted one meeting in praesentia, considered one issue related to preliminary review of the Strategy of JSB “UKRGASBANK” Development for 2019-2021, provided one recommendation to Supervisory Board and one errand to Management Board.

In accordance with the requirements of legislation, the competence of the Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK” in 2018 included the following:

1. Preliminary examination and preparation for review at the meeting of Supervisory Board of the issues related to the following:
 - preparation of proposals with regard to the selection of optimal mechanisms of investments’ attraction;
 - elaboration of the draft strategy of JSB “UKRGASBANK” development;
 - determination of main directions of activity and ways of their implementation;
 - control over the implementation of development strategy of JSB “UKRGASBANK”;
2. Development of:
 - draft documents in the area of investments’ attraction;
 - draft strategy of JSB “UKRGASBANK” development;
 - main directions of JSB “UKRGASBANK” activity;
3. Preparation of the proposals to Supervisory Board in regard to the following:
 - strategic directions of JSB “UKRGASBANK” development;
 - determination of main directions of activity;
 - attraction of investments, etc.

In 2018, the Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK” used methods and procedures specified in the Provisions on Supervisory Board, allowing effectively organize the process of implementation of assigned powers.

T.M. Bagirov, Chairman of the Committee, called meeting of the Committee in the form of in praesentia, chaired it, 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 made to the notice of Supervisory Board and Management Board.

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 the Management Board and Supervisory Board.

In 2018, the meeting of the Committee was attended by three out of four 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 of the Supervisory Board for Raising Funds by JSB UKRGASBANK on the International Capital Market through “Green” Bonds Issue Mechanism during 2018 held three meetings, two out of them in praesentia, considered five issues, provided four recommendations to Supervisory Board, and three errands to Management Board.

In accordance with the Provisions 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 17.07.2018 (Minutes of Meeting No. 19), the competence of the Committee includes:

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 of 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;
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 2018, 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 Provisions 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.

All meetings of the Committee for Rising the Funds on the International Capital Market through “Green” Bonds Issue Mechanism in 2018 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 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 2018.

In accordance with the Provisions 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 30.11.2015 (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.

Information Technologies Development Committee of Supervisory Board of JSB “UKRGASBANK” did not conduct meetings during 2018.

The **IT Development Committee of Supervisory Board of JSB “UKRGASBANK”** was established on December 18, 2018 in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated December 18, 2018 (Minutes of Meeting No. 33) aiming at provision of assistance to Supervisory Board in supervision of strategic development and improvement of IT in the Bank, in particular, related to automation of processes, creation of digital strategy in cooperation with International Finance Corporation.

Translation from Ukrainian original

Personal composition of Supervisory Board of JSB UKRGASBANK as of 31 December 2018:

First Name, Name, Patronymic Name	Position	Independent Member	
		Yes	No
Shrenik Dhirajlal Davda	Chairman of Supervisory Board, independent member of Supervisory Board	X	
Artem Valentynovych Shevaliov	Deputy to Chairman of Supervisory Board, representative of shareholder, the State of Ukraine		X
Teymour Mamedovych Bagirov	Independent member of Supervisory Board	X	
Yuryi Oleksandrovych Blashchuk	Independent member of Supervisory Board	X	
Oksana Yulianivna Volchko	Independent member of Supervisory Board	X	
Slawomir Roman Konias	Independent member of Supervisory Board	X	

What requirements to members of Supervisory Board are stated in the internal documents of the Bank?

	Yes	No
Field knowledge and experience of work in the field	X	
Knowledge in the area of finances and management	X	
Personal qualities (honesty, responsibility)	X	
Absence of conflict 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 no new members were elected		X
Other (specify)		

Were the meetings of Supervisory Board conducted? General description of decisions made.

In 2018, 36 meetings of Supervisory Board took place, 181 issues reviewed during them. Supervisory Board of JSB “UKRGASBANK” in 2018 made decisions, in particular, related to:

- Approval of Strategy of Development of JSB “UKRGASBANK” for 2019-2021, Strategy of Development of information security of JSB “UKRGASBANK” for 2018-2019, Strategy of Risk Management in JSB “UKRGASBANK” as revised, main areas of activity of JSB “UKRGASBANK” for 2018-2019, Plan of ensuring the continuous performance of JSB “UKRGASBANK”; approval of the internal regulatory instruments belonging to sole competence of Supervisory Board;
- Review of report on implementation of main areas of performance of JSB “UKRGASBANK” for 2016-2017, report of Internal Audit Department for 2017;
- Organization and call for annual and extraordinary General Meetings of Shareholders of JSB “UKRGASBANK”;
- Approval of active operations of the Bank in accordance with the established authority limits;
- Approval of the Work Plan of Internal Audit Department for 2019;
- Approval of changes to organization structure of Head Office of JSB “UKRGASBANK”;
- Approval of provisions 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”;
- Determination of an audit company for the audit of annual financial statements, an audit to meet the requirements of regulatory acts of the National Bank of Ukraine, approval of the terms of the contract to be concluded with the company, setting the amount of payment for its services;
- Quarterly review:
 - Report on the results of monitoring of the state of implementation of recommendations of National Bank of Ukraine;
 - Report based on the results of monitoring of effective system of internal control of JSB “UKRGASBANK”;
 - Report of Corporate Secretary of JSB “UKRGASBANK”.

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 Chairman 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 Provisions 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 Provisions 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</p>	

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.

Information about Management Board.

Composition of Management Board	Functional Obligations
Personal composition of JSB "UKRGASBANK" Management Board as of 31 December 2018: 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 Berezhnyi – Director of Financial Monitoring Department.	Functional obligations of each member of Management Board are established by effective legislation, Articles of Association of JSB "UKRGASBANK", Provisions on JSB "UKRGASBANK" Management Board and labor agreement (contract) awarded with the members of Management Board, and Decree on distribution of powers between the Bank's managers.

5) Description of main characteristics of internal audit system and risk management system of issuer.

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?

Translation from Ukrainian original

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 limit 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
Provisions on General Meeting of the Shareholders	X	
Provisions on Supervisory Board	X	
Provisions on Executive Body	X	
Provisions on Officials of Joint Stock Company		X
Provisions on Audit Commission (or Auditor)	X	
Provisions on Shares of Joint Stock Company	X	
Provisions on Procedure of Distribution of Profit		X
Other (specify)		

Translation from Ukrainian original

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 10 percent and more of authorized capital	no	yes	yes	yes	yes
Information on composition of management bodies of the company	no	yes	yes	yes	yes
Articles of Association and internal documents	no	no	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 a year in average, were the audits of joint stock company by independent auditor (audit company) conducted within the reported period?

	Yes	No
Not conducted at all		X
Less than once a year		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	
Executive Body		X
Other (specify)		

Translation from Ukrainian original

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 more than 10 percent of the votes		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	00134800	94,940948

Translation from Ukrainian original

- 7) information about any restrictions to the rights of participation and voting of shareholders (members) during general meeting of company

General Number of Shares	Number of Shares with Restrictions	Basis for Restrictions	Date of Restriction Occurrence
13 836 522 922	521 551 280	<p>3 111 975 ordinary registers 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”;</p> <p>518 439 305 ordinary registers shares – restrictions in accordance with Article 692 of the Law of Ukraine “On Joint Stock Companies”</p> <p>(the data in accord with the list of shareholders who had the right to participate in general meeting of Issuer (as of 24:00 20.04.2018), which took place on 26.04.2018).</p>	<p>11.10.2014</p> <p>2013-2014</p>
13 836 522 922	521 334 548	<p>2 895 243 ordinary registers 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”;</p> <p>518 439 305 ordinary registers shares – restrictions in accordance with Article 692 of the Law of Ukraine “On Joint Stock Companies”</p> <p>(the data in accord with the list of shareholders who had the right to participate in general meeting of Issuer (as of 24:00 05.09.2018, which took place on 11.09.2018).</p>	<p>11.10.2014</p> <p>2013-2014</p>

- 8) Procedure for assignment and dismissal of officials of the Bank. Information on any remuneration or compensations to be paid to the officials of the Bank in case of their dismissal.

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 10.03.2017 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 Provisions on Licensing of the Banks approved by the Resolution of the Management Board of National Bank of Ukraine dated 22.12.2018 No. 149, and internal regulation instruments of the Bank for 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, Provisions on Supervisory Board and Management Board, job descriptions, and powers of attorney.
- 10) Information of auditor related to the report on corporate governance is presented in the Independent auditor's report related to financial statements of the Bank dated 15 March 2019.

For Reference

Information on the activity of Supervisory Board:

Five independent members and one member – representative of a shareholder constituted Supervisory Board of JSB “UKRGASBANK” as of 31 December 2018; with this, the Chairperson of Supervisory Board is an independent member. The functional obligations of each member of Supervisory Board are established by effective legislation, Articles of Association of JSB “UKRGASBANK”, Provisions on correspondent Committee of Supervisory Board, and civil contract awarded to such member of Supervisory Board.

Personal composition of Supervisory Board of JSB “UKRGASBANK” as of 31 December 2018:

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

Changes in composition of Supervisory Board of JSB “UKRGASBANK” during 2018:

- The authorities of Chairman of Supervisory Board A.V. Shevaliov and members of Supervisory Board O.S. Markarova, Yu.I. Pashko, T.M. Bagirov, Sh.D. Davda, S.R. Konias and Yu.O. Draganshuk have been terminated based on the decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 11.09.2018 (Minutes of Meeting No. 2);
- In accordance with decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 11.09.2018 (Minutes of Meeting No. 2) the following persons have been elected to Supervisory Board:
 1. Shrenik Dhirajlal Davda – Chairman of Supervisory Board, independent member of Supervisory Board.
 2. Artem Valentynovych Shevaliov – member of Supervisory Board, representative of shareholder – the State of Ukraine.
 3. Oksana Sergiivna Markarova – member of Supervisory Board, representative of shareholder – the State of Ukraine.
 4. Teymour Mahmedovych Bagirov – independent member of Supervisory Board.
 5. Yuri Oleksandrovych Blashchuk – independent member of Supervisory Board.
 6. Oksana Yulianivna Volchko – independent member of Supervisory Board.
 7. Slawomir Roman Konias – independent member of Supervisory Board.
- On 28.12.2018 the authority of member of Supervisory Board O.S. Markarova has been terminated based on the letter of Ministry of Finance of Ukraine dated 12.12.2018 No. 14010-10-10/33002 (dated 13.12.2018 incoming No. 10/64295) and statement of O.S. Markarova dated 12.12.2018 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.

When Supervisory Board made decisions during 2018, it applied the procedures foreseen by Articles of Association and Provisions on the Supervisory Board:

Each member of Supervisory Board has one vote at the meeting of Supervisory Board.

A decision of Supervisory Board are made by simple majority of votes of the members of Supervisory Board participating in the meeting and have the right to vote or who take part in absentee voting (by survey), except the cases specified by Articles of Association and the Provisions on Supervisory Board, foreseeing another number of votes for the decision to be made.

If the number of votes “pro” and “against” is equal, the decision for which the Chairman of Supervisory Board voted shall be made.

Competence and Efficiency of Supervisory Board Members.

1) *Shrenik Dhirajlal Davda* – Chairman of Supervisory Board, independent member of Supervisory Board, in the Bank for 3 years 8 months (starting with 28.04.2015); as the Chairman of Supervisory Board bears responsibility for all the areas of Supervisory Board activity.

Chairs: Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance – starting with 24.09.2018.

Member of:

Audit Committee;

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

Besides, during 2018 he held the position of:

Partner (Managing Partner) in NECP LLP, United Kingdom of Great Britain and Northern Ireland.

Member of Advisory Board in Inspired Mobile Ltd, United Kingdom of Great Britain and Northern Ireland.

2) *Artem Valentynovych Shevaliov* – Deputy to Chairman of Supervisory Board, member of Supervisory Board – representative of shareholder, the State of Ukraine; in the Bank for 3 years 8 months (starting with 28.04.2015); 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, Committee of the Supervisory Board for Raising Funds by JSB UKRGASBANK on the International Capital Market Through “Green” Bonds Issue Mechanism;

Chairs:

Risk Management Committee of Supervisory Board of JSB “UKRGASBANK” – starting with 24.09.2018 (the last appointment); before this, he was elected as Chairman of this Committee by previous composition of Supervisory Board from 17.07.2018 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 24.09.2018 (the last appointment); before this, he was elected as Chairman of this Committee by previous composition of Supervisory Board from 18.06.2018 until termination of powers of Supervisory Board;

Member of:

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

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

Besides, during 2018 he held the position of:

Deputy to EBRD Executive Director from Ukraine, Great Britain;

Chairman of Supervisory Board of PJSC “Ukrainian Bank of Reconstruction and development”;

Deputy to Chairperson of Supervisory Board of JSB “Ukreximbank”;

Deputy to Chairperson of Supervisory Board of “Oshchadbank”.

3) *Teymour Mamedovych Bagirov* – independent member of Supervisory Board, in the Bank for 4 years 6 months (from 28.08.2009 till 17.06.2010, from 28.04.2015); 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.

Chairs:

Audit Committee of Supervisory Board of JSB “UKRGASBANK” from 24.09.2018 (the last appointment); before this, he was elected as Chairman of this Committee by previous compositions of Supervisory Board from 11.03.2016 until termination of powers of Supervisory Board; starting with 18.05.2017 until termination of powers of Supervisory Board;

Committee on attraction of investments and realization of strategy of development of JSB “UKRGASBANK” – starting with 24.09.2018 (the last appointment); before this, he was elected as Chairman of this Committee by previous compositions of Supervisory Board from 18.05.2017 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 24.09.2018 (the last appointment); before this, he was elected as Chairman of this Committee by previous compositions of Supervisory Board from 30.11.2015 until termination of powers of Supervisory Board;

Member of:

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

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.

Besides, during 2018 he held the position of:

Member of Supervisory Board of SK UNIQA Zhyttya, Ukraine;

Member of Supervisory Board of SK UNIQA, Ukraine;

Member of Supervisory Board of UNIQA TU S.A., Poland;

Member of Supervisory Board of UNIQA TU na Zycie S.A., Poland.

4) *Slawomir Roman Konias* - independent member of Supervisory Board, in the Bank for 8 months (from 26.04.2018); issues of 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.

Chairs:

IT Development Committee of Supervisory Board of JSB “UKRGASBANK” from 18.12.2018.

Member of:

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

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.

Besides, during 2018 he held the position of:

Strategic Business Partner of Banca Comerciala Romana, Romania before 10.09.2018

5) *Yuryi Oleksandrovych Blashchuk* – independent member of Supervisory Board, in the Bank for 3,5 months (from 11.09.2018); issues of 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; 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;

Does not chair any committee of Supervisory Board.

Member of:

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 Ukgasbank Supervisory Board.

Besides, during 2018 he held the position of:

Member of Supervisory Board – independent member of Supervisory Board (under civil agreement) in PJSC “Ukrainian Bank for Reconstruction and Development”;

Member of Supervisory Board, independent member of Fincombank S.A., Republic of Moldova.

6) *Oksana Yulianivna Volchko* - independent member of Supervisory Board, in the Bank for 3,5 months (from 11.09.2018); issues of internal, external audit of the Bank; raising funds by the Bank on the international capital market through “green” bonds issue mechanism.

Does not chair any committee of Supervisory Board.

Member of:

Audit Committee;

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 Ukgasbank Supervisory Board.

Besides, during 2018 she held the position of:

Member of Supervisory Board of PrJSC Ukrposhta from 10.10.2018.

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. Balshchuk, O.Yu. Volchko); 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. Balshchuk, A.V. Shevaliov, T.M. Bagirov), 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), one of the members of Supervisory Board has an academic degree, candidate of economic science (Yu.O. Blashchuk).

Regarding the assessment of the independence of each independent member of Supervisory Board, it should be noted that all independent members of Supervisory Board of JSB “UKRGASBANK” were proposed by the Ministry of Finance of Ukraine as candidates for positions of independent members of Supervisory Board of JSB “UKRGASBANK” on the basis of conduction by the Commission on

the selection of candidates for the position of independent members of the supervisory boards of banks, where the Ministry of Finance of Ukraine manages the corporate rights of the State, of competitive selection for the positions of independent members of Supervisory Board of JSB “UKRGASBANK”.

The aforementioned competitive selection was conducted in accordance with the procedure established by the Resolution of the Cabinet of Ministers of Ukraine dated March 10, 2017 No. 142 “Some issues of management of state unitary enterprises and economic partnerships in which the authorized capital for more than 50 percent of the shares belongs to the State” in accordance with the Requirements and criteria of evaluation of the persons who have expressed the desire to take part in the competitive selection of the candidates for the position of an independent member of the supervisory board, which, in particular, set requirements for the compliance of the person with the requirements for independence.

All independent members of the Supervisory Board of JSB “UKRGASBANK” submitted in the package of documents a comfort letter to the Ministry of Finance to assure compliance with the requirements of the independent director signed following the sample given in Annex 22 to the Provisions, in order to participate in the competitive selection.

The National Bank of Ukraine, in accordance with the requirements of the Law of Ukraine “On Banks and Banking” and the Provisions on the Procedure for Registration and Licensing of Banks, the Establishing of Separate Divisions, approved by the Resolution of the Management Board of the National Bank of Ukraine dated September 08, 2011 No. 306, has approved all members of the Supervisory Board of JSB “UKRGASBANK” and confirmed the compliance of their business reputation with the requirements of Ukrainian legislation applied to the managers of a bank.

Competence and Efficiency of Supervisory Board Committees

List of Committees of Supervisory Board of JSB “UKRGASBANK” as of 31 December 2018:

1. Audit committee of the Supervisory Board of JSB “UKRGASBANK”;
2. Risk Management Committee of the Supervisory Board of JSB “UKRGASBANK”;
3. Committee on Remuneration, Assignments and Corporate Governance of JSB “UKRGASBANK” Supervisory Board;
4. Committee on Attraction of Investments and Realization of Development Strategy of JSB “UKRGASBANK”;
5. Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JSC JSB “UKRGASBANK”;
6. Committee of the Supervisory Board for Raising Funds by JSB “UKRGASBANK” on the International Capital Market Through “Green” Bonds Issue Mechanism;
7. IT Development Committee of JSB “UKRGASBANK” Supervisory Board.

Audit Committee of Supervisory Board of JSB "UKRGASBANK".

Personal composition as of 31.12.2018:

1. T.M. Bagirov – Chairman of the Committee.
2. Sh.D. Davda
3. O.Yu. Volchko

Changes in the composition of the Committee during 2018:

- The authorities of the following members of the Committee elected in accordance with the decision of Supervisory Board dated 18.05.2017 (Minutes of Meeting No. 9) were terminated:
 1. T.M. Bagirov – Chairman of the Committee.
 2. Yu.B. Butsa
 3. Sh.D. Davda
- In accordance with the decision of Supervisory Board dated 24.09.2018 (Minutes of Meeting No. 26) the new composition of the Committee was elected:
 1. T.M. Bagirov – Chairman of the Committee.
 2. Sh.D. Davda
 3. O.Yu. Volchko

In accordance with the Provisions on Audit Committee, approved by decision of Supervisory Board dated November 19, 2014 (Minutes of Meeting No. 14), and requirements of effective legislation, the Audit Committee competence in 2018 included the following:

1. Supervision over the activities of the Internal Audit Department and ensuring the assessment of the efficiency and quality of the Department performance;
2. Supervision over the reliability and completeness of financial and other reports of the Bank;
3. Ensuring the efficiency of procedures of internal control;
4. Ensuring the meeting of requirements of the effective legislation and internal procedures of the Bank;
5. Periodic audit and provision of proposals related to approval of the Provisions on Internal Audit;
6. Review and assessment of annual Work Plan of Internal Audit Department;
7. Review and monitoring of response of Management Board of the Bank to the recommendations and problematic issues detected by internal audit and inspections;
8. Preliminary examination and review of other issues within the competence of Supervisory Board.

During 2018, Audit Committee conducted four meetings in praesentia, to consider nine issues, provided seven recommendations to Supervisory Board, and one recommendation to Management Board.

During 2018, Audit Committee:

1. On a regular basis reviewed:
 - 1.1. The reports based on the results of inspections conducted by Internal Audit Department;
 - 1.2. The reports based on the results of monitoring of audit recommendations' implementation.
2. Preliminary reviewed and recommended for approval by Supervisory Board:
 - 2.1. Provisions on Internal Audit Department of JSB "UKRGASBANK" as revised;
 - 2.2. Provisions on Organization and Conduction of Audits in JSB "UKRGASBANK" as revised;
 - 2.3. Work Plan of Internal Audit Department for year;
 - 2.4. Report on the Internal Audit Department Work for year.
3. Preliminary reviewed the Audit Conclusion "Audit of the process of organization and performance of financial monitoring" dated November 03, 2017 with proposals, and submitted it to review f Supervisory Board.

4. Developed draft Budget of Supervisory Board of JSB “UKRGASBANK” for 2019, which in accordance with the decision of Audit Committee was submitted to Management Board for inclusion of it as an integral part into the draft Budget of JSB “UKRGASBANK” for 2019, and recommended to Supervisory Board to approve it within the Budget of JSB “UKRGASBANK” for 2019.
5. On October 24, 2018, a meeting with external auditor, Ernst and Young Audit Services LLC, was conducted in order to discuss the issues related to planning of audit. During this meeting in particular, the issue of scheduled scope of audit for 2018, the schedule of its conduction, and main issues of audit were discussed.
6. In accordance with the obligations imposed, the main conditions of modifications to be introduced into the agreement for provision of audit services by external auditor were reviewed preliminary.

During 2018, Audit Committee used methods and procedures specified by the Provisions on Audit Committee. That allowed effectively organizing the process of implementation of the powers imposed.

The Chairman of the Committee, T.M. Bagirov, called for the meetings of Audit Committee 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 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.

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, and Supervisory Board.

It shall be noted, that three out of four meetings of Audit Committee in 2018 were conducted under condition of 100% presence of Audit Committee members, and at one meeting two out of three members of Audit Committee were present; 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.

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 2018 there were no comments by Audit Committee to independence of external audit performance.

Risk Management Committee of Supervisory Board of JSB "UKRGASBANK".

Personal composition as of 31.12.2018:

1. A.V. Shevaliov – Chairman of the Committee
2. T.M. Bagirov
3. S.R. Konias

Changes in the composition of the Committee during 2018:

- The authorities of the following members of the Committee were terminated, who were elected:
 - In accordance with the decision of Supervisory Board dated 18.05.2017 (Minutes of Meeting No. 9):
 1. Yu.I. Pashko – Chairman of the Committee
 2. A.V. Shevaliov
 3. V.V. Yashchuk
 - In accordance with the decision of Supervisory Board dated 17.07.2018 (Minutes of Meeting No. 19):
 1. A.V. Shevaliov – Chairman of the Committee.
 2. T.M. Bagirov
 3. S.R. Konias
- In accordance with the decision of Supervisory Board dated 24.09.2018 (Minutes of Meeting No. 26) new composition of the Committee has been elected:
 1. A.V. Shevaliov – Chairman of the Committee
 2. T.M. Bagirov
 3. S.R. Konias

In accordance with the Provisions on Risk Management Committee approved by the decision of Supervisory Board dated September 01, 2017 (Minutes of Meeting No. 16), and requirements of effective legislation the competence of Risk Management Committee in 2018 included the following:

1. Preliminary review of the draft strategies and policies of risk management, credit policy, procedure of performance of transactions with the persons connected with the bank, and other documents in the area of risk management, to be reviewed and/or approved by Supervisory Board;
2. Within the frames of implementation of control over the efficiency of risk management system functioning preliminary review of the issues related to the elimination of deficiencies, identified by the National Bank of Ukraine and other bodies of governmental power and management, which within their respective authority perform the oversight of the Bank's activity, by division of internal audit and audit company, based on the results of external audit;
3. Definition of the list, format and periodicity of the reports on risks to be submitted to the Risk Management Committee and/or Supervisory Board;
4. Submission to Supervisory Board of proposals related to improvement of the risk management system.

Risk Management Committee during 2018 held seven meetings, five out of them in praesentia, reviewed 27 issues, provided 17 recommendations to Supervisory Board, 1 recommendation to Management Board.

During 2018, Risk Management Committee:

1. Regularly, the Committee reviewed the information related to the following:
 - Current profile of credit risk of the Bank, risk of liquidity, market and operations risks;
 - Results of stress-test of credit, currency, interest, operational risks and risk of liquidity,
 - Status of implementation of recommendations based on the results of inspection by National Bank of Ukraine.

2. preliminary reviewed and recommended to Supervisory Board to approve the following:
 - Policy of ecological and social responsibility of JSB “UKRGASBANK”;
 - Policy of liquidity risk management in JSB “UKRGASBANK”;
 - Policy of interest risk management of JSB “UKRGASBANK”;
 - Policy of operations risk management of JSB “UKRGASBANK”;
 - Policy of market risk management of JSB “UKRGASBANK”;
 - Policy of stress-testing of JSB “UKRGASBANK”;
 - Revised risk management strategy in JSB “UKRGASBANK”;
 - Plan of ensuring the continuity of JSB “UKRGASBANK” activity;
 - Boundary risk indices for 2019.
3. Initiated modification of the system of limits of authority for performance of active operations, which were supported by Supervisory Board.
4. Due to acceptance of Provisions on organization of risk management system in the banks and banking groups, approved by the Decree of Management Board of National Bank of Ukraine dated 11.06.2018 No. 64, the Committee revised the issues related to the introduction of the requirements of the mentioned Provisions, namely:
 - Changes in the organizational structure of head office of JSB “UKRGASBANK” in terms of optimization of the structural divisions in risk management;
 - Approval of revised Provisions on Risk Management Department of JSB “UKRGASBANK” and Provisions on Social and Ecological Risks Division of JSB “UKRGASBANK”;
 - Approval of assignment of Chairperson of Management Board of JSB “UKRGASBANK”, member of Management Board of JSB “UKRGASBANK”, supervising the risk management divisions, N.Ye. Vasylets CRO of JSB “UKRGASBANK”.

In 2018, the Committee used the methods and procedures of activities defined in the Provisions on Risk Management Committee; thus allowed effectively organizing the process of implementation of the authorities imposed.

The Chairmen of the Committee (Yu.I. Pashko till 26.04.2018, A.V. Shevaliov from 17.07.2018 and from 24.09.2018) 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.

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 the Management Board of the Bank, Risk Management Department, Compliance and Methodology Department, Internal Audit Department and Supervisory Board.

All meetings of the Risk Management Committee in 2018 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 obligations and proper implementation by the Chairperson of authorities in arrangement of the activity of the Committee.

It shall be noted that due to election of the new composition of the Supervisory Board in accordance with the decision of the General Meeting of shareholders of JSB “UKRGASBANK” dated 26.04.2018 (Minutes of Meeting No. 1), further process of election of the new composition of the Risk Management Committee, and with repeated election of the composition of the Supervisory Board in accordance with the decisions of extraordinary meeting of JSB “UKRGASBANK” dated 11.09.2018 (Minutes of Meeting No. 2) and, correspondent re-election of the composition of the Committee, the issues related to the profile of credit risk of the Bank, liquidity risk, market and operational risks as of 01.04.2018 and as of 01.07.2018 were reviewed at the meeting of the Committee on 19.10.2018 (Minutes of Meeting No. 5).

It must be separately noted that, due to the potential imposition of the martial law in Ukraine and its influence on the activity of JSB “UKRGASBANK”, on 26 November 2018 a joint meeting of the Management Board and Risk Management Committee was arranged to identify the priority actions by Management Board and structural divisions of the Bank, as well as to commission the Management Board in case of imposition of the martial law in Ukraine to approve further measures related to the regime of work of the personnel, performance of the banking transactions, servicing the customers, etc., and operatively inform the customers, shareholders and Supervisory Board of the Bank of the measures undertaken.

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

Personal composition as of 31.12.2018:

1. Sh.D. Davda – Chairman of the Committee.
2. A.V. Shevaliov
3. T.M. Bagirov

Changes in the composition of the Committee during 2018:

- The authorities of the following members of the Committee elected in accordance with the decision of Supervisory Board dated 18.05.2017 (Minutes of Meeting No. 9) were terminated:
 1. A.V. Shevaliov – Chairman of the Committee.
 2. O.S. Markarova
 3. V.V. Yashchuk
- The authorities of the following members of the Committee elected in accordance with the decision of Supervisory Board dated 24.09.2018 (Minutes of Meeting No. 26) were terminated:
 1. Sh.D. Davda – Chairman of the Committee.
 2. O.S. Markarova
 3. T.M. Bagirov
- In accordance with the decision of Supervisory Board dated 18.12.2018 (Minutes of Meeting No. 33) new composition of the Committee was elected:
 1. Sh.D. Davda – Chairman of the Committee.
 2. A.V. Shevaliov
 3. T.M. Bagirov

In accordance with the requirements of effective legislation, the competence of Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance in 2018 included the following:

1. Preliminary review of the issues, namely:
 - On termination of powers of the Chairman and/or members of Management Board;
 - On election of the Chairman and/or members of Management Board;
 - On the approval of the conditions of the contracts to be awarded to the Chairman/members of Management Board;
 - On approval of modifications to the conditions of the contracts to be awarded to the Chairman/members of Management Board;
 - On awarding the bonus to Chairman and members of Management Board;
 - On establishment of the committees of Supervisory Board, determination of their personal composition, preparation of proposals related to periodic rotation of members of Supervisory Board between the committees;

2. Development of:
 - Internal regulation instrument for the assignments/remuneration and its periodic revision;
 - Succession plans for the chairperson and members of Supervisory Board/ chairperson and members of Management Board;
 - Rules (code) of ethical conduct of officials;
3. Preparation of proposals to Supervisory Board related to the following issues:
 - Improvement of the system of corporate governance of the Bank, preparation and training of the members of Supervisory Board and Management Board;
 - Remuneration to members of Management Board;
 - Form and essential conditions of the agreements and contract for the members of Management Board;
 - Level and structure of remuneration for persons performing the managerial functions.

Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance during 2018 conducted three meetings in praesentia, considered seven issues, and provided seven recommendations to Supervisory Board.

Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance considered the following issues during 2018:

- Termination of powers of a member of Management Board;
- Election of a member of Management Board;
- Approval of the conditions of the contracts to be awarded to a member of Management Board;
- Approval of modifications to the conditions of the contract to be awarded to the Chairman/members of Management Board,
- Awarding a bonus to Chairman and members of Management.

In 2018, the Committee used methods and procedures specified in the Provisions on Supervisory Board, allowing effectively organize the process of implementation of assigned powers.

The Chairmen of the Committee (A.V. Shevaliov before 26.04.2018, Sh.D. Davda from 24.09.2018) called meeting of the Committee in the form of in praesentia, chaired it, 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 made to the notice of Supervisory Board and Management Board.

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 the Management Board and Supervisory Board.

During 2018, two out of three meetings of the Committee were conducted in 100% presence of the Committee members, and one meeting took place under the presence of two out of three members of the Committee, that testifies to the responsible attitude of the members of the Committee to the fulfillment of their duties and due execution by the Chairman of the powers of organization of the Committee work.

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 2018:

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

Changes in the composition of the Committee during 2018:

- The authorities of the following members of the Committee elected in accordance with the decision of Supervisory Board dated 18.05.2017 (Minutes of Meeting No. 9) were terminated:
 5. T.M. Bagirov – Chairman of the Committee.
 6. O.S. Markarova
 7. Yu.I. Pashko
 8. Sh.D. Davda
- The authorities of the following members of the Committee elected in accordance with the decision of Supervisory Board dated 24.09.2018 (Minutes of Meeting No. 26) were terminated:
 1. T.M. Bagirov – Chairman of the Committee.
 2. O.S. Markarova
 3. Yu.O. Blashchuk
 4. Sh.D. Davda
- In accordance with the decision of Supervisory Board dated 18.12.2018 (Minutes of Meeting No. 33) 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

In accordance with the requirements of legislation, the competence of the Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK” in 2018 included the following:

1. Preliminary examination and preparation for review at the meeting of Supervisory Board of the issues related to the following:
 - preparation of proposals with regard to the selection of optimal mechanisms of investments’ attraction;
 - elaboration of the draft strategy of JSB “UKRGASBANK” development;
 - determination of main directions of activity and ways of their implementation;
 - control over the implementation of development strategy of JSB “UKRGASBANK”
2. Development of:
 - draft documents in the area of investments’ attraction;
 - draft strategy of JSB “UKRGASBANK” development;
 - main directions of JSB “UKRGASBANK” activity;
3. Preparation of the proposals to Supervisory Board in regard to the following:
 - strategic directions of JSB “UKRGASBANK” development;
 - determination of main directions of activity;
 - attraction of investments, etc.

Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK” during 2018 conducted one meeting in praesentia, considered one issue related to preliminary review of the Strategy of JSB “UKRGASBANK” Development for 2019-2021, provided one recommendation to Supervisory Board and one errand to Management Board.

In 2018, the Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK” used methods and procedures specified in the Provisions on Supervisory Board, allowing effectively organize the process of implementation of assigned powers.

T.M. Bagirov, Chairman of the Committee, called meeting of the Committee in the form of in praesentia, chaired it, 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 made to the notice of Supervisory Board and Management Board.

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 the Management Board and Supervisory Board.

In 2018, the meeting of the Committee was attended by three out of four 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".

Personal composition as of 31 December 2018:

1. T.M. Bagirov – Chairman of the Committee.
2. Yu.O. Blashchuk
3. S.R. Konias

Changes in the composition of the Committee during 2018:

- In accordance with the decision of Supervisory Board dated 24.09.2018 (Minutes of Meeting No. 26) the following composition of the Committee was elected:
 1. T.M. Bagirov – Chairman of the Committee.
 2. Yu.O. Blashchuk
 3. S.R. Konias

In accordance with the Provisions 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 30.11.2015 (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.

During 2018, no meetings 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" were held.

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 2018:

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

Changes in the composition of the Committee during 2018:

- The authorities of the following members of the Committee elected in accordance with the decision of Supervisory Board dated 18.06.2018 (Minutes of Meeting No. 18) were terminated:
 1. A.V. Shevaliov – Chairman of the Committee.
 2. T.M. Bagirov
 3. Sh.D. Davda
 4. Yu.O. Draganchuk

- In accordance with the decision of Supervisory Board dated 24.09.2018 (Minutes of Meeting No. 26) 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

In accordance with the Provisions 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 17.07.2018 (Minutes of Meeting No. 19), the competence of the Committee includes:

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 of 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;
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”.

The Committee for Rising the Funds on the International Capital Market through “Green” Bonds Issue Mechanism during 2018 held three meetings, two out of them in praesentia, considered five issues, provided four recommendations to Supervisory Board, and three errands to Management Board.

The Committee for Rising the Funds on the International Capital Market through “Green” Bonds Issue Mechanism during 2018:

1. Developed the draft Provisions on the Committee for Rising the Funds on the International Capital Market through “Green” Bonds Issue Mechanism;
2. Developed the criteria and procedure of competitive selection of councilor/organizer of “green” bonds issue;
3. Organized competitive selection of councilor/organizer of “green” bonds issue;
4. Analyzed the proposals received within the frames of competitive selection of councilor/organizer of “green” bonds issue, and recommendation to Supervisory Board related to the decision to be made;
5. Initiated the address to international rating agencies in regard to establishing necessary for JSB “UKRGASBANK” credit ratings and based on the analysis of received proposals recommended to Supervisory Board to make the relevant decisions;

6. Commissioned the Chairman of Management Board, and in case of his absence – acting Chairman of Management Board to sign relevant contracts with the selected councilor/organizer of “green” bonds issue and engaged international rating agency;
7. Commissioned Management Board to foresee in the Budget of JSB “UKRGASBANK” relevant expenses for the services of councilor/organizer of “green” bonds issue elected and international rating agency engaged.

The Committee preliminary reviewed the Provisions on the Committee for Rising the Funds on the International Capital Market through “Green” Bonds Issue Mechanism and recommended to Supervisory Board to approve it.

Within the frames of interaction with the councilor/organizer of “green” bonds issue with the involvement of members of the Committee for Rising the Funds on the International Capital Market through “Green” Bonds Issue Mechanism, individual members of Management Board and managers of JSB “UKRGASBANK”, on 3-6 December 2018 non-deal road show was organized aiming at preliminary familiarization of international investors and analysts with the activity of JSB “UKRGASBANK”, determination of the prospects of attracting on the international market of green financing capital and receiving feedback from them.

In 2018, 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 Provisions 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.

All meetings of the Committee for Rising the Funds on the International Capital Market through “Green” Bonds Issue Mechanism in 2018 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 obligations and proper implementation by the Chairperson of authorities in arrangement of the activity of the Committee.

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

Personal composition as of 31 December 2018:

1. S.R. Konias – Chairman of the Committee.
2. Yu.O. Blashchuk
3. O.Yu. Volchko

Changes in the composition of the Committee during 2018:

- In accordance with the decision of Supervisory Board dated 18.12.2018 (Minutes of Meeting No. 33) the following composition of the Committee was elected:
 1. S.R. Konias – Chairman of the Committee.
 2. Yu.O. Blashchuk
 3. O.Yu. Volchko

The IT Development Committee of Supervisory Board of JSB “UKRGASBANK” was established on December 18, 2018 in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated December 18, 2018 (Minutes of Meeting No. 33) aiming at provision of assistance to Supervisory Board in supervision of strategic development and improvement of IT in the Bank, in particular, related to automation of processes, creation of digital strategy in cooperation with International Finance Corporation.

During 2018, no meetings of the IT Development Committee of Supervisory Board of JSB “UKRGASBANK” were held.

In 2018, 18 meetings of Supervisory Board Committees took place to consider 49 issues. Supervisory Board Committees of JSB “UKRGASBANK” in 2018 made decisions related to the following:

- Current profile of credit risk of the Bank, liquidity risk, market and operations risk;
- Results of stress tests of credit, currency, interest, operations and liquidity risks,
- Status of implementation of recommendations provided by National Bank of Ukraine following the inspection accomplished;
- Development of criteria and procedure of tender to select councilor/organizer of “green” bonds issue;
- Organization of tender to select councilor/organizer of “green” bonds issue;
- Analysis of proposals received within the frames of tender to select councilor/organizer of “green” bonds issue, and recommendation to Supervisory Board related to the decision to be made;
- Initiation of appeal to international rating agencies in regard to establishing necessary for JSB “UKRGASBANK” credit ratings;
- Preliminary review of draft internal regulation instruments in competence of the Supervisory Board Committees;
- Reports following the inspections conducted by Internal Audit Department;
- Reports based on the results of monitoring of implementation of the audit recommendations;
- Development of draft Budget for Supervisory Board of JSB “UKRGASBANK” for 2019;
- Preliminary review of main conditions of amendments to contract on provision of audit services by external auditor;
- Termination of powers, election of members of Management Board, approval of conditions of the contracts to be awarded with them;
- Approval of changes to the conditions of contracts to be awarded with Chairperson/members of Management Board, bonuses to Chairperson and members of Management Board;
- Preliminary review of Strategy of Development of JSB “UKRGASBANK” for 2019-2021.

Achievement by the Supervisory Board of the objectives, and activities of the Supervisory Board, which stipulated the changes in the Bank’s financial and economic activities.

The measures of strategic reforming of state banking sector and Main areas of JSB “UKRGASBANK” activity for 2018 - 2019 set 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.

The Supervisory Board, within the powers specified by the legislation, the Articles of Association and the Provisions of the Supervisory Board, during 2018 carried out its activities in order to ensure the achievement by JSB “UKRGASBANK” the established strategic objectives, namely: controlled the implementation of the Bank’s main activities, determined and approved the development strategy of JSB “UKRGASBANK” in accordance with the main areas of activity determined by the General Meeting of Shareholders, adopted relevant decisions on improvement of corporate governance in the Bank and on the prompt incorporation of new legislative requirements in the internal regulation

instruments, with the aim to develop the concept of eco-banking and use it to increase investment attractiveness in 2018 created new committees and ensured their effective functioning, within the frames of expanding the cooperation with International Finance Corporation undertook the correspondent measures to successfully implement the project on development of small and medium business in the Bank, and prepare for privatization within the frames of Memorandum of Understanding to support privatization (sale) of the Bank.

On that ground, JSB “UKRGASBANK” in 2018, for the fourth consecutive year, demonstrated the positive financial result and improvement of the main indices of the Bank’s activity.

The assets of the Bank increased on 19% and as of 01 January 2019 constituted 82.2 bln. UAH. According to National Bank of Ukraine, as of 01 January 2019 among 77 acting banks, the Bank increased its share:

- Per net assets – on 0.89 p.p. up to 6.02% (4 place);
- Per credit portfolio (to reserves) – on 0.90 p.p. up to 4.70% (5 place);
- Per funds of the customers – on 0.35 p.p. up to 6.77% (4 place).

During 2018, the Bank fulfilled all obligations undertaken on time and in full, including the obligations foreseen by Memorandum of Understanding related to support of privatization (sale) of the Bank, including limits of covenants.

Taking into account the results achieved in 2018 by the joint efforts of the Board and the Supervisory Board, in 2019 Ministry of Finance, International Finance Corporation and JSB “UKRGASBANK” plan to start the evaluation and structuring of financial tool for IFC to enter the capital of the Bank.

Information about the Management Board:

- On meetings conducted and procedure of decision making, and general description of decisions made.

In 2018, Management Board of JSB “UKRGASBANK” conducted 77 meetings, during which the decisions were made in majority of cases related to the following:

- Performance of active operations;
- Changes in organizational structure of Head Office;
- Performance of the Bank’s offices;
- Funding of the items of capital investments;
- Sale of property of JSB “UKRGASBANK”;
- Results of inspections by Internal Audit Department and status of implementation of recommendations provided by Internal Audit Department;
- Review and approval of internal regulation instruments of the Bank, etc.

Procedure of decision making (in accordance with Articles of Association and Provisions 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.

The decision of Management Board are made by simple majority of votes, in case another procedure of decision making is not 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.

- Activity of Management Board, specifically:
 - Information on the internal structure of Management Board;

Personal composition of Management Board of JSB “UKRGASBANK” as of 31 December 2018:

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 the structure of Management Board;

Changes in the composition of Management Board of JSB “UKRGASBANK” during 2018:

- The powers of member of Management Board of JSB “UKRGASBANK”, Inna Bohdanivna Tiutiun, have been terminated in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 23.03.2018 (Minutes of Meeting No. 8);
- Based on the decision of Supervisory Board of JSB “UKRGASBANK” dated 23.03.2018 (Minutes of Meeting No. 8) Oleksiy Mykolayovych Bereznyi has been elected to Management Board from 26.03.2018 on.
- On the results of performance and analysis of activity of Management Board (including indication of how the Management Board’s activities caused changes in the Bank’s financial and business activities);

JSB “UKRGASBANK” in 2018, for the fourth consecutive year, demonstrated the positive financial result and improvement of the main indices of the Bank’s activity.

The assets of the Bank increased on 19% and as of 01 January 2019 constituted 82.2 bln. UAH. According to National Bank of Ukraine, as of 01 January 2019 among 77 acting banks, the Bank increased its share:

- Per net assets – on 0.89 p.p. up to 6.02% (4 place);
- Per credit portfolio (to reserves) – on 0.90 p.p. up to 4.70% (5 place);
- Per funds of the customers – on 0.35 p.p. up to 6.77% (4 place).

During 2018, the Bank fulfilled all obligations undertaken on time and in full.

During 2018, the Bank performed in conditions of recovery of economy and market conditions. At the same time, the Bank for the fourth consecutive year demonstrates a positive financial result. In 2018, in addition to a positive financial result, it demonstrated improvement in key performance indicators of the Bank. 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.

The Bank adheres to the established objectives related to withdrawing of the State from the capital of the Bank.

During 2018, the Bank adhered tightly to the obligations undertaken as foreseen by Memorandum of Understanding related to support of privatization (sale) of the Bank, including limits of covenants.

Within the frames of extension of cooperation with IFC in 2018 project of development of small and medium business was launched and successfully completed in the Bank.

In 2019 Ministry of Finance, International Finance Corporation and JSB “UKRGASBANK” plan to start the evaluation and structuring of financial tool for IFC to enter the capital of the Bank.

- Assessment of the Management Board performance, namely: activity of Management Board, composition, competence and efficiency of Management Board.

In accordance with the Provisions 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 the Management Board shall be carried out by the Chairperson of Management Board.

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.

Besides, Supervisory Board shall assess the performance of Management Board by way of:

- 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 Department, 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.

In addition to the aforementioned, with the election in accordance with the decision of the General Meeting of Shareholders of JSB “UKRGASBANK” dated September 11, 2018 (Minutes of Meeting No. 2) of a new composition of Supervisory Board, a new mechanism for monthly reporting by Management Board of JSB “UKRGASBANK” to Supervisory Board of JSB “UKRGASBANK” was introduced regarding the main areas of the Bank’s activities, on the basis of which Supervisory Board would be able to evaluate the efficiency and prudence of the actions of Management Board of JSB “UKRGASBANK” when managing the Bank’s current activities, as well as to provide suggestions on ways to improve the performance of Management Board.

At the same time, it should be noted that according to the results of the scheduled inspection of JSB “UKRGASBANK” carried out by the National Bank of Ukraine related to management and corporate governance in terms of assessing the collective suitability of the Supervisory Board and Management Board, the qualifications of senior management (analysis of inconsistencies), and operations risk for the period of activity from July 01, 2017 to October 1, 2018, the performance of the Supervisory Board was evaluated and the following conclusions were given:

- As a whole, the Supervisory Board is collectively fit for managing the Bank and possess the adequate knowledge and experience for comprehension of the Bank’s activity;
- All members of Management Board were accordingly approved by National Bank of Ukraine.

Information in accordance with the Law of Ukraine “On Financial Services and State Regulation of Financial Services Market”.

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 26.04.2018 (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” 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. Such a structure of ownership of the Bank necessitates the observance of the interests of the State as a shareholder, balancing the interests of owners (including the State). Under such conditions, the organization of corporate governance of the Bank envisages the creation of a transparent and effective model of corporate governance that would balance the interests of all participants in corporate relations and active cooperation with interested persons (employees, clients, the State, and public).

During 2018, 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

Personal composition of Supervisory Board of JSB “UKRGASBANK” as of 31 December 2018:

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

Changes in composition of Supervisory Board of JSB “UKRGASBANK” during 2018:

- The authorities of Chairman of Supervisory Board A.V. Shevaliov and members of Supervisory Board O.S. Markarova, Yu.I. Pashko, T.M. Bagirov, Sh.D. Davda, S.R. Konias and Yu.O. Draganshuk have been terminated based on the decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 11.09.2018 (Minutes of Meeting No. 2);

- In accordance with decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 11.09.2018 (Minutes of Meeting No. 2) the following persons have been elected to Supervisory Board:
 1. Shrenik Dhirajlal Davda – Chairman of Supervisory Board, independent member of Supervisory Board.
 2. Artem Valentynovych Shevaliov – member of Supervisory Board, representative of shareholder – the State of Ukraine.
 3. Oksana Sergiivna Markarova – member of Supervisory Board, representative of shareholder – the State of Ukraine.
 4. Teymour Mahmedovych Bagirov – independent member of Supervisory Board.
 5. Yuryi Oleksandrovych Blashchuk – independent member of Supervisory Board.
 6. Oksana Yulianivna Volchko – independent member of Supervisory Board.
 7. Slawomir Roman Konias – independent member of Supervisory Board.
- On 28.12.2018 the authority of member of Supervisory Board O.S. Markarova has been terminated based on the letter of Ministry of Finance of Ukraine dated 12.12.2018 No. 14010-10-10/33002 (dated 13.12.2018 incoming No. 10/64295) and statement of O.S. Markarova dated 12.12.2018 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.

Committees of Supervisory Board.

Audit Committee of Supervisory Board of JSB “UKRGASBANK”.

Personal composition as of 31 December 2018:

1. T.M. Bagirov – Chairman of the Committee.
2. Sh.D. Davda
3. O.Yu. Volchko

Changes in the composition of the Committee during 2018:

- The authorities of the following members of the Committee elected in accordance with the decision of Supervisory Board dated 18.05.2017 (Minutes of Meeting No. 9) were terminated:
 1. T.M. Bagirov – Chairman of the Committee.
 2. Yu.B. Butsa
 3. Sh.D. Davda
- In accordance with the decision of Supervisory Board dated 24.09.2018 (Minutes of Meeting No. 26) the new composition of the Committee was elected:
 1. T.M. Bagirov – Chairman of the Committee.
 2. Sh.D. Davda
 3. O.Yu. Volchko

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

Personal composition as of 31 December 2018:

1. A.V. Shevaliov – Chairman of the Committee
2. T.M. Bagirov
3. S.R. Konias

Changes in the composition of the Committee during 2018:

- The authorities of the following members of the Committee were terminated, who were elected:
 - In accordance with the decision of Supervisory Board dated 18.05.2017 (Minutes of Meeting No. 9):
 1. Yu.I. Pashko – Chairman of the Committee
 2. A.V. Shevaliov

3. V.V. Yashchuk
- In accordance with the decision of Supervisory Board dated 17.07.2018 (Minutes of Meeting No. 19):
 1. A.V. Shevaliov – Chairman of the Committee.
 2. T.M. Bagirov
 3. S.R. Konias
- In accordance with the decision of Supervisory Board dated 24.09.2018 (Minutes of Meeting No. 26) new composition of the Committee has been elected:
 1. A.V. Shevaliov – Chairman of the Committee
 2. T.M. Bagirov
 3. S.R. Konias

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

Personal composition as of 31 December 2018:

1. Sh.D. Davda – Chairman of the Committee.
2. A.V. Shevaliov
3. T.M. Bagirov

Changes in the composition of the Committee during 2018:

- The authorities of the following members of the Committee elected in accordance with the decision of Supervisory Board dated 18.05.2017 (Minutes of Meeting No. 9) were terminated:
 1. A.V. Shevaliov – Chairman of the Committee.
 2. O.S. Markarova
 3. V.V. Yashchuk
- The authorities of the following members of the Committee elected in accordance with the decision of Supervisory Board dated 24.09.2018 (Minutes of Meeting No. 26) were terminated:
 1. Sh.D. Davda – Chairman of the Committee.
 2. O.S. Markarova
 3. T.M. Bagirov
- In accordance with the decision of Supervisory Board dated 18.12.2018 (Minutes of Meeting No. 33) new composition of the Committee was elected:
 1. Sh.D. Davda – Chairman of the Committee.
 2. A.V. Shevaliov
 3. T.M. Bagirov

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 2018:

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

Changes in the composition of the Committee during 2018:

- The authorities of the following members of the Committee elected in accordance with the decision of Supervisory Board dated 18.05.2017 (Minutes of Meeting No. 9) were terminated:
 1. T.M. Bagirov – Chairman of the Committee.
 2. O.S. Markarova
 3. Yu.I. Pashko
 4. Sh.D. Davda
- The authorities of the following members of the Committee elected in accordance with the decision of Supervisory Board dated 24.09.2018 (Minutes of Meeting No. 26) were terminated:
 1. T.M. Bagirov– Chairman of the Committee.
 2. O.S. Markarova
 3. Yu.O. Blashchuk
 4. Sh.D. Davda
- In accordance with the decision of Supervisory Board dated 18.12.2018 (Minutes of Meeting No. 33) 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 JSB “UKRGASBANK”.

Personal composition as of 31 December 2018:

1. T.M. Bagirov – Chairman of the Committee.
2. Yu.O. Blashchuk
3. S.R. Konias

Changes in the composition of the Committee during 2018:

- In accordance with the decision of Supervisory Board dated 24.09.2018 (Minutes of Meeting No. 26) the following 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 2018:

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

Changes in the composition of the Committee during 2018:

- The authorities of the following members of the Committee elected in accordance with the decision of Supervisory Board dated 18.06.2018 (Minutes of Meeting No. 18) were terminated:
 1. A.V. Shevaliov – Chairman of the Committee.
 2. T.M. Bagirov
 3. Sh.D. Davda
 4. Yu.O. Draganchuk

- In accordance with the decision of Supervisory Board dated 24.09.2018 (Minutes of Meeting No. 26) 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 2018:

1. S.R. Konias – Chairman of the Committee.
2. Yu.O. Blashchuk
3. O.Yu. Volchko

Changes in the composition of the Committee during 2018:

- In accordance with the decision of Supervisory Board dated 18.12.2018 (Minutes of Meeting No. 33) the following composition of the Committee was elected:
 1. S.R. Konias – Chairman of the Committee.
 2. Yu.O. Blashchuk
 3. O.Yu. Volchko

In 2018, 18 meetings of Supervisory Board Committees took place to consider 49 issues. Supervisory Board Committees of JSB “UKRGASBANK” in 2018 made decisions related to the following:

- Current profile of credit risk of the Bank, liquidity risk, market and operations risk;
- Results of stress tests of credit, currency, interest, operations and liquidity risks,
- Status of implementation of recommendations provided by National Bank of Ukraine following the inspection accomplished;
- Development of criteria and procedure of tender to select councilor/organizer of “green” bonds issue;
- Organization of tender to select councilor/organizer of “green” bonds issue;
- Analysis of proposals received within the frames of tender to select councilor/organizer of “green” bonds issue, and recommendation to Supervisory Board related to the decision to be made;
- Initiation of appeal to international rating agencies in regard to establishing necessary for JSB “UKRGASBANK” credit ratings;
- Preliminary review of draft internal regulation instruments in competence of the Supervisory Board Committees;
- Reports following the inspections conducted by Internal Audit Department;
- Reports based on the results of monitoring of implementation of the audit recommendations;
- Development of draft Budget for Supervisory Board of JSB “UKRGASBANK” for 2019;
- Preliminary review of main conditions of amendments to contract on provision of audit services by external auditor;
- Termination of powers, election of members of Management Board, approval of conditions of the contracts to be awarded with them;
- Approval of changes to the conditions of contracts to be awarded with Chairperson/members of Management Board, bonuses to Chairperson and members of Management Board;
- Preliminary review of Strategy of Development of JSB “UKRGASBANK” for 2019-2021.

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 2018:

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 2018:

- The powers of member of Management Board of JSB “UKRGASBANK”, Inna Bohdanivna Tiutiun, have been terminated in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 23.03.2018 (Minutes of Meeting No. 8);
- Based on the decision of Supervisory Board of JSB “UKRGASBANK” dated 23.03.2018 (Minutes of Meeting No. 8) Oleksiy Mykolayovych Bereznyi has been elected to Management Board from 26.03.2018 on.

- 6) Facts of violation by members of Supervisory Board and Management Board of the Bank of internal rules, which has caused damage to financial institution or customers of financial services.

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

- 7) Measures of influence applied during 2018 by the bodies of state power to the Bank, including members of Supervisory Board and Management Board.

The bodies of state power applied measures of influence to the Bank during 2018 for the amount of 7 thousand UAH.

- 8) Amount of remuneration for 2018 for the members of Supervisory Board and Management Board.

In accordance with Articles of Association of JSB “UKRGASBANK”, the procedure of remuneration for the members of Supervisory Board shall be specified in civil agreements awarded to each member of Supervisory Board. Such civil agreement may be payable or free of charge.

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, shall perform the functions imposed by the Articles of Association of JSB “UKRGASBANK”, the Provisions 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, shall perform the functions imposed by the Articles of Association of JSB “UKRGASBANK”, the Provisions 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)).

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

The procedure for remuneration and material incentive for the Chairperson and members of Management Board shall be specified by the Law of Ukraine “On Joint Stock Companies”, other legislative acts, JSB “UKRGASBANK” Articles of Association, Provisions on Management Board, Provisions on Remuneration and material incentive of Chairperson and members of Management Board, Corporate Secretary, employees of Internal Audit Division, and civil, labor agreement (contract) to be concluded with Chairperson and each member of Management Board.

The amount of remuneration of the Chairperson and members of Management Board, including incentives and compensations, is set by a special decision of Supervisory Board of JSB “UKRGASBANK”.

9) Significant risk factors that influences the activity of the Bank during 2018.
During 2018, no violations of risk boundary indices were recorded.

10) System of risk management and its key characteristics in the Bank.
Risk Management Strategy of JSB “UKRGASBANK” identifies the following risk map:

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	Existing 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 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
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
9.	Legal Risk	Probability of occurrence of damages or additional losses, or failure to receive the planned revenues as a result of non-performance by a counteragent of conditions of contract due to their incompliance with the requirements of legislation

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) detection, 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 manages the list of sufficient risks presented in Annex 1 to the Strategy. The classification of risks presented in Annex 1 is the basic one and shall be detailed in the policies of management of relevant types of risks.

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 shall evaluate the risks per financial instruments included into both trade and banking books.

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

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 and division of control over the meeting the norms (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 system includes:

- Organizational structure clearly identifying the liabilities, powers and responsibility of persons in relation to the risk management;
- Culture of risk management and Code of Behavior (Ethics);
- Internal regulation instruments in the area of risk management;
- Information system related to the risk management and accountability;
- Instruments for the effective risk management.

Risk management system ensures the achievement of the following:

- Risks are timely detected and adequately assessed;
- The Bank meets the established level of risk-appetite, margins and internal limits of risk;
- The decisions on the acceptance of risks are consistent with the Bank's strategic and current objectives;
- The decisions on the acceptance of risks are transparent and clear;
- The decisions on the acceptance of risks are made considering the existing resources (capital, liquidity, etc.);
- The expected profitability of operations compensates the accepted risks;
- The early diagnostics of both idiosyncratic (critical states of the Bank as a whole or in an individual area), and system-wide crises.

Supervisory Board shall identify the Bank's risk appetite by way of establishments of boundary indices of risk as related to the following types of risk:

- Credit risk;
- Interest rate risk;
- Market risk;
- Liquidity risk;
- Operational risk;
- Compliance risk;
- Aggregated risk.

11) The results of functioning during 2018 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 the 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 in 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.

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 departments and offices of the Bank, Risk Management Department, Compliance and Methodology Division, and 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.

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.

- 12) Facts of alienation during 2018 of assets in excess of the size established in the Bank's Articles of Association.

During 2018, there were no case of alienation of assets in excess of the size established in the Bank's Articles of Association.

- 13) Results of valuation of assets in the event of their sale during 2018 in amount exceeding the amount established in the Articles of Association of JSB “UKRGASBANK”

During 2018, 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.

- 14) 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 loans granted to persons associated with the Bank (determined in accordance with the requirements of Article 52 of the Law of Ukraine “On Banks and Banking”) at the end of 2018 amounted to UAH 18.0 million. During 2018, the Bank adhered to the Standard of Maximum Credit Risk for Transactions with Bank-Related Persons (N9).

- 15) 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.

- 16) Information on the external auditor of Supervisory Board of JSB “UKRGASBANK” assigned during 2018.

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”, compiled in accordance with the requirements of International Financial Reporting Standards for the year ended December 31, 2018 (Minutes of Meeting of Supervisory Board of JSB “UKRGASBANK” dated September 4, 2018, No. 25).

- 17) 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 (14 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 2018; During 2018, other audit services were not provided.

- Cases of conflict of interests and/or overlapping of external auditor functions;

During 2018, 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 2014 - provision of audit services in audit of annual financial statements prepared in accordance with the International Standards of Financial Statements by Private Joint Stock Company Deloitte and Touch USK;
- for 2015 – provision of audit services in audit of annual financial statements prepared in accordance with the International Standards of Financial Statements by Ernst and Young Audit Services LLC.
- for 2016 - provision of audit services in audit of annual financial statements prepared in accordance with the International Standards of Financial Statements by Ernst and Young Audit Services LLC.

Translation from Ukrainian original

- for 2017 - provision of audit services in audit of annual financial statements prepared in accordance with the International Standards of Financial Statements by Ernst and Young Audit Services LLC.
- for 2018 - provision of audit services in audit of annual financial statements prepared in accordance with the International Standards of Financial Statements by Ernst and Young Audit Services LLC
- Penalties applied to auditor by Chamber of Auditors of Ukraine during the year, and facts of submission of unreliable financial statement JSB “UKRGASBANK” 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 2018 no penalty was applied to the auditor, no facts of submission of unreliable statements confirmed by audit conclusion are recorded.

During 2018, other companies of Ernst & Young Global Limited, provided the advisory services regarding support in implementation of IFRS 9 “Financial Instruments”. No other non-audit services were provided.

18) Protection by financial institution of the rights of customers, in particular:

- availability of mechanism of complaints’ processing;
- Complaints are processed in accordance with the Provisions 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 (before December 2018 – Operations Department Director Iryna Moiseivna Drapiy) is an authorized person of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK “UKRGASBANK” for review of complaints.

- Status of review by the Bank during 2018 of complaints related to the financial services rendering (nature, number of complaints received, and number of complaints satisfied);

In 2018, 297 complaints were addressed for consideration to Operations Department in regard with the provision of financial services by the Bank, 21 complaint were addressed to Regional Distribution Department. The issues presented in complaints related to the following:

- Transfer of interests on deposit and card accounts,
- Early deposit return,
- Refund of money withdrawn by unknown persons from the card accounts,
- Return of incorrectly credited funds at inter-bank transfers,
- Return of money due to failures in software complexes of the Bank, incorrectly withhold by the Bank taxes and fees, and incorrectly withhold or applied by the Bank commissions,
- Refund of money due to non-receipt at ATM,
- Disagreement with the amount credited to the card account,
- Cancellation/reduction of commissions /fines under loan agreements,
- Recalculation of debt under loan agreements, disagreement with the commission for servicing the card account.

97 complaints related to financial services in 2018 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 01.01.2018 through 31.12.2018, 90 claims (including counterclaims) of consumers of financial services to JSB “UKRGASBANK” as related to provision of financial services by the Bank, out of which 68 non-property claims (mainly on invalidation of loan agreements) and 22 property claims were in court proceedings.

19) Information about corporate governance in the Bank.

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 22.07.2014 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 03.12.2018 No. 814-pиi.

The decision of General Meeting of Shareholders dated 25.04.2017 (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 the Supervisory Board and the 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.

Information foreseen by 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 2018, the banking sector performed without significant internal or external shocks – the banks actively attracted funds and provided credits. For the first time after the crisis, the sector made profit in the amount of 21.7 bln. UAH. The introduction of martial law in ten regions of Ukraine did not have a significant impact on the banking sector: deposits of the population and business have not decreased, banks remain liquid and uninterruptedly carry out all payments. This indicates a renewal of customer confidence in the banking system. Formed after the last crisis, the margin of safety guarantees a high degree of stability to the banks even in adverse circumstances.

The results of the assessment of the stability of the banking sector have confirmed the sufficient capitalization of banks under the conditions of the basic macroeconomic scenario. At the same time,

financial institutions must build up the capital to have a safety margin in the event of a crisis. In 2018 stress test of the largest banks identified, that about a half of analyzed financial institutions may require additional capital under the conditions of deep crisis. Financial institutions without sufficient safety margin in case of crisis must fundamentally restructure own balances and revise the business - models.

As of 01.01.2019 in Ukraine, there are 77 banks, 37 banks out of them are the banks with foreign capital. JSB “UKRGASBANK” is a member of the group of the banks with the State share, and it ranks fourth in terms of assets.

In 2018, 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 01.01.2019 in 153 cities and towns of Ukraine 246 active sales points are available for the customers.

Assets of the Bank as of 01.01.2019 constitute 82 bln. UAH, having increased during 2018 on 13 bln. UAH or on 19%.

- Credit portfolio of the customers – 45.2 bln. UAH, including:
 - Credit portfolio of the corporate business 37.6 bln. UAH;
 - Credit portfolio of the small and medium business constitutes 4.8 bln. UAH;
 - Credit portfolio of the retail business constitutes 2.8 bln. UAH;
- Customer’s funds – 65.1 bln. UAH, including:
 - Portfolio of the corporate customers’ funds constitutes 38,0 bln. UAH;
 - Portfolio of the small and medium business customers’ funds constitutes 6.2 bln. UAH;
 - Portfolio of the retail business’ funds constitutes 20.9 bln. UAH.

Portfolio of the securities as of 01 January 2019 constitutes 18.8 bln. UAH, reducing for 2018 on 2.1 bln. UAH or 10%.

The Bank actively attracted the funding from international financial institutions. Thus, as of 01 January 2019, the portfolio of assets of international financial institutions constitutes 1.7 bln. UAH, having increased during 2018 on 1.4 bln. UAH or in five times.

During 2018, the Bank actively developed documentary operations, having increased the portfolio of documentary operations for the year in two times, which as of 01 January 2019 constituted 8.8 bln. UAH, including open letters of credit 0.2 bln. UAH, received letters of credit 1.5 bln. UAH, securities provided 4.3 bln. UAH, securities received 1.3 bln. UAH, instruments of own obligations 1.5 bln. UAH.

At the conclusion of 2018, the Bank made profit in the amount of 769 mln. UAH.

As of 01 January 2019, the number of the customers of the Bank constitutes 1 430 thousands, including: 1 366 thousands – retail business customers, 58 thousands – small and medium business customers, 6 thousands – corporate customers.

As of 01 January 2019, about 852 thousand payment cards issued by JSB “UKRGASBANK” are in circulation, more than 440 thousands out of them are active. During 2018, the Bank actively developed own multi-platform mobile application “ECO Bank”, which was downloaded and installed by users for more than 100 thousand times.

During 2018, the Bank received the following recognitions:

- The best “ECO-bank” (Business Magazine);
- The Leader in the operations with small and medium business (Business Magazine);
- Included into TOP-5 of the most sustainable banks (Ministry of Finance rating);
- Included into TOP-10 of Ukrainian banks with the best conditions for agrarians (Landlord Magazine and Audit and Consulting Company Kreston GCG);
- Included into TOP-20 of the most famous Ukrainian brands (Vlast Deneg Magazine (Power of Money));
- The second Bank among “The Most Professional Banks” (Business Magazine);
- Included into TOP-10 of rating of corporate reputation management quality “Reputation Activists” (Focus Magazine);
- “Corporate Bank” for the highest increase of hryvnia loans for the legal entities (Financial Club Issue);
- “Clean Bank” for the best ratio of credits of 1-2 Class for physical persons and 1-3 Class for legal entities and the credit portfolio amount (Financial Club Issue).

The Bank performs in accordance with the Measures of Strategic Reform of the State Banking Sector (strategic principles) (hereinafter referred to as Measures), Basic 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, Basic 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 2018, limits for financing of 73 projects, with the general capacity of 462 MWt for 259 mln. Euro and 32 mln. USD were approved, out of them:

- 60 projects – solar power plants, with the general capacity 420 MWt for the amount of 228 mln. Euro and 19 mln. USD;
- 6 projects – hydro power plants, with the general capacity 3 MWt for the amount of 5 mln. Euro and 0.3 mln. USD;
- 5 projects – biomass/biogas, with the general capacity 21 MWt for the amount of 9 mln. Euro and 13 mln. USD;
- 2 projects – wind power plants, with the general capacity 18 MWt for the amount of 17 mln. Euro.

As of 01 January 2019, the credit portfolio of eco-products and other obligations in credit provision of the Bank constitutes 17.5 bln. UAH.

The Bank has created a team for assessment and analysis of social and ecological risks, the necessary normative documents have been developed, and the projects credited by the Bank are evaluated from the point of view of social and ecological risks.

The Bank complies with the set goals for the withdrawal of the State from capital.

During 2018, the Bank adhered tightly to the obligations undertaken as foreseen by Memorandum of Understanding related to support of privatization (sale) of the Bank, including limits of covenants.

Within the frames of extension of cooperation with IFC in 2018 project of development of small and medium business was launched and successfully completed in the Bank.

In 2019, Ministry of Finance, IFC and JSB “UKRGASBANK” plan to start the evaluation and structuring of financial tool for IFC to enter the capital of the Bank.

In the future, the Bank shall continue its activity in achieving the established strategic objectives.

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.

The Bank plans the following for the period 2019-2021 (CARG):

- Increase of deposits of the customers at the level of 8%;
- Increase of loans of the customers at the level of 16%.

Following the results of 2021, the Bank expects the following:

- Make net profit in the amount of 2 bln. UAH;
- Profitability of capital at the level of 22%;
- Ratio of administrative and other operation expenses to operation profit at the level of 47%
- Ratio of administrative and other operation expenses to average net assets at the level of 3.5%.

The Bank plans to develop three key business areas: small and medium business, corporate banking, retail business and alternative sale channels.

Small and Medium Business

The Bank executes a joint project in development the small and medium business (hereinafter referred to as SMB, too) with International Finance Corporation (hereinafter referred to as IFC, too). IFC estimate the potential of SMB market as 5.7 bln. UAH. This program foresees the optimization of existing business-model, improvement of management of sales and work with the customers. The increase of the customer base up to 68 thous. customers by 2021 is expected on the account of development of the alternative channels of sales, introduction of the digital decisions, development of transaction banking, optimization of credit processes, improvement of business-analytics, creation of targeted customer products and programs, increasing of the attention to micro-segment, and activation of existing customer base.

Main expected indices as of 1 January 2022:

- Net credit portfolio 8.1 bln. UAH;
- Portfolio of customer funds 10.5 bln. UAH;
- Net non-interest income 0.4 bln. UAH.

Corporate Business

Today, the corporate business 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. Replacement of the portfolio of the entities of public sector shall be achieved by way of crediting of the “green” projects of private entities, for example, projects of renewable energy, agro-holdings (replacement of outdated equipment, use of biomass), construction companies (in terms of energy efficiency). 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.

Main expected indices as of 1 January 2022:

- Net credit portfolio 48 bln. UAH;
- Portfolio of customer funds 43 bln. UAH;
- Net non-interest income 0.7 bln. UAH.

Retail Business and Alternative Sales Channels

Before 2021, the Bank plans to increase the customer base up to 4 mln. 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. Besides, the Bank shall introduce the unique “green” products at the market (roof solar power plants, electric cars, and green mortgage loans).

Main expected indices as of 1 January 2022:

- Net credit portfolio 6 bln. UAH;
- Portfolio of customer funds 29 bln. UAH;
- Net non-interest income 0.9 bln. UAH.

Equity Capital

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. 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 2018 and 31 December 2017 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 2018 and 2017.

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 2018 and 2017, the minimum level required by Basel I was 8% and the minimum Tier 1 capital adequacy ratio was – 4%.

The following table shows the composition of the capital position calculated in accordance with the requirements of Basel I as at 31 December 2018 and 2017:

	<i>31 December 2018</i>	<i>31 December 2017</i>
Tier 1 capital	7,206,082	6,449,193
Tier 2 capital	(1,450,067)	(823,880)
Total capital	5,756,015	5,625,313
Risk weighted assets	50,171,203	45,173,595
Tier 1 capital ratio	14.36%	14.28%
Total capital ratio	11.47%	12.45%

As at 31 December 2018 the Bank was in compliance with the capital ratio calculated in accordance with the Basel Accord.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. 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 1 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 is grouped based on dates from reporting date to maturity date in accordance with relevant agreements

The tables below summarize the information on undiscounted cash flows of financial liabilities as at 31 December 2018 and 2017 based on the remaining time to maturity. 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.

(thousand UAH)

<i>Financial liabilities as at 31 December 2018</i>	<i>Up to 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
Gross settled derivative financial instruments:					
- amounts payable	(668,531)	–	–	–	(668,531)
- amounts receivable	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

(thousand UAH)

<i>Financial liabilities as at 31 December 2017</i>	<i>Up to 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	87,181	254,503	108,811	–	450,495
Due to credit institutions	1,695,756	13,034	284,447	–	1,993,237
Gross settled derivative financial instruments:					
- amounts payable	(1,139,386)	–	–	–	(1,139,386)
- amounts receivable	1,143,162	–	–	–	1,143,162
Due to customers	47,746,975	12,845,605	824,711	82,208	61,499,499
Other liabilities	73,822	–	–	–	73,822
Total undiscounted financial liabilities	49,607,510	13,113,142	1,217,969	82,208	64,020,829

Activity in the Area of Research and Developments

The Bank is at the stage of formation of own digital strategy and it plans to take the leading positions among the finance institutions in terms of realization of digital solutions. An important factor is the formation of business model in order to attract the new customers and provide unique products to retain/activate the existing customers. At the stage of launching the remote servicing to the customers with the help of Internet banking and mobile applications, there is a possibility for large-scale actions

at both platforms in order to meet the level of similar banks and innovative financial and technological companies, such as UAPay, MOSST, Payforce, etc.

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 loan portfolio, increasing the customer base, increasing non-interest income, optimizing the product line, improving sales channels, improving marketing campaigns. The Bank plan to develop the cooperation with international finance institutions, documentary business, etc.

Human Resources

As of 01 January 2019, the general number of JSB “UKRGASBANK” personnel constituted 4 187 persons. As of present, the personnel of JSB “UKRGASBANK” is a team composed of highly qualified experts providing all types of banking services, including complex and non-standard tasks; the personnel intend to further improve their professional knowledge and skills.

Intellectual Capital

In order to ensure the rights of the employees and employment provision in JSB “UKRGASBANK”, the Management Board of the Bank in 2018 approved the Personnel Policy and the procedures of personnel management in JSB “UKRGASBANK”. 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. In 2018, JSB “UKRGASBANK” management paid sufficient attention to improvement of the existing tools of personnel management in the Bank, introduced the incentive system for the employees of the Bank, which is directed to achievement of set tasks and objectives, implementation of the planned business indices, and to increase the objectivity of assessment of the Bank’s structural divisions activity.

Technological Resources

During 2018, IFRS-9 system, “Mortgage monitoring” module, “Avtovizubalnik” system were introduced, and accounts 2625 were migrated to 2620. Besides, the Bank continued passing the certification for the standard of PCI DSS international payment systems security.

Besides, in 2018, Data Processing Center was completed; it was commissioned ensuring the readiness of the Bank to meet the requirements of the new standards in the area of provision of continuity of the business processes in the Bank. The network infrastructure of the main and backup Data Processing Centers was modernized introducing the disaster recovery solutions for IT systems and applications.

In addition, the application of the Microsoft and Oracle database management was optimized in banking systems.

During 2018, Service Desk has been established as round-the-clock services; at present, it ensures coordination of resolution of incidents and elimination of consequences of various accidents.

Ecological and Social Aspects in the Bank's Activity

The Bank has own Policy of Ecological and Social Responsibility of JSB "UKRGASBANK: and Provisions on Assessment, Monitoring, Accountability as Related to Ecological and Social Risks of the Projects in JSB "UKRGASBANK". 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.

The Bank has developed a special Mechanism of Claim Submission with respect to the projects credited by the Bank for assessment and consideration of any claims in terms of social and ecological aspects of funding. The questions, claims and proposals related to ecological or social issues shall be sent to grievances@ukrgasbank.com.

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

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

In particular, in line with the Provisions, 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”.

In order to meet the requirements of Part 2 of Article 62 of the Law of Ukraine “On Fighting the Corruption” dated 14.10.2014 No. 1700-VII and in accordance with the Methodic Recommendations related to preparation and realization of anticorruption programs of legal entities, approved by decision of National Agency on Corruption Prevention dated 22.09.2017 No. 734, JSB “UKRGASBANK”, following the Decree of the Chairman of the Management Board of JSB “UKRGASBANK” dated 30.01.2018 No. 58, developed and approved the Anticorruption Program of JOINT STOCK COMPANY JOINT STOCK BANK “UKRGASBANK” (hereinafter referred to as Anticorruption Program).

Anticorruption Program defines the following:

- Areas of application and the group of persons of the Bank responsible for implementation of Anticorruption Program;
- List of anticorruption measures in the performance of the Bank;
- Norms of professional ethics of the employees of the Bank;
- Rights and obligations of the shareholders and employees of the Bank;
- Rights and obligations of an Authorized person and subordinated employees (if any);
- Procedure of accounting of the Authorized person to the shareholders of the Bank;
- Procedure of supervision, control over the compliance with the Program, and assessment of the results of the undertaken measures foreseen by it;
- Conditions of confidentiality for information of the Authorized person by employees on the facts of anticorruption requirements’ violation;
- Procedures of protection of the personnel who informed about corruption or related to corruption violation;
- Settlement of the conflict of interests in the performance of the Bank’s personnel;
- Procedure of provision to the employees of clarifications and individual consultations by the Authorized person;
- Procedure of periodical improvement of qualification of the employees in the area of prevention and identification of corruption in the Bank;
- Application of measures of discipline responsibility to the personnel violating the provisions of Anticorruption Program;
- Procedure of implementation of internal (official) investigations in case of receipt of information or identification of signs of violations of Anticorruption Program by an employee of the Bank or signs of an employee of the Bank committing corruption or corruption-related offenses.

Aiming at compliance with the requirements of Article 64 of the Law of Ukraine “On Fighting the Corruption” and implementation of the Anticorruption Program, the Decree of Chairman of Management Board dated 23.04.2018 No. 267 assigned a responsible person for implementation of anticorruption program (hereinafter referred to as Authorized Person).

In order to improve the mechanism for detecting violations of anticorruption legislation, a separate channel (telephone number and e-mail address) was introduced in the Bank for the Bank employees to inform of the violations of the Anticorruption Program, the commission of corruption or

corruption-related offenses. The official website contains relevant information about the telephone number, the email address for the message, and the reception time of the person who is authorized to receive oral and written messages.

The information related to the telephone number, e-mail address of the Authorized Person and the time of receipt by Authorized Person is presented in all the premises of Directorates and offices of JSB “UKRGASBANK” in the places suitable for familiarization at the entrances.

The Bank’s employees are guaranteed the confidentiality of their communications to the Authorized Person on the revealed signs of violations of the Anticorruption Program, corrupt or corruption-related offenses in the activities of other Bank employees and reports of acts of incitement of the Bank employees to commit corruption or corruption-related offenses. The Bank employees’ report on detecting the signs of committing corruption or corruption-related offenses may be anonymous.

Anticorruption Program declares the condition of non-disclosing information about an employee who reported on signs of violation of the requirements of the Anticorruption Program, revealing signs of corruption or corruption-related offenses, except in cases established by law.

The Bank introduced the procedure of familiarization of the new employees with the contents of Anticorruption Program, conduction of trainings in the issues of prevention and fighting corruption. In accordance with the Decree of Chairman of Management Board dated 30.01.2018 No. 58 the deputies to Chairman of Management Board, managers of independent structural divisions of head office, directors of directorates, heads of offices, all the employees of the Bank shall be familiarized with the norms of Anticorruption Program and obligation regarding the strict adherence to the principles and provisions specified therein, while performing their official duties.

Norms related to the strict adherence to the principles and provisions of the Anticorruption Program are specified in the job descriptions of managers and employees of the Bank.

During the reported period, no cases of human right violations and corruption manifestations have been recorded.

Officials.

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 10.03.2017 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 Provisions on Licensing of the Banks approved by the Resolution of the Management Board of National Bank of Ukraine dated 22.12.2018 No. 149.

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

Remuneration to Managers of JSB “UKRGASBANK”.

In accordance with JSB “UKRGASBANK” Articles of Association, the procedure of payment of remunerations to the members of Supervisory Board shall be specified in the agreements awarded to each member of Supervisory Board. Such agreement may be either paid or free of charge.

Chairperson and members of Supervisory Board of JSB “UKRGASBANK” who are civil servants or persons authorized to perform the functions of the State, shall fulfill the functions imposed on them by the Articles of Association of JSB “UKRGASBANK”, Provisions on Supervisory Board of JSB “UKRGASBANK” and relevant civil agreements on free of charge basis (with the possibility of compensation of documented expenses related to the performance as members of Supervisory Board of JSB “UKRGASBANK” following the procedure included into the relevant civil agreements).

Members of Supervisory Board of JSB “UKRGASBANK” who are not civil servants or persons authorized to perform the functions of the State, shall fulfill the functions imposed on them by the Articles of Association of JSB “UKRGASBANK”, Provisions on Supervisory Board of JSB “UKRGASBANK” and relevant civil agreements on paid basis (with the possibility of compensation of documented expenses related to the performance as members of Supervisory Board of JSB “UKRGASBANK” following the procedure included into the relevant civil agreements). The amount of their remuneration shall be established by the decision of General Meeting of Shareholders of JSB “UKRGASBANK” and shall be composed of the basic amount and additional remuneration for the implementation by a member of Supervisory Board of functions of Chairperson of Supervisory Board (20% of basic remuneration) and for participation of a member of Supervisory Board in the activity of a committee of Supervisory Board (10% of the basic remuneration (independently of the number of committees)).

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

The procedure for remuneration and material incentive for the Chairperson and members of Management Board shall be specified by the Law of Ukraine “On Joint Stock Companies”, other legislative acts, JSB “UKRGASBANK” Articles of Association, Provisions on Management Board, Provisions on Remuneration and material incentive of Chairperson and members of Management Board, Corporate Secretary, employees of Internal Audit Division, and civil, labor agreement (contract) to be concluded with Chairperson and each member of Management Board.

The amount of remuneration for Chairperson and members of Management Board, including incentive and compensation payments shall be established by an individual decision of Supervisory Board of JSB “UKRGASBANK”.

Remuneration of Chief Accountant and deputies to Chief Accountant shall be performed based on the Collective Agreement and Provisions on remuneration and material incentives to the employees of PUBLIC JOINT STOCK COMPANY JOINT STOCK BANK “UKRGASBANK”.

Relations with Associated Persons.

Supervisory Board has approved the Provisions on Procedure of Implementation of Operations with the Persons Related to the Bank.

A person shall be 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 a physical or legal person 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 in other banks of deposits and funds;
 - 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 of 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 (N9).

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.

Translation from Ukrainian original

During 2018, 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 2018, no managers 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 Supervisory 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 2018, 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 2018 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 Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV dated 19 July 1999.

Basis for opinion

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

Key audit matters 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 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 these matters. 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.

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 55% 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 and determining the probability of default, and loss given default rates 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 financial leases" and the Bank's management approach for assessing and managing credit risk is described in Note 32 "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 32 to the financial statements.

Other information included in the Annual Information of the Issuer of Securities for 2018

Other information comprises the information included in the Management report (including the Corporate Governance report, but does not include financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and other 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. 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 Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

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 dated 21 December 2017 (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 four years.

Consistency of the independent auditor's report with the additional report to the audit committee

We confirm that our independent auditor's report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 15 March 2019 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.

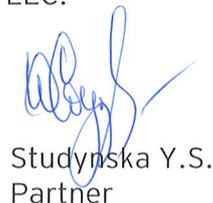
The partner in charge of the audit resulting in this independent auditor's report is Studynska Y.S.

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
15 March 2019

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

Translation from Ukrainian original

PUBLIC JOINT STOCK COMPANY
JOINT STOCK BANK "UKRGASBANK"

2018 financial statements

STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

(in Hryvnias and in thousands)

	Notes	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	7	14,035,435	7,264,287
Precious metals		1,754	7,958
Due from credit institutions	8	727,055	3,739,554
Derivative financial assets	9	523	910
Loans to customers and financial leases	10	45,236,844	33,646,433
Trading securities	11	333	315,094
Investments measured at fair value through other comprehensive income	12	18,801,478	X
Investments available for sale	12	X	20,576,663
Investment property	13	278,028	348,834
Property and equipment and intangible assets	14	1,710,795	1,736,061
Assets held for sale	15	-	60,508
Other property	16	799,144	740,764
Current income tax assets		4,921	4,921
Deferred income tax assets	17	75,432	187,584
Other assets	19	553,253	583,656
Total assets		82,224,995	69,213,227
Liabilities			
Due to the National Bank of Ukraine	20	4,303,770	414,104
Due to credit institutions	21	5,825,397	1,946,930
Derivative financial liabilities	9	1,830	3,775
Due to customers	22	65,121,926	60,646,118
Provisions for guarantees, commitments and legal risks	30, 18	589,528	209,392
Other liabilities	19	626,529	367,595
Total liabilities		76,468,980	63,587,914
Equity			
Share capital	23	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 reserves	23	(347,763)	278,424
Accumulated deficit		(6,248,421)	(7,005,310)
Total equity		5,756,015	5,625,313
Total equity and liabilities		82,224,995	69,213,227

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

Kyrylo Shevchenko

Chairman of the Management Board

Nataliia Khrustalova

Chief Accountant

15 March 2019

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Notes on the pages from 6 to 67 form an integral part of these financial statements.

Translation from Ukrainian original

PUBLIC JOINT STOCK COMPANY
JOINT STOCK BANK "UKRGASBANK"

2018 Financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

(in Hryvnias and in thousands)

	Notes	31 December 2018	31 December 2017
Interest income calculated using effective interest rate			
Loans to customers		5,148,673	4,145,881
Investments measured at fair value through other comprehensive income		2,243,828	X
Investments available for sale		X	2,089,753
Deposit certificates of the National Bank of Ukraine		796,914	531,359
Due from credit institutions		118,671	84,311
		8,308,086	6,851,304
Other interest income			
Trading securities		14,982	23,016
Financial leases		43,758	600
		58,740	23,616
		8,366,826	6,874,920
Interest expense			
Due to the National Bank of Ukraine		(185,256)	(73,803)
Due to customers		(4,888,782)	(4,419,920)
Due to credit institutions		(81,866)	(22,916)
		(5,155,904)	(4,516,639)
Net interest income, before credit loss expense		3,210,922	2,358,281
Credit loss expense	7, 8, 10, 30	(801,822)	(692,893)
Net interest income, after credit loss expense		2,409,100	1,665,388
Losses on initial recognition of financial assets		(2,605)	(6,706)
Result from operations with loans to customers measured at fair value through profit or loss		2	-
Net fee and commission income	25	760,891	551,700
Net losses on derecognition of financial assets measured at amortized cost		(3,309)	-
(Losses)/gains on trading securities	26	(3,277)	5,116
Net gains on investments measured at fair value through other comprehensive income	27	19,496	X
Net gains on investment securities available for sale	27	X	51,602
Net gains on foreign exchange operations and precious metals	28	115,286	71,558
Result on operations with derivative financial instruments		177,604	153,560
Net gains on investment property		19,712	14,705
Other income	29	161,835	171,821
Non-interest income		1,245,635	1,013,356
Staff costs	31	(1,202,617)	(912,733)
Other operating expense	31	(934,431)	(858,037)
Depreciation and amortization	14	(297,129)	(178,460)
Credit loss expense on other assets and other provisions	30	(338,836)	X
Change in allowance for impairment of other assets and other provisions	30	X	(205,117)
Non-interest expense		(2,773,013)	(2,154,347)
Profit before income tax		881,722	524,397
Income tax (expense)/benefit	17	(113,024)	103,415
Net profit		768,698	627,812

Notes on the pages from 6 to 67 form an integral part of these financial statements.

Translation from Ukrainian original

PUBLIC JOINT STOCK COMPANY
JOINT STOCK BANK "UKRGASBANK"

2018 Financial statements

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

	Notes	31 December 2018	31 December 2017
Net profit		768,698	627,812
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Revaluation of property and equipment		(4,843)	(8,935)
Income tax related to revaluation of property and equipment		872	1,608
		(3,971)	(7,327)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Unrealized losses on investments measured at fair value through other comprehensive income		(605,229)	X
Unrealized losses on investments available for sale		X	(344,680)
Changes in allowance for expected credit losses on investments measured at fair value through other comprehensive income	27	(1,718)	X
Realized profits on investments measured at fair value through other comprehensive income	27	21,214	X
Realized profits on investments available for sale		X	51,602
		(585,733)	(293,078)
Other comprehensive loss, after income tax		(589,704)	(300,405)
Total comprehensive income		178,994	327,407
Weighted average number of shares (in thousands)		13,837,000	13,837,000
Basic and diluted net earnings per share (in UAH)		0.06	0.05

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

Kyrylo Shevchenko



Chairman of the Management Board

Nataliia Khrustalova

Chief Accountant

15 March 2019

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Notes on the pages from 6 to 67 form an integral part of these financial statements.

Translation from Ukrainian original

PUBLIC JOINT STOCK COMPANY
JOINT STOCK BANK "UKRGASBANK"

2018 Financial statements

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

(in Hryvnias and in thousands)

	Notes	Share capital	Acquired title of ownership to shares	Result from transactions with shareholders	Additional paid-in capital	Other reserves	Accumulated deficit	Total equity
As at 31 December 2016		13,837,000	(518,439)	(1,102,304)	135,942	593,415	(7,647,708)	5,297,906
Total comprehensive income for the year		-	-	-	-	(300,405)	627,812	327,407
Transfers on disposal of assets		-	-	-	-	(14,586)	14,586	-
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	4	-	-	-	-	(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	23	-	-	-	-	(589,704)	768,698	178 994
Changes of 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		<u>13,837,000</u>	<u>(518,439)</u>	<u>(1,102,304)</u>	<u>135,942</u>	<u>(347,763)</u>	<u>(6,248,421)</u>	<u>5,756,015</u>

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

Kyrylo Shevchenko



Chairman of the Management Board

Natalia Khrustalova

Chief Accountant

15 March 2019

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Notes on the pages from 6 to 67 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS (the direct method)**for the year ended 31 December 2018***(in Hryvnias and in thousands)*

	Notes	2018	2017
Cash flows from operating activities			
Interest received		8,259,913	6,602,820
Interest paid		(5,073,457)	(4,455,596)
Fees and commissions received		941,141	689,032
Fees and commissions paid		(204,301)	(168,168)
Net result on foreign exchange operations (realized)	28	(27,734)	12,036
Result on operations with derivative financial instruments		176,046	149,545
Other income received		154,232	72,183
Staff costs		(1,175,420)	(876,299)
Other operating expense		(898,099)	(788,345)
Trading result on investments in securities	26	268	630
Cash flows from operating activities before changes in operating assets and liabilities		2,152,589	1,237,838
<i>Net decrease/(increase) in operating assets</i>			
Precious metals		5,622	9,167
Due from credit institutions		3,011,562	3,553,571
Loans to customers and financial leases		(12,907,571)	(13,300,375)
Other assets		38,844	(222,817)
<i>Net (decrease)/increase in operating liabilities</i>			
Due to credit institutions		2,555,470	657,136
Due to customers		5,427,928	12,422,509
Other liabilities		210,558	-
Net cash generated from operating activities		495,002	4,357,029
Cash flows from investing activities			
Acquisition of investment securities		(271,887,105)	(115,214,430)
Proceeds on sale and repayment of investment securities		273,197,064	115,807,145
Acquisition of property and equipment and intangible assets		(212,773)	(354,394)
Proceeds on disposal of property and equipment		15,059	122,552
Proceeds on investment property		22,411	13,980
Proceeds on disposal of assets held for sale	15	48,571	123,078
Proceeds on disposal of sale of other property		10,442	-
Net cash (used in) / generated from investing activities		1,193,669	497,931
Cash flows from financing activities			
Proceeds of borrowed funds from credit institutions		1,352,580	80,939
Proceeds/(repayment) on borrowed funds from the National Bank of Ukraine		3,885,170	(180,000)
Net cash generated from financing activities	37	5,237,750	(99,061)
Effect of exchange rate changes on cash and cash equivalents		(151,676)	26,256
Effect of expected credit losses on cash and cash equivalents		(3,597)	X
Net increase in cash and cash equivalents		6,771,148	4,782,155
Cash and cash equivalents, at the beginning of the period		7,264,287	2,482,132
Cash and cash equivalents, at the end of the period	7	14,035,435	7,264,287

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

Kyrylo Shevchenko

Nataliia Khrustalova

15 March 2019

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+380 (44) 239-28-36

Chairman of the Management Board

Chief Accountant

Notes on the pages from 6 to 67 form an integral part of these financial statements.

*(in Hryvnias and in thousands)***1. General information****Organization 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. In June 2009, in reply for the shareholders appeal the Government of Ukraine agreed to obtain control over the Bank by receiving 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 2018, the Bank's network consisted of 246 registered outlets (including 246 operating outlets) (2017: 243 outlets, including 243 operating outlets) in different regions of Ukraine. The Bank's registered address is as follows: Yerevanska St., 1, Kyiv, Ukraine. The Bank's Head Office is located at Bohdana Khmelnytskoho st., 16-22, Kyiv, Ukraine.

The priority activity of the Bank is to finance projects related to efficient use of energy resources and reduction of negative environmental impact (Green Bank Strategy). Today, the Bank is the driver of eco-banking in Ukraine.

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

In their activities, the Bank is guided by the principles of sustainable development and the standards of the International Finance Corporation (PS IFC).

As at 31 December 2018 and 2017, the Bank's issued shares were held by the following shareholders:

Shareholder	31 December 2018, %	31 December 2017, %
The Ministry of Finance of Ukraine	94.94	94.94
Other	5.06	5.06
Total	100.00	100.00

As at 31 December 2018 and 2017, the Bank's ultimate controlling party was the Ukrainian government represented by the Ministry of Finance of Ukraine.

These annual financial statements were authorized for issue and signed by the Bank's management on 15 March 2019.

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, the Ukrainian economy started to demonstrate certain signs of recovery and growth. 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 Hryvnias and in thousands)

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 19 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 of leases that are within the scope of IAS 17 *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 entity 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

When preparing the financial statements in 2018, the management of the Bank decided to change the name of "Loans to customers" line in the statement of financial position to "Loans to customers and financial leases".

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 currency of these financial statements is hryvnia ("UAH").

(in Hryvnias and in thousands)

4. Summary of significant accounting policies

Changes in accounting policies

In 2018, the Bank first applied IFRS 15 and IFRS 9. The nature and impact of the changes as a result of adoption of these new accounting standards are described below.

The Bank first applied some amendments to the standards that are effective for annual periods beginning on or after 1 January 2018. 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 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- ▶ Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- ▶ Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- ▶ Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in Note 32. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

(in Hryvnias and in thousands)

(c) Effect of transition to IFRS 9

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement			Reclas- sification	Remeasurement		IFRS 9 measurement	
	Ref	Category	Amount		Expected credit loss	Other	Amount	Category
Financial assets								
Cash and cash equivalents		Loans and receivables	7,264,287	-	(1,014)	-	7,263,273	Amortised cost
Due from credit institutions		Loans and receivables	3,739,554	-	(1,665)	-	3,737,889	Amortised cost
Loans to customers – amortised cost		Loans and receivables	33,646,433	(19,321)	46,247	(33,305)	33,640,054	Amortised cost
Loans to customers – fair value through profit or loss	A	-	-	1,332	(1,332)	-	-	Fair value through profit or loss
Loans to customers – fair value through other comprehensive income	A	-	-	17,989	-	2,436	20,425	Fair value through other comprehensive income
Investments measured at fair value through other comprehensive income		Available for sale	20,576,663	-	33,147	(33,167)	20,576,643	Fair value through other comprehensive income
Other assets		Loans and receivables	583,656	-	(11,973)	-	571,683	Amortised cost
Total assets, affected by transition to IFRS 9			65,810,593	-	63,410	(64,036)	65,809,967	
Provisions for guarantees and commitments (excluding provisions for legal risks)			201,723	-	47,696	-	249,419	

A As of 1 January 2018, the Bank's analysis revealed that certain loans to customers did not meet SPPI criteria, as they included compensation for early repayment of loans, which was not reasonable. Accordingly, these loans, previously measured at amortized cost, were classified as financial assets measured at fair value through profit or loss. Also, as of 1 January 2018, the Bank determined that certain non-performing loans to customers were held under the business model with the purpose to hold to collect cash flows and sales, therefore these loans have been reclassified as measured at fair value through other comprehensive income.

The impact of transition to IFRS 9 on other reserves and accumulated deficit is as follows:

	Other reserves and accumulated deficit
Other reserves	
Closing balance as at 31 December 2017 under IAS 39	278,424
Recognition of expected credit losses under IFRS 9 for investments measured at fair value through other comprehensive income	(33,167)
Restated opening balance at 1 January 2018 under IFRS 9	245,257
Accumulated deficit	
Closing balance as at 31 December 2017 under IAS 39	(7,005,310)
<i>Recognition of ECL under IFRS 9</i>	
Cash and cash equivalents	(1,014)
Due from credit institutions	(1,665)
Loans to customers and financial leases	47,351
Investments measured at fair value through other comprehensive income	33,147
Other assets	(11,973)
Provisions for guarantees and commitments (excluding provisions for legal risks)	(47,696)
<i>Other changes in measurement</i>	
Loans to customers and financial leases	(33,305)
Restated opening balance at 1 January 2018 under IFRS 9	(7,020,465)

(in Hryvnias and in thousands)

The impact of transition to IFRS 9 on allowances for impairment/provisions for guarantees and commitments in accordance with IAS 39 / IAS 37 and other changes in measurements are as follows:

	Allowances for impairment / provisions for guarantees and commitments in accordance with IAS 39 / IAS 37 as at 31 December 2017	Impaired interest in accordance with IAS 39 as at 31 December 2017	Changes in measurements / other reclassification	Expected credit losses under IFRS 9 as at 1 January 2018
Cash and cash equivalents	-	-	(1,014)	(1,014)
Due from credit institutions	(744,777)	-	(1,665)	(746,442)
Loans to customers and financial leases	(8,406,630)	(843,522)	47,351	(9,202,801)
Investments measured at fair value through other comprehensive income	(59,380)	-	33,147	(26,233)
Other assets	(730,809)	(16,279)	(11,973)	(759,061)
Provisions for guarantees and commitments (excluding provisions for legal risks)	(201,723)	-	(47,696)	(249,419)
Total	(10,143,319)	(859,801)	18,150	(10,984,970)

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Bank's revenue including interest revenue, gains/(losses) on operations with securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the Bank's income are not impacted by the adoption of this standard.

As at 1 January 2018 and 31 December 2018, the Bank does not have contracts with clients that are within the scope of IFRS 15.

The accounting policies set out below are 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 respective dates. 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 dealings in foreign currencies.

The official exchange rates of UAH to foreign currencies as established by the National Bank of Ukraine at the respective dates and used in the preparation of these financial statements are as follows:

Currency	31 December 2018	31 December 2017
UAH/USD	27,6883	28,0672
UAH/EUR	31,7141	33,4954

(in Hryvnias and in thousands)

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. 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, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or excluded from, this amount.

Measurement categories of financial assets and liabilities

From 1 January 2018, 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, trading securities

Before 1 January 2018, due from credit institutions and loans to customers and financial leases included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- ▶ That the Bank intended to sell immediately or in the near term;
- ▶ That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale;
- ▶ For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, the Bank only measures amounts due from credit institutions, loans to customers and financial leases and other financial investments at amortised cost 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 compensated (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 assessment.

(in Hryvnias and in thousands)

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.

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 they meet the 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

From 1 January 2018, the Bank applies the new category under IFRS 9 of debt instruments measured 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 and 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, which remains at fair value. Instead, an amount equal to the allowance 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 recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

From 1 January 2018, upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments 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 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 cost of the 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 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 other comprehensive income, and – under IAS 37 (before 1 January 2018) – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 (from 1 January 2018) – an ECL provision.

(in Hryvnias and in thousands)

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. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, 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.

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.

Loans and receivables

Before 1 January 2018, loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or designated as investments available for sale. Such assets were carried at amortized cost using the effective interest rate method. Gains and losses were recognized in profit and loss when the loans and receivables were derecognized or impaired, as well as through the amortization process.

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.

Financial assets available for sale

Before 1 January 2018, available for sale financial assets were those non-derivative financial assets that were designated as available for sale and not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables. Upon initial recognition, available for sale financial assets were measured at fair value, with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to profit or loss. Interest calculated using the effective interest rate method was recognized through profit or loss.

Investments held to maturity

Before 1 January 2018, non-derivative financial assets with fixed payments, or payments that can be identified, and with fixed maturity are classified as held to maturity if the Bank intends and was able to hold them to maturity. Investments intended to be held for an indefinite period of time were not included in this category. Investments held to maturity were subsequently measured at amortized cost. Income and expenses were recognized in the statement of profit or loss and other comprehensive income through impaired investments as well as amortization.

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.

(in Hryvnias and in thousands)

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 normal course of business, the Bank enters into various derivative financial instruments, including forwards and swaps in the foreign exchange market primarily with Ukrainian banks. Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognized immediately in Result on operations with derivative financial instruments. The Bank assesses and calculates the fair value of its forwards and recognizes all significant changes in profit or loss.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Embedded derivatives

Before 1 January 2018, derivatives embedded in other financial instruments or other host contracts were treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at fair value through profit or loss.

From 1 January 2018, with the introduction of IFRS 9, 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.

Leases

Operating leases – the Bank as a lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by a lessor are classified as operating leases. Rental payments under an operating lease are recognized as expense on a straight-line basis over the lease term and included in other operating expense.

(in Hryvnias and in thousands)

Operating leases – the Bank as a lessor

The Bank presents assets held for operating leases in the statement of financial position according to the nature of the respective asset. Rental income from operating leases is recognized in profit and loss on a straight-line basis over the lease term as either net gains/losses from investment property for buildings and premises or other income. The total cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Financial lease is a lease, whereby the lessee transfers substantially all the risks and rewards of possession related to ownership.

At the beginning of the lease term, the Bank as a lessee recognizes a financial lease as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property at the beginning of the lease, or (if they are less than fair value) at the present value of the minimum lease payments, which is determined on start of lease.

As a lessor, the Bank recognizes assets held under financial lease agreements in the statement of financial position as a loan issued for an amount equal to net investment in the lease. The lease payment to be received is considered as the repayment of the principal amount of the debt and financial income to provide compensation and remuneration to the lessor for its investments and services.

Expected credit loss / impairment of financial assets

Since 1 January 2018, 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 are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Before 1 January 2018, the Bank assessed at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets were deemed to be impaired if, and only if, there were objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Objective evidence of impairment may include indications that a borrower, or a group of borrowers, was experiencing significant financial difficulties, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults, as well as developments in technological, market, economic, and legal environment of a business entity.

*(in Hryvnias and in thousands)**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).

The exchange of debt instruments between an existing borrower and the lender in substantially different conditions is recorded by the Bank as a repayment of the original financial instrument and the recognition of a new financial instrument.

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 measured at fair value through other comprehensive income

From 1 January 2018, 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 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 recycled to the profit and loss upon derecognition of the asset.

Before 1 January 2018, the Bank assesses at each reporting date whether there was an objective evidence that an investment or a group of investments available for sale are impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there was evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit and loss – is removed from equity and recognized in profit and loss. Impairment losses on equity investments were not reversed through profit and loss; increases in their fair value after impairment were recognized in other comprehensive income.

(in Hryvnias and in thousands)

When sold, gain/(loss) earlier recognized in equity would be recognized in the statement of profit or loss and other comprehensive income. A result on the sale of investments available for sale was recognized in the statement of profit or loss and other comprehensive income on disposal and was the difference between the sales price and carrying amounts at the transaction date.

In the case of debt instruments classified as available for sale, impairment was assessed based on the same criteria as financial assets carried at amortized cost. Future interest income was based on the reduced carrying amount and was accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income was recorded in profit and loss. If, in a subsequent reporting period, the fair value of a debt instrument increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit and loss, the impairment loss is reversed through profit and loss.

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.

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 derecognized 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 derecognized 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.

(in Hryvnias and in thousands)

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees and other forms of credit insurance. Financial guarantees are initially recognized in the financial statements at fair value, in "Other liabilities" line, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to profit or loss. The premium received is recognized in profit and loss on a straight-line basis over the life of the guarantee.

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. In consideration of the changes in tax legislation of Ukraine, which entered into force since 1 January 2015, the current Bank's 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.

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. Valuation 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 which 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 Hryvnias and in thousands)

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 each reporting date.

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. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. 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 derecognized 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.

Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Events or circumstances may extend the period to complete the sale beyond one year. Extending the period to complete the sale does not interfere with assets classified as held for sale if the delay was caused by events or circumstances that are beyond the control of the Bank, and if there is sufficient evidence that the Bank continues to carry out a plan to sell the asset.

Assets held for sale are measured at the lower of their carrying amount and fair value, less costs to sell. If the fair value, less costs to sell, of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the statement of profit or loss and other comprehensive income as loss from assets held for sale. Any subsequent increase in an asset's fair value, less costs to sell, is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

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.

(in Hryvnias and in thousands)

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.

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, with 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 (before 1 January 2018 – financial assets available for sale) 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 2018 the Bank's reserve fund equals UAH 343,803 thousand (2017: UAH 281,021 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 but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

(in Hryvnias and in thousands)

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 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.

Recognition of fee and commission income and expense – loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. 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 2018 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.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Bank has not expect the effect of applying these amendments.

(in Hryvnias and in thousands)

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 will recognise 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 will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to 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 will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

In addition, IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Based on the information available to the Bank and the current stage of application of IFRS 16, the Bank assessed the possible impact of IFRS 16 on its financial statements as at 1 January 2019. The Bank expects that, as of 1 January 2019, the application of IFRS 16 will result in the recognition of right-of-use asset in amount not exceeding UAH 50 million and respective lease liability in the same amount.

The Bank will use 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.

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 effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank does not expect that the application of this standard will have an impact on its financial position and performance.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also affects the assumptions that the organization makes for the treatment of taxpayers, as well as how it considers changes in facts and circumstances.

(in Hryvnias and in thousands)

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply the interpretation from its effective date. Since the Bank operates in a multinational tax environment, applying the Interpretation may affect Bank's financial statements. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

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.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Bank.

Annual improvements 2015-2017 cycle

These improvements are applied for annual reporting periods beginning on or after 1 January 2019 and include:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – previously held interest in a joint operation

These amendments clarify whether the previously held interest in a joint operation (that is a business as defined in IFRS 3) should be remeasured to fair value, when:

- ▶ A party to a joint operation obtains control over the joint operation (IFRS 3);
- ▶ A party that participates in (but does not have joint control over a joint operation) obtains joint control over the joint operation (IFRS 11).

The Bank does not expect any effect on its financial statements.

IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity

These amendments clarify that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend. Earlier application is permitted and must be disclosed. The amendments must first be applied to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with the amendments, the Bank does not expect any effect on its financial statements.

IAS 23 Borrowing Costs – borrowing costs eligible for capitalization

These amendments clarify that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally. Earlier application is permitted and should be disclosed. The Bank does not expect any effect on its financial statements.

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.

(in Hryvnias and in thousands)

Key estimates in applying accounting policies

Fair value of financial instruments

Investments measured at fair value through other comprehensive income, investments measured at fair value through profit or loss 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: (i) 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 (ii) 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 both under IFRS 9 and IAS 39 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 32.

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 and land plots. The estimation of the fair value of buildings 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.

Valuation of assets held for sale

As discussed in Note 4, assets held for sale are measured at a lower of their carrying amount and fair value, less costs to sell. The method used to estimate fair value is the comparative approach to evaluation. comparative approach to evaluation is based on an analysis of the results of comparable sales of similar items. The estimation of the fair value of items 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 such property.

(in Hryvnias and in thousands)

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 (corporate banking)	Mainly granting purpose loans, servicing deposits and current accounts for corporate and institutional customers.
Clients of small and medium-sized enterprises (hereinafter – "SMEs")	Mainly granting purpose loans, servicing deposits and current accounts for clients which business satisfies certain criteria and limits.
Individuals (retail banking)	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 2018, the Bank received revenue from the loan transactions with one client in the amount of UAH 777,138 thousand. During 2017, the Bank received revenue from the loan transactions with one client in the amount of UAH 1,018,769 thousand.

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

31 December 2018	Legal entities (corporate banking)	SMEs	Individuals (retail banking)	Financial institutions	Asset management and other	Total
Income						
Interest income	4,380,881	381,414	430,137	118,671	3,055,723	8,366,826
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 measured at fair value through profit or loss	-	2	-	-	-	2
Net gains on investments measured at fair value through other comprehensive income	-	-	-	-	19,496	19,496
Result from operations with derivative financial instruments	-	-	-	-	177,604	177,604
Net gains on investment property	-	-	-	-	19,712	19,712
Other income	31,977	16,017	110,966	325	2,550	161,835
Total incomes	4,707,892	554,011	1,015,196	147,135	3,401,719	9,825,953
Expense						
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	(817,415)	(63,713)	72,111	7,195	-	(801,822)
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 amortization	(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 measured at amortised cost	(3,309)	-	-	-	-	(3,309)
Other operating expense	(246,413)	(78,775)	(569,121)	(5,768)	(34,354)	(934,431)
Total expenses	(4,823,340)	(808,380)	(2,924,069)	(286,327)	(102,115)	(8,944,231)
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 Hryvnias and in thousands)

31 December 2017	Legal entities (corporate banking)	SMEs	Individuals (retail banking)	Financial institutions	Asset management and other	Total
Income						
Interest income	3,700,687	191,816	253,973	84,311	2,644,133	6,874,920
Fee and commission income	210,418	108,627	363,115	23,153	14,555	719,868
Net gains on investments available for sale	-	-	-	-	51,602	51,602
Gains from trading securities	-	-	-	-	5,116	5,116
Gains on foreign exchange operations and precious metals	-	-	3,687	-	67,871	71,558
Result on operations with derivative financial instruments	-	-	-	-	153,560	153,560
Net gains on investment property	-	-	-	-	14,705	14,705
Other income	18,635	24,614	120,027	4,233	4,312	171,821
Total incomes	3,929,740	325,057	740,802	111,697	2,955,854	8,063,150
Expense						
Interest expense	(2,854,908)	(203,000)	(1,370,085)	(88,646)	-	(4,516,639)
Fee and commission expense	(9,005)	(9)	(119,775)	(39,379)	-	(168,168)
Change in allowance for impairment of loans	(789,709)	32,036	50,035	14,745	-	(692,893)
Losses on initial recognition of financial assets	-	-	(6,706)	-	-	(6,706)
Staff costs	(242,947)	(128,272)	(480,654)	(14,862)	(45,998)	(912,733)
Depreciation and amortization	(35,106)	(17,708)	(115,256)	(3,472)	(6,918)	(178,460)
Change in allowance for impairment of other assets and other provisions	(117,992)	(2,390)	(9,075)	(410)	(75,250)	(205,117)
Other operating expense	(224,450)	(60,623)	(524,608)	(10,715)	(37,641)	(858,037)
Total expenses	(4,274,117)	(379,966)	(2,576,124)	(142,739)	(165,807)	(7,538,753)
Segment results	(344,377)	(54,909)	(1,835,322)	(31,042)	2,790,047	524,397
Income tax benefit					103,415	103,415
Net profit					2,893,462	627,812
Segment assets	32,693,417	3,210,704	8,194,966	4,030,367	21,083,773	69,213,227
Segment liabilities	(39,749,593)	(4,575,395)	(16,881,915)	(1,956,707)	(424,304)	(63,587,914)
Other segment information						
Capital expenditures	69,394	32,854	227,878	7,430	4,882	342,438

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2018	31 December 2017
Current accounts with other credit institutions	4,264,022	520,048
Current accounts with the National Bank of Ukraine	1,966,874	1,242,025
Cash on hand	1,488,310	997,590
Time deposits with maturities up to 90 days	2,314,566	-
Deposit certificates of the National Bank of Ukraine (overnight)	4,005,260	4,504,624
	14,039,032	7,264,287
Less: expected credit losses	(3,597)	X
Cash and cash equivalents	14,035,435	7,264,287

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 2018 obligatory reserves estimated in accordance with the requirements of the National Bank of Ukraine amounted to UAH 3,089,656 thousand (2017: UAH 2,941,682 thousand).

As at 31 December 2018 and 2017, the Bank complied with the requirements of the National Bank of Ukraine regarding obligatory reserve amounts.

In 2018, the management of the Bank revised the accounting estimates for highly liquid funds, which are characterized by insignificant risk of changes in value. Since the insignificant risk does not affect management of cash in the statement of financial position, these cash was classified as "Cash and cash equivalents". If the Bank had used the previous accounting estimates, "Cash and cash equivalents" as at 31 December 2018 would have been amounted UAH 450,392 thousand.

(in Hryvnias and in thousands)

Changes in expected credit losses during the year of 2018 were as follows:

	Stage 1
As at 1 January 2018	1,014
New assets originated or purchased	1,988
Repaid assets	(501)
Changes in expected credit losses	1,633
<i>Total credit loss expense before transition difference</i>	<i>3,120</i>
Translation differences	(537)
As at 31 December 2018	3,597

8. Due from credit institutions

Due from credit institutions comprise:

	31 December 2018	31 December 2017
Term deposits with maturities over 90 days or overdue	729,512	736,005
Other amounts due from credit institutions	540,186	249,842
Reverse repurchase agreements	187,438	280,469
Current accounts with other credit institutions	-	3,218,015
	1,457,136	4,484,331
Less: expected credit losses / allowance for impairment	(730,081)	(744,777)
Due from credit institutions	727,055	3,739,554

As at 31 December 2018, the overdue balance of due from credit institutions amounted UAH 729,512 thousand (2017: UAH 734,959 thousand).

As at 31 December 2018, due from credit institutions in the amount of UAH 1,324,158 thousand (or 90.87% of the total amount of due from credit institution) was placed with three banks (2017: UAH 3,109,935 thousand with one banks, which was 69.35% of the total amount of due from credit institution).

As at 31 December 2018, reverse repurchase agreements were secured by UDGB with the fair value of UAH 202,121 thousand (2017: UAH 312,734 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 2018 is as follows:

	Stage 1	Stage 2	Stage 3	Total
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)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	(5,190)	(5,190)
Translation differences	(219,505)	-	(895)	(220,400)
As at 31 December 2018	727,624	-	729,512	1,457,136

(in Hryvnias and in thousands)

Changes in expected credit losses were as follows:

	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)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers 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>-</i>	<i>(407)</i>	<i>(10,314)</i>
Amounts written off	-	-	(5,190)	(5,190)
Translation differences	38	-	(895)	(857)
As at 31 December 2018	569	-	729,512	730,081

Movements in allowance for impairment of due from credit institutions were as follows:

	31 December 2017
As at 1 January 2017	758,575
Accrued	(14,745)
Translation differences	947
As at 31 December 2017	744,777

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 2018				31 December 2017			
	Notional amount		Fair value		Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts								
Swaps/forwards	304,165	(304,084)	330	(249)	1,291,357	(1,294,240)	869	(3,752)
Spots	926,813	(928,201)	193	(1,581)	71,220	(71,202)	41	(23)
Total derivative assets/(liabilities)			523	(1,830)			910	(3,775)

*(in Hryvnias and in thousands)***10. Loans to customers and financial leases**

Loans to customers and financial leases comprise:

	31 December 2018	31 December 2017
Legal entities	42,268,804	34,097,305
SMEs	4,929,854	2,048,098
Individuals	6,443,769	5,907,660
Gross loans to customers and financial leases	53,642,427	42,053,063
Less: expected credit losses / allowance for impairment	(8,405,583)	(8,406,630)
Loans to customers and financial leases	45,236,844	33,646,433

As at 31 December 2018, the total amount of not overdue restructured loans amounted to UAH 1,886,377 thousand (2017: UAH 1,641,731 thousand).

During 2018, 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 74,642 thousand and is subsequently accounted as other property (2017: UAH 15,736 thousand).

As at 31 December 2018 and 2017, 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 2018 and 2017, total amount of these loans equaled to UAH 195,526 thousand and UAH 225,858 thousand, respectively.

As at 31 December 2018 and 2017, the amount of compensation received for loans to purchase new equipment, agricultural machinery and vehicles produced in Republic of Belarus, equaled to UAH 11,526 thousand and UAH 12,686 thousand, respectively.

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

Legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
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)
Transfers to Stage 1	13,223,578	(13,115,162)	(108,416)	-	-
Transfers to Stage 2	(11,150,947)	11,500,136	(349,189)	-	-
Transfers to Stage 3	(148,250)	(1,648,198)	1,796,448	-	-
Amounts written off	-	-	(914,610)	-	(914,610)
Translation difference	(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

SMEs	Stage 1	Stage 2	Stage 3	POCI	Total
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)
Transfers to Stage 1	187,335	(121,569)	(65,766)	-	-
Transfers to Stage 2	(677,842)	677,842	-	-	-
Transfers to Stage 3	(3,188)	(175,038)	178,226	-	-
Amounts written off	-	-	(21,442)	-	(21,442)
Translation difference	(72,731)	(3,582)	3,197	-	(73,116)
As at 31 December 2018	4,386,245	362,398	181,211	-	4,929,854

(in Hryvnias and in thousands)

<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)
Transfers to Stage 1	81,620	(60,922)	(20,698)	-	-
Transfers to Stage 2	(81,613)	83,139	(1,526)	-	-
Transfers to Stage 3	(4,023)	(25,852)	29,875	-	-
Amounts written off	(371)	-	(726,486)	-	(726,857)
Translation difference	(1,083)	(5)	(67,879)	-	(68,967)
As at 31 December 2018	2,744,136	7,708	3,691,741	184	6,443,769

Expected credit losses on loans to customers and financial leases were 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	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)
Transfers to Stage 1	573,329	(573,329)	-	-	-
Transfers to Stage 2	(111,632)	225,384	(113,752)	-	-
Transfers to Stage 3	(11,274)	(337,179)	348,453	-	-
Changes in expected credit losses	(632,643)	715,459	487,674	-	570,490
<i>Total credit loss expense before transition difference</i>	<i>(138,941)</i>	<i>182,050</i>	<i>774,306</i>	-	817,415
Change of impairment interest	-	-	115,726	-	115,726
Amounts written off	-	-	(914,610)	-	(914,610)
Translation difference	(4,691)	(10,178)	(7,453)	-	(22,321)
As at 31 December 2018	179,100	670,376	3,728,671	-	4,578,147

<i>SMEs</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
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)
Transfers to Stage 1	13,828	(4,403)	(9,425)	-	-
Transfers to Stage 2	(20,729)	20,729	-	-	-
Transfers to Stage 3	(11)	(22,145)	22,156	-	-
Changes in expected credit losses	(2,414)	19,518	20,142	-	37,246
<i>Total credit loss expense before transition difference</i>	<i>22,345</i>	<i>14,071</i>	<i>27,296</i>	-	63,712
Change of impairment interest	-	-	202	-	202
Amounts written off	-	-	(21,442)	-	(21,442)
Translation difference	(875)	(194)	(814)	-	(1,883)
As at 31 December 2018	36,666	15,151	100,466	-	152,283

(in Hryvnias and in thousands)

<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	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)
Transfers to Stage 1	27,549	(12,671)	(14,878)	-	-
Transfers to Stage 2	(3,011)	4,373	(1,362)	-	-
Transfers to Stage 3	(469)	(6,881)	7,350	-	-
Changes in expected credit losses	(28,511)	15,879	(44,900)	-	(57,532)
<i>Total credit loss expense before transition difference</i>	<i>4,988</i>	<i>438</i>	<i>(77,550)</i>	<i>13</i>	<i>(72,111)</i>
Change of impairment interest	1	1	33,116	-	33,118
Amounts written off	(371)	-	(727,469)	-	(727,840)
Translation difference	(5)	1	(67,180)	-	(67,184)
As at 31 December 2018	10,216	2,380	3,662,544	13	3,675,153

Reconciliation of the allowance for impairment of loans to customers and financial leases by categories is as follows:

	<i>Legal entities</i>	<i>SMEs</i>	<i>Individuals</i>	<i>Total</i>
As at 1 January 2017	3,314,384	203,304	4,217,169	7,734,857
(Reversal)/charge	789,709	(32,036)	(50,035)	707,638
Amounts written off	(44,453)	(55,376)	(93,511)	(193,340)
Translation difference	44,656	1,080	111,739	157,475
As at 31 December 2017	4,104,296	116,972	4,185,362	8,406,630

Collateral

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

<i>Type of collateral</i>	<i>31 December 2018</i>			
	<i>Loans to legal entities</i>	<i>SMEs</i>	<i>Loans to individuals</i>	<i>Total</i>
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	42,268,804	4,929,854	6,443,769	53,642,427
<i>Type of collateral</i>	<i>31 December 2017</i>			
	<i>Loans to legal entities</i>	<i>SMEs</i>	<i>Loans to individuals</i>	<i>Total</i>
Impaired loans				
Deposits	1,675	-	-	1,675
Real estate	788,861	75,919	201,466	1,066,246
Other assets	299,426	4,342	933	304,701
Unsecured	2,527,461	74,491	4,061,297	6,663,249
Total impaired loans	3,617,423	154,752	4,263,696	8,035,871
Loans with no signs of impairment				
Deposits	739,440	54,185	385	794,010
Real estate	11,809,383	927,733	700,589	13,437,705
Other assets	15,608,341	814,698	446,804	16,869,843
Unsecured	2,322,718	96,730	496,186	2,915,634
Total loans with no signs of impairment	30,479,882	1,893,346	1,643,964	34,017,192
Total	34,097,305	2,048,098	5,907,660	42,053,063

(in Hryvnias and in thousands)

The above amounts represent the carrying value of the loans, before expected credit loss allowance / allowance for impairment, 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 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 2018 would be higher at:

	31 December 2018
Legal entities	823,379
SMEs	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:

<i>Types of clients</i>	31 December 2018				31 December 2017			
	<i>In foreign currency</i>	<i>In national currency</i>	<i>Total</i>	<i>Impaired</i>	<i>In foreign currency</i>	<i>In national currency</i>	<i>Total</i>	<i>Impaired</i>
State entities	2,867,259	14,826,132	17,693,391	1,279,128	4,381,852	10,535,874	14,917,726	4,434
Corporate clients	14,695,525	9,879,888	24,575,413	3,908,093	11,295,194	7,935,851	19,231,045	3,612,988
Micro	10,048	96,415	106,463	50,279	450,694	345,553	796,247	88,951
SME	2,912,655	1,910,736	4,823,391	130,932	693,999	506,386	1,200,385	65,802
Individuals	3,273,988	3,169,781	6,443,769	3,691,925	3,796,194	2,111,466	5,907,660	4,263,696
Total	23,759,475	29,882,952	53,642,427	9,060,357	20,617,933	21,435,130	42,053,063	8,035,871

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

<i>Types of clients</i>	31 December 2018			31 December 2017		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
State entities	15,867,180	1,826,211	17,693,391	14,089,015	828,711	14,917,726
Corporate clients	11,026,742	13,548,671	24,575,413	6,828,489	12,402,556	19,231,045
Micro	77,254	29,209	106,463	86,557	709,690	796,247
SME	1,545,916	3,277,475	4,823,391	150,807	1,049,578	1,200,385
Individuals	3,259,759	3,184,010	6,443,769	2,434,929	3,472,731	5,907,660
Total	31,776,851	21,865,576	53,642,427	23,589,797	18,463,266	42,053,063

As at 31 December 2018, loans to customers and financial leases in the amount of UAH 20,086,710 thousand are due from ten largest borrowers or groups of related counterparties of the Bank (37.45% of total loan portfolio) (2017: UAH 18,646,272 thousand or 44.34%).

Loans are granted mainly to the customers operating in Ukraine in the following industries:

	31 December 2018	31 December 2017
Electricity	11,150,251	9,999,455
Gas transportation	11,017,484	6,084,630
Individuals	6,443,769	5,907,660
Agriculture and food processing	4,843,488	4,962,347
Trade	4,546,349	4,420,899
Manufacturing	3,653,101	3,160,044
Services	3,441,596	2,402,605
Real estate	2,929,771	2,868,251
Construction	2,069,712	543,085
Transport	1,669,586	463,726
Metallurgy	1,285,917	1,133,544
Financing services	547,020	72,739
Other	44,383	34,078
Total	53,642,427	42,053,063

(in Hryvnias and in thousands)

As at 31 December 2018 and 2017, loans to customers including receivables for financial leases for purchase of vehicles and equipment in the amount of UAH 66,606 thousand and UAH 55,161 thousand, respectively, as presents in the following table:

	31 December 2018			31 December 2017		
	Legal entities	SMEs	Total	Legal entities	SMEs	Total
Within one year						
Loans to customers by agreements of financial leases	516	30,954	31,470	-	-	-
Less: allowance for impairment	-	(7)	(7)	-	-	-
Short-term loans to customers by agreements of financial leases	516	30,947	31,463	-	-	-
More than one year						
Loans to customers by agreements of financial leases	120,959	511,739	632,698	-	39,033	39,033
Less: allowance for impairment	(1,613)	(1,633)	(3,246)	-	-	-
Long-term loans to customers by agreements of financial lease	119,346	510,106	629,452	-	39,033	39,033
Total loans to customers by agreements of financial leases	119,862	541,053	660,915	-	39,033	39,033

The following table presents the structure of collateral for loans to customers by agreements of financial leases in the following industries and the Bank's operating segments:

	31 December 2018		31 December 2017	
	Legal entities	SMEs	Legal entities	SMEs
Manufacturing	3,634	22,406	-	-
Agriculture and food processing	516	-	-	-
Services	116,770	5,678	-	-
Trade	555	-	-	-
Transport	-	511,748	-	55,161
	121,475	539,832	-	55,161

The following table presents the analysis of financial leases as at 31 December 2018 included in the legal entities and SME loans portfolio:

	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years
Gross investment in finance leases	342,333	514,690	857,023
Unearned future finance income on finance leases	(100,107)	(96,001)	(196,108)
Net investment in finance leases	242,226	418,689	660,915

The following table shows the analysis of financial leases as at 31 December 2017 included in the SME loans portfolio:

	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years
Gross investment in finance leases	17,564	33,531	51,095
Unearned future finance income on finance leases	(6,383)	(5,679)	(12,062)
Net investment in finance leases	11,181	27,852	39,033

11. Trading securities

Trading securities comprise:

	31 December 2018	31 December 2017
Ukrainian domestic government bonds (UDGB)	333	315,094
Trading securities	333	315,094

*(in Hryvnias and in thousands)***12. Investments measured at fair value through other comprehensive income / Investments available for sale**

Investments measured at fair value through other comprehensive income comprise:

	31 December 2018	31 December 2017
Ukrainian domestic government bonds (UDGB)	18,100,067	X
State mortgage institution	389,323	X
Municipal bonds	300,767	X
Corporate shares	11,321	X
Investments measured at fair value through other comprehensive income	18,801,478	X

Investments available for sale comprise:

	31 December 2018	31 December 2017
Ukrainian domestic government bonds (UDGB)	X	19,675,154
State mortgage institution	X	890,190
Municipal bonds	X	-
Corporate shares	X	11,319
Investments available for sale	X	20,576,663

Investments measured at fair value through other comprehensive income	Stage 1
Gross carrying value as at 1 January 2018	20,565,344
New assets originated or purchased	162,416,723
Assets repaid	(141,223,006)
Assets sold	(22,776,667)
Transfers to Stage 1	-
Transfers to Stage 2	-
Transfers to Stage 3	-
Unwinding of discount (recognised in interest revenue)	-
Amounts written off	-
Translation difference	(164,707)
Gross carrying value as at 31 December 2018	18,817,687

Investments measured at fair value through other comprehensive income	Stage 1
Expected credit losses as at 1 January 2018	26,234
New assets originated or purchased	13,924
Assets repaid	(5,185)
Assets sold	(836)
Transfers to Stage 1	-
Transfers to Stage 2	-
Transfers to Stage 3	-
Changes in expected credit losses	(6,185)
<i>Total credit loss expense before transition difference</i>	1,718
Amounts written off	-
Translation difference	(422)
Expected credit losses as at 31 December 2018	27,530

As at 31 December 2018, total accumulated expected credit losses / impairment loss recognized in respect of investments amounted to UAH 27,530 thousand (2017: UAH 59,380 thousand).

As at 31 December 2018, corporate bonds with the fair value of UAH 370,105 thousand (2017: UAH 690,132 thousand) were used as a collateral of long-term borrowings from the National Bank of Ukraine.

(in Hryvnias and in thousands)

As at 31 December 2018, Ukrainian domestic government bonds with the fair value of UAH 178,682 thousand (2017: UAH 381,663 thousand) were used as a collateral to secure a long-term borrowing from one credit institution (Note 21).

As at 31 December 2018, Ukrainian domestic government bonds with the fair value of UAH 5,282,550 thousand (2017: nil) were used as a collateral of short-term borrowings from the National Bank of Ukraine.

13. Investment property

Movements of investment property were as follows:

	31 December 2018	31 December 2017
1 January	348,834	50,814
Additions	426	222,874
Reclassification from other property	(110,349)	-
Transfer (to)/from property and equipment	41,815	74,421
Fair value adjustment	(2,698)	725
31 December	278,028	348,834

Net gain from investment property includes rental income in amount of UAH 22,411 thousand (2017: UAH 13,980 thousand).

As at 31 December 2018, investment property of carrying value UAH 51,978 thousand (2017: UAH 5,585 thousand) was used as a collateral to secure borrowings received from the National Bank of Ukraine (Note 20).

14. 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 improve- ments</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
Additions 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 Hryvnias and in thousands)

	<i>Buildings and land plots</i>	<i>Furniture and equipment</i>	<i>Leasehold improve- ments</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 2017	1,022,396	506,518	21,289	34,897	45,042	278,727	1,908,869
Additions	-	122,970	5,797	7,737	104,772	113,118	354,394
Disposals	(64,577)	(3,864)	(2,821)	(803)	(984)	(3,354)	(76,403)
Transfers	6,220	62,345	228	(7,737)	(61,056)	-	-
Revaluation	(75,326)	-	-	-	-	-	(75,326)
Reclassification to investment property	(74,473)	-	-	-	-	-	(74,473)
Reclassification from assets held for sale	397,406	-	-	890	-	-	398,296
Reclassification from/(to) other property	(216,668)	-	-	24	-	-	(216,644)
Additions from repayment of loans to customers	11	50,941	-	-	6,532	-	57,484
As at 31 December 2017	994,989	738,910	24,493	35,008	94,306	388,491	2,276,197
Accumulated depreciation							
As at 1 January 2017	-	280,418	14,825	24,441	-	79,242	398,926
Depreciation charges	26,788	78,440	4,938	5,749	-	62,545	178,460
Disposals	(1,629)	(3,813)	(2,570)	(725)	-	(3,354)	(12,091)
Reclassification to investment property	(52)	-	-	-	-	-	(52)
Revaluation	(24,161)	-	-	-	-	-	(24,161)
Reclassification from/(to) other property	(946)	-	-	-	-	-	(946)
As at 31 December 2017	-	355,045	17,193	29,465	-	138,433	540,136
Net book value							
As at 1 January 2017	1,022,396	226,100	6,464	10,456	45,042	199,485	1,509,943
As at 31 December 2017	994,989	383,865	7,300	5,543	94,306	250,058	1,736,061

As at 31 December 2018, 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 2018 amounted to UAH 851,406 thousand (2017: UAH 878,368 thousand).

As at 31 December 2018, property and equipment with the carrying amount of UAH 228,442 thousand (2017: UAH 280,982 thousand) were used as a collateral to secure borrowings received from the National Bank of Ukraine (Note 20).

As at 31 December 2018, property and equipment and intangible assets with an historical cost of UAH 368,900 thousand (2017: UAH 325,821 thousand) are fully depreciated and amortized, but are still used by the Bank. In 2018, fixed assets with a carrying value of UAH 861,564 thousand were transferred to a financial lease (2017: 45,968 thousand UAH).

15. Assets held for sale

Assets held for sale comprise:

	<i>Land</i>	<i>Non- residential property</i>	<i>Residential property</i>	<i>Ownership rights on real estate</i>	<i>Movables</i>	<i>Total</i>
Carrying value						
As at 1 January 2018	3,091	13,427	43,647	-	343	60,508
Reclassification to "Other property"	(1,199)	(10,600)	(2,703)	-	(343)	(14,845)
Sale	(1,892)	(2,827)	(40,944)	-	-	(45,663)
As at 31 December 2018	-	-	-	-	-	-

(in Hryvnias and in thousands)

	<i>Land</i>	<i>Non-residential property</i>	<i>Residential property</i>	<i>Ownership rights on real estate</i>	<i>Movables</i>	<i>Total</i>
Carrying value						
As at 1 January 2017	366,527	594,657	130,529	36,706	890	1,129,309
Additions	3,040	34,921	2,703	-	343	41,007
Reclassification to "Property and equipment and intangible assets"	(113,481)	(283,925)	-	-	(890)	(398,296)
Reclassification to "Other property"	(183,142)	(289,682)	(58,502)	(36,706)	-	(568,032)
Revaluation	(11,027)	(22,864)	(151)	-	-	(34,042)
Sale	(58,826)	(19,680)	(30,932)	-	-	(109,438)
As at 31 December 2017	3,091	13,427	43,647	-	343	60,508

16. Other property

As at 31 December 2018, other property with the carrying amounts of UAH 799,144 thousand (2017: UAH 740,764 thousand) were received as repayment of debts from the Bank's customers.

	<i>Land</i>	<i>Non-residential property</i>	<i>Residential property</i>	<i>Ownership rights to real estate</i>	<i>Movables, furniture and 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

	<i>Land</i>	<i>Non-residential property</i>	<i>Residential property</i>	<i>Ownership rights to real estate</i>	<i>Movables, furniture and equipment</i>	<i>Total</i>
Carrying amount						
As at 1 January 2017	-	-	-	-	328	328
Additions	6,451	2,202	13,306	-	53	22,012
Reclassification from "Assets held for sale"	183,142	289,683	58,501	36,706	-	568,032
Reclassification from/(to) "Property and equipment and intangible assets"	112,536	103,186	-	-	(24)	215,698
Write-off	(19,874)	(37,104)	(7,570)	-	-	(64,548)
Revaluation	(469)	(289)	-	-	-	(758)
As at 31 December 2017	281,786	357,678	64,237	36,706	357	740,764

As at 31 December 2018, other property with a carrying value of UAH 32,207 thousand (2017: 32,240) were pledged as security for loans received from the National Bank of Ukraine (Note 20).

*(in Hryvnias and in thousands)***17. Taxation**

Income tax expenses comprises:

	31 December 2018	31 December 2017
Changes in deferred taxes – origination and reversal of temporary differences	112,152	(105,023)
Deferred tax recognized in other comprehensive income	872	1,608
Income tax expenses	113,024	(103,415)

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

	31 December 2018	31 December 2017
Profit before income tax	881,722	524,397
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	158,710	94,391
Non-deductible expense for taxation	85,381	55,433
Adjustments of the tax base due to reassessment of temporary differences and changes in laws	1,739	3,607
Changes in unrecognized deferred tax assets	(132,806)	(256,846)
Income tax expenses	113,024	(103,415)

As at 31 December 2018 and 2017, deferred tax assets and liabilities and their movements for the respective periods were as follows:

	<i>Effect of adoption of IFRS 9</i>	<i>Origination and reversal of temporary differences</i>		<i>2018</i>	<i>Origination and reversal of temporary differences</i>		<i>2017</i>
		<i>In profit or loss</i>	<i>In equity</i>		<i>In profit or loss</i>	<i>In equity</i>	
Tax effect of non-taxable temporary differences							
Accruals and provisions	(5,886)	5,886	-	-	54,331	-	-
Valuation of investments measured at fair value through other comprehensive income	(5,966)	5,966	-	-	-	-	-
Property and equipment and intangible assets	-	9,540	872	54,964	16,654	1,608	44,552
Liabilities for unused vacations	-	-	-	-	(1,175)	-	-
Tax losses carried forward	-	(267,222)	-	210,217	(223,241)	-	477,439
Deferred tax assets/ (liabilities), gross	(11,852)	(245,830)	872	265,181	(153,431)	1,608	521,991
Unrecognized deferred tax asset	11,852	132,806	-	(189,749)	256,846	-	(334,407)
Deferred tax assets/ (liabilities)	-	(113,024)	872	75,432	103,415	1,608	187,584
Deferred tax assets/ (liabilities), net	-	(113,024)	872	75,432	103,415	1,608	187,584

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

In compliance with applicable tax laws of Ukraine, tax accounting is based solely on the rules of International Financial Reporting Standards and is in accordance with the Tax Code of Ukraine. 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.

*(in Hryvnias and in thousands)***18. 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 2018	7,669
Charge	118,585
Amounts written off	(11,165)
As at 31 December 2018	115,089
	<i>Provisions for legal risks</i>
As at 1 January 2017	-
Charge	72,216
Amounts written off	(64,547)
As at 31 December 2017	7,669

19. Other assets and liabilities

Other assets comprise:

	<i>31 December 2018</i>	<i>31 December 2017</i>
Receivables for securities	594,546	578,266
Prepayments	209,422	159,389
Receivables for financial leases	123,671	34,091
Receivable for property rights	96,739	100,001
Clearing payments for payment cards	74,510	102,364
Other income accrued	69,519	44,832
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	50,374	51,081
Other receivables for operations with banks	35,593	38,071
Inventories	25,155	22,679
Receivables for operations with credit cards	15,205	163,969
Receivables from employees	1,955	2,047
Taxes recoverable, other than income tax	852	466
Other	1,619	17,209
	1,299,160	1,314,465
Less: allowance for impairment	(745,907)	(730,809)
Other assets	553,253	583,656

(in Hryvnias and in thousands)

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
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)
Transfers to Stage 1	295	(269)	(26)	-
Transfers to Stage 2	(362)	3,436	(3,074)	-
Transfers 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>
Amounts written off	-	-	(649)	(649)
Translation difference	(123)	(9)	(464)	(596)
At 31 December 2018	1,929	3,079	566,943	571,951

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	-
Translation difference	(667)
As at 31 December 2018	173,956

An analysis of changes in the allowance for impairment of other assets for other financial assets for the year ended 31 December 2017 is as follows:

	Other assets
As at 1 January 2017	426,921
Charge	17,584
Reclassification of allowance for receivables for securities	294,520
Amounts written off	(11,519)
Translation difference	3,303
As at 31 December 2017	730,809

(in Hryvnias and in thousands)

Other liabilities comprise:

	31 December 2018	31 December 2017
Payables on operations with clients	180,461	44,157
Obligations under a financial leases	119,097	35,053
Accruals for unused vacations	112,476	86,342
Accounts payable for taxes and compulsory payments, except for income tax	78,821	35,955
Payables to Individual Deposits Guarantee Fund	37,809	29,768
Payables on operations with clients on the purchase and sale of foreign currency, bank and precious metals	16,647	58,508
Accrued expenses for settlement and cash services	11,632	11,355
Repair and maintenance of property and equipment and intangible assets	6,111	4,845
Connection services	3,516	3,354
Accounts payable for acquiring assets	3,137	6,423
Payables to plastic cards transactions processing center	2,851	1,486
Accounts payable for payments to employees	1,888	825
Rewarding partners for attracting clients	1,570	2,408
Retention of premises	1,530	2,744
Rent of premises	1,370	8,298
Accounts payable for operations with banks	785	156
Payables on operations with plastic cards	600	75
Other	46,228	35,843
Other liabilities	626,529	367,595

20. Due to the National Bank of Ukraine

Borrowings from the National Bank of Ukraine comprise:

	Maturity	31 December 2018	31 December 2017
Long-term refinancing borrowings from the National Bank of Ukraine	30 April 2019	106,131	206,645
	31 August 2018	-	207,459
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		4,303,770	414,104

Short-term refinancing borrowings were repaid in accordance with the stated terms.

As at 31 December 2018, interest rate for due to the National Bank of Ukraine was 7.0% p.a. (2017: 7.0% p.a.).

Interest rates on borrowings from the National Bank of Ukraine were set at the key policy rate of the National Bank of Ukraine on the date of their receipt plus 0.5% and may be changed only in case of decrease of the key policy rate.

As at 31 December 2018, the key policy rate of the National Bank of Ukraine amounted to 18.0% (2017: 14.5%).

As at 31 December 2018 and 2017, the following assets were pledged as collateral to secure borrowings from the National Bank of Ukraine:

	Notes	31 December 2018	31 December 2017
UDGB	12	5,461,232	-
Corporate bonds	12	370,105	690,132
Buildings and land plots – property and equipment	14	228,442	280,982
Buildings – investment property	13	51,978	5,585
Other property	16	32,207	32,240

*(in Hryvnias and in thousands)***21. Due to credit institutions**

Due to credit institutions comprises:

	31 December 2018	31 December 2017
Term deposits and loans	3,442,899	385,888
Correspondent accounts	2,333,453	1,520,590
Other due to credit institutions	49,045	40,452
Due to credit institutions	5,825,397	1,946,930

As at 31 December 2018, due to credit institutions include balances in the amount of UAH 2,544,956 thousand (43.69%) that were placed by three banks (2017: balances in the amount of UAH 1,078,729 thousand (55.41%) that were placed by two banks).

As at 31 December 2018, long-term borrowing received from one credit institution was secured by Ukrainian domestic government bonds with the fair value of UAH 178,682 thousand (2017: UAH 381,663 thousand) (Note 12).

As at 31 December 2018, repurchase agreement from one credit institution were secured by Ukrainian domestic government bonds with the fair value of UAH 5,282,550 thousand (2017: nil) (Note 12).

22. Due to customers

Due to customers comprise:

	31 December 2018	31 December 2017
Current accounts		
- Legal entities	24,520,256	27,791,704
- Individuals	4,009,059	3,706,143
- Budget organizations	234,149	140,369
	28,763,464	31,638,216
Time deposits		
- Legal entities	19,431,136	16,048,185
- Individuals	16,927,326	12,959,717
- Budget organizations	-	-
	36,358,462	29,007,902
Due to customers	65,121,926	60,646,118

As at 31 December 2018, due to customers in the amount of UAH 18,824,336 thousand (28.91%) included due to ten largest customers of the Bank (2017: UAH 22,083,988 thousand (36.41%)).

(in Hryvnias and in thousands)

Due to customers by industry are summarized as follows:

	31 December 2018	31 December 2017
Individuals	20,936,385	16,665,860
Services	10,352,152	12,648,426
Transport	9,342,854	11,589,052
Energy	4,263,387	2,650,078
Trade	2,973,856	2,365,471
Manufacturing	2,911,104	3,033,086
Metallurgy	2,701,974	1,416,038
Financing services	2,072,336	1,465,247
Construction	1,998,828	880,916
Insurance	1,743,125	2,000,632
Agriculture and food industry	1,065,445	1,152,159
Other	4,760,480	4,779,153
Due to customers	65,121,926	60,646,118

As at 31 December 2018, category "Other" includes funds of non-resident legal entities of UAH 4,643,027 thousand (2017: UAH 4,643,559 thousand).

As at 31 December 2018, loans to customers were secured by amounts due to customers of UAH 2,032,066 thousand (2017: UAH 795,685 thousand.) (Note 10).

As at 31 December 2018, amounts due to customers were pledged for secured financial commitments and contingencies in amount of UAH 2,887,038 thousand (2017: UAH 1,896,871 thousand) (Note 24).

23. Equity

Share capital

As at 31 December 2018, authorized issued share capital comprised 13,836,522,922 ordinary shares and 477,078 preferred shares (2017: 13,836,522,922 ordinary shares 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:

	Number of shares, thousands of units		Nominal value, UAH thousands		Nominal value, UAH thousands	Total, UAH thousands
	Ordinary	Preferred	Ordinary	Preferred		
As at 31 December 2016	13,836,523	477	13,836,523	477	13,837,000	13,837,000
Issued and registered shares	-	-	-	-	-	-
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

*(in Hryvnias and in thousands)***Movements in other reserves**

Movements in other reserves were as follows:

	<i>Property and equipment revaluation reserve</i>	<i>Revaluation reserve for investments measured at fair value through other comprehensive income</i>	<i>Total</i>
As at 31 December 2016	360,907	232,508	593,415
Revaluation of property and equipment	(8,935)	–	(8,935)
Income tax associated with revaluation of property and equipment	1,608	–	1,608
Unrealized losses on investments available for sale	–	(344,680)	(344,680)
Realized profits on investments available for sale	–	51,602	51,602
Transfers on disposal of assets	(14,586)	–	(14,586)
As at 31 December 2017	338,994	(60,570)	278,424
As at 1 January 2018	338,994	(60,570)	278,424
Effect of adoption of IFRS 9	–	(33,167)	(33,167)
Restated balance under IFRS 9 as at 1 January 2018	338,994	(93,737)	245,257
Revaluation of property and equipment	(4,843)	–	(4,843)
Income tax associated with revaluation of property and equipment	872	–	872
Unrealized losses on investments measured at fair value through other comprehensive income	–	(605,229)	(605,229)
Realized profits on investments measured at fair value through other comprehensive income	–	21,214	21,214
Changes in allowance for expected credit losses on investments at fair value through other comprehensive income	–	(1,718)	(1,718)
Transfers on disposal of assets	(3,316)	–	(3,316)
As at 31 December 2018	331,707	(679,470)	(347,763)

24. 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 18).

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. No provision for potential tax assessments has been made in these financial statements because, as at 31 December 2018, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax position will be sustained.

*(in Hryvnias and in thousands)***Commitments and contingencies**

As at 31 December 2018 and 2017, contractual commitments and contingencies were as follows:

	31 December 2018	31 December 2017
Guarantees	4,218,663	3,064,056
Letters of credit	1,731,587	1,149,618
Loan commitments	38,095	3,000,000
Total	5,988,345	7,213,674

As at 31 December 2018 and 2017, loan commitments are represented by revocable commitments to the Bank's strategic customers.

Changes in expected credit losses of guarantees were as follows:

Legal entities	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	5,105	139	142,752	147,996
New guarantees	6,959	60,405	1,178	68,542
Expired guarantees	(1,803)	(6,576)	(944)	(9,323)
Transfers to Stage 1	48,898	(48,898)	-	-
Transfers to Stage 2	(4,214)	4,214	-	-
Transfers to Stage 3	-	-	-	-
Change in expected credit losses	(51,005)	60,394	(27,511)	(18,122)
<i>Total credit loss expense before transition difference</i>	<i>(1,165)</i>	<i>69,539</i>	<i>(27,277)</i>	<i>41,097</i>
Translation difference	(33)	(2,698)	(3,006)	(5,737)
As at 31 December 2018	3,907	66,980	112,469	183,356

SME	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	59	-	-	59
New guarantees	27	-	-	27
Expired guarantees	(6)	-	-	(6)
Transfers to Stage 1	31	(31)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Change in expected credit losses	(90)	31	-	(59)
<i>Total credit loss expense before transition difference</i>	<i>(38)</i>	<i>-</i>	<i>-</i>	<i>(38)</i>
Translation difference	-	-	-	-
As at 31 December 2018	21	-	-	21

(in Hryvnias and in thousands)

Changes in expected credit losses of loan commitments were as follows:

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)
Transfers to Stage 1	38,673	(38,673)	-	-
Transfers to Stage 2	-	16,000	(16,000)	-
Transfers to Stage 3	-	(2,772)	2,772	-
Change in expected credit losses	(38,673)	278,180	(36,279)	203,228
<i>Total credit loss expense before transition difference</i>	-	209,387	(15,470)	193,917
Translation difference	-	(1,960)	-	(1,960)
As at 31 December 2018	-	229,660	44,530	274,190

SME	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)
Transfers to Stage 1	1,136	(607)	(529)	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Change in expected credit losses	(1,136)	(1,580)	170	(2,546)
<i>Total credit loss expense before transition difference</i>	-	2,179	(2,042)	137
Translation difference	-	(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)
Transfers to Stage 1	6,556	(873)	(5,683)	-
Transfers to Stage 2	-	405	(405)	-
Transfers to Stage 3	-	(462)	462	-
Change in expected credit losses	(6,556)	1,078	10,274	4,796
<i>Total credit loss expense before transition difference</i>	-	90	(2,260)	(2,170)
Translation difference	-	-	(174)	(174)
As at 31 December 2018	-	154	14,031	14,185

Below is an analysis of changes in provisions recognized in respect of the Bank's obligations as at 31 December 2017:

	Guarantees and contractual obligations
As at 1 January 2017	60,504
Charge	115,317
Translation difference	25,902
As at 31 December 2017	201,723

Provisions for claims, guarantees and commitments are recorded as liabilities.

As at 31 December 2018, commitments and contingencies were secured by cash collateral in the amount of UAH 2,887,038 thousand (2017: UAH 1,896,871 thousand) (Note 22).

*(in Hryvnias and in thousands)***25. Net fee and commission income**

Net fee and commission income comprises:

	31 December 2018	31 December 2017
Settlements operations	637,750	501,717
Agency operations in the foreign exchange market	117,377	83,371
Guarantees and letters of credit	80,666	60,844
Operations with securities	7,320	2,522
Other	122,079	71,414
Fee and commission income	965,192	719,868
Settlements operations	(183,971)	(150,981)
Guarantees and letters of credit	(8,631)	(12,515)
Agency operations in the foreign exchange market	(3,491)	(2,394)
Other	(8,208)	(2,278)
Fee and commission expense	(204,301)	(168,168)
Net fee and commission income	760,891	551,700

26. (Losses)/gains on trading securities

(Losses)/gains on trading securities that are recognized in the statement of profit or loss and other comprehensive income comprise:

	31 December 2018	31 December 2017
Net gains from operations with trading securities	268	630
(Losses)/gains on revaluation of trading securities	(3,545)	4,486
(Losses)/gains on trading securities	(3,277)	5,116

27. Net gains on investments measured at fair value through other comprehensive income / Net gains on investments available for sale

Net gains on investments measured at fair value through other comprehensive income that are recognized in the statement of profit or loss and other comprehensive income comprise:

	31 December 2018	31 December 2017
Gains from operations with investments measured at fair value through other comprehensive income	21,214	X
Credit loss expense of investments measured at fair value through other comprehensive income	(1,718)	X
Net gains on investments measured at fair value through other comprehensive income	19,496	X

Net gains on investments available for sale that are recognized in the statement of profit or loss and other comprehensive income comprise:

	31 December 2018	31 December 2017
Gains from operations with investments available for sale	X	51,602
Recovery of impairment of investments available for sale	X	-
Net gains on investments available for sale	X	51,602

*(in Hryvnias and in thousands)***28. Net gains on foreign exchange operations and precious metals**

Net gains on foreign exchange operations and precious metals comprise:

	31 December 2018	31 December 2017
Dealing operations	(27,734)	12,036
Translation differences	143,020	59,522
Net gains from operations with foreign exchange and precious metals	115,286	71,558

29. Other income

Other income comprise:

	31 December 2018	31 December 2017
Fees from insurance companies and banks	87,457	34,923
Penalties received	19,114	35,224
Repayment of purchased impaired financial assets	10,273	5,195
Compensation costs for utilities of premises leased	10,248	6,601
Positive result from sale of property and equipment and intangible assets	5,156	54,020
Positive result from sale of assets held for sale and other property	4,154	13,632
Recovery of litigation expenses	3,348	1,407
Surplus cash collection at ATMs	3,152	642
Income from early repayment of customers term deposits	1,969	1,218
Recovery of registration costs	1,023	494
Recovery of previously written-off assets	860	6,992
Gain from acquired ownership of due to customers	740	1,625
Other	14,341	9,848
Total other income	161,835	171,821

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.

30. Credit loss expense of other assets and other provisions, 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 2018:

	Note	Stage 1	Stage 2	Stage 3	POCI	Total
Cash and cash equivalents	7	3,120	-	-	-	3,120
Due to credit institutions	8	(9,907)	-	(407)	-	(10,314)
Loans to customers and financial leases	10	(111,608)	196,559	724,052	13	809,016
Investments measured at fair value through other comprehensive income	12	1,718	-	-	-	1,718
Other financial assets	19	(8,939)	750	1,355	-	(6,834)
Financial guarantees	24	(1,203)	69,539	(27,277)	-	41,059
Loan commitments	24	-	211,656	(19,772)	-	191,884
Total credit loss expense		(126,819)	478,504	677,951	13	1,029,649

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 19);
- ▶ Expenses for the accrued of reserves for legal risks in the amount of UAH 118,585 thousand (Note 18).

*(in Hryvnias and in thousands)***31. Staff costs and other operating expense**

Staff costs and other operating expense comprise:

	31 December 2018	31 December 2017
Salaries and bonuses	973,665	740,387
Charges on payroll	173,755	130,115
Other staff costs	55,197	42,231
Staff costs	1,202,617	912,733
Professional services	137,401	97,807
Payments to the Individual Deposit Guarantee Fund	135,170	110,773
Repairs and maintenance of property and equipment	122,949	106,970
Communications	99,520	110,678
Office supplies	85,923	51,841
Lease and maintenance of premises	55,655	42,399
Taxes, other than income tax	54,533	47,585
Software support	45,305	26,754
Charity	39,859	33,455
Marketing and advertising	38,021	11,598
Security	25,172	21,327
Result on revaluation of property and equipment and intangible assets, assets held for sale, other property	22,764	78,674
Reward to partners for attraction of customers	15,812	60,218
Expenses for the accumulation of values	13,090	13,176
Business trips	9,233	6,393
Costs of enforcement of judgments	506	3,205
Fines and penalties	177	337
Other	33,341	34,847
Other operating expense	934,431	858,037

32. 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.

The risk management system is based on the division of responsibilities between the Bank's departments using the model of three protection lines:

- ▶ The first line – at the level of business divisions and support divisions of the Bank;
- ▶ The second line – at the level of risk management divisions and the compliance control divisions (compliance);
- ▶ The third line – at the level of the internal audit department to verify and evaluate the effectiveness of the operation of the risk management system.

Risk management structure*Supervisory Board*

The Supervisory Board defines and approves the strategy of risk management, credit policy, individual risk management policies, the plan for ensuring continuous activity, the plan for financing crisis situations, determines the risk appetite and sets the limits of risk, monitors the effectiveness of the operation of the risk management system, recognizes the sources of capitalization and other Bank financing.

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 Supervisory Board.

(in Hryvnias and in thousands)

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 strictures 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 and marginal risk indicators

The Supervisory Board at least once a year with the approval of the annual financial plan (budget) of the Bank, or more often, if necessary, approves the risk appetite of the Bank as a set of thresholds for each type of risk.

The Supervisory Board sets limits for at least the following types of risk:

- ▶ Credit risk;
- ▶ Interest rate risk;
- ▶ Market risk;
- ▶ Liquidity risk;
- ▶ Operational risk;
- ▶ Compliance risk;
- ▶ Aggregated risk.

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.

Derivative financial instruments

Credit risk arising from derivative financial instruments is limited to a nominal amount under the relevant contracts.

*(in Hryvnias and in thousands)**Credit-related commitments risks*

The 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.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

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 2018, corresponded to a speculative level of CCC+ (2017: CCC).

Investments measured at fair value through other comprehensive income, in particular Ukrainian domestic government bonds and unrated municipal bonds, were assigned by the Bank to the category of Lower than B- in accordance with the sovereign credit rating of Ukraine.

Other balances of cash and cash equivalents, due from credit institutions and investments available for sale 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 national rating agencies. 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.

The following table details the credit ratings of financial assets of the Bank:

	<i>uaAAA – A-</i>	<i>uaBBB – B-</i>	<i>Lower than B-</i>	<i>Unrated</i>	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 measured at fair value through other comprehensive income	10	–	18,496,050	305,418	18,801,478
					31 December 2017
Cash and cash equivalents (other than cash on hand)	–	–	6,266,697	–	6,266,697
Due from credit institutions	1,164,003	2,241,627	100	333,824	3,739,554
Derivative financial assets	–	50	–	860	910
Trading securities	–	–	315,094	–	315,094
Investments available for sale	7	–	20,573,555	3,101	20,576,663

*(in Hryvnias and in thousands)***Impairment assessment**

From 1 January 2018, the Bank calculates expected credit losses (ECL) 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 and the key elements are as follows:

Probability of Default (PD)	The <i>Probability of Default</i> is an estimate of the likelihood of counterparties fail to discharge their contractual obligations.
Exposure at Default (EAD)	The outstanding balance of the debt at any date in the future, taking into account expected changes in this amount after the reporting date, including repayment of the principal amount and the amount of accrued interest.
Loss Given Default (LGD)	Estimated losses as the result of counterparties default. 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.

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 is the indicator: the rate of growth of nominal GDP.

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 when the 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.

*(in Hryvnias and in thousands)***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.

After statistical analysis of dependence of probability of default of the Bank's clients on economic indicators, the rate of growth of nominal GDP was identified as one that demonstrates the closest relationship with the level of default of borrowers in all segments of business.

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 (Moody's, Fitch Ratings, S&P Global Ratings) and Bloomberg information system data. The table below discloses the forecast values of the economic indicators used in economic scenario for calculation of the ECL.

Key drivers	ECL scenario	Probability, %	2019	2020
GDP growth, %	Upside	25	15,3	11,8
	Base case	50	13,5	11,6
	Downside	25	12,9	10,7

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 2018	Note		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	8	Stage 1	520,804	129,552	77,269	-	727,625
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	729,512	729,512
Loans to customers and financial leases measured 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
- SME		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	11	Stage 1	333	-	-	-	333
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	-	-
Investments measured at fair value through other comprehensive income	12	Stage 1	18,434,359	4,652	-	-	18,439,011
		Stage 2	-	-	-	-	-
		Stage 3	389,997	-	-	-	389,997

(in Hryvnias and in thousands)

31 December 2018	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Loan commitments:	24						
- 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
- SME		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:	24						
- Legal entities		Stage 1	151,522	1,626,639	1,095,083	-	2,873,244
		Stage 2	-	128,280	758,306	-	886,586
		Stage 3	-	-	13,819	415,626	429,445
- SME		Stage 1	14,911	10,166	9,311	-	34,388
		Stage 2	-	3,545	336	-	3,881
		Stage 3	-	-	-	-	-
Total			42,428,720	27,908,493	20,920,397	8,566,927	99,824,537

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 banks		Rating of external international rating agency (Fitch), Resident banks	
			Rating of external international rating agency (Fitch), non-resident banks	Rating of external international rating agency (Fitch), Resident banks		
High grade	0	A1, A2, A3	AAA+ to BBB-	According to the established interbank rating for banks – residents with the value of 1, 2 and CCC + (rating of Ukraine), 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	1-30, 31-60	B1, B2, B3	BB+ to B-	According to the established intrabank rating for resident banks with a value of 3 (CCC+ or NR)		
Sub-standard grade	61-90	C1, C2, C3, D1, D2, D3	CCC to C	According to the established intrabank rating with a value of 4 for CCC + (for state banks) or NR		
Impaired	90+	E	D	D		

The credit quality of financial assets after allowances for impairment as at 31 December 2017 is as follows:

	Notes	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
Cash and cash equivalents (other than cash on hand)	7	6,266,697	-	-	6,266,697
Due from credit institutions	8	280,569	-	3,458,985	3,739,554
Loans to customers	10				
- Legal entities		26,634,430	2,916,028	442,551	29,993,009
- SMEs		1,855,277	63,217	12,632	1,931,126
- Individuals		1,531,287	120,119	70,892	1,722,298
Trading securities	11	315,094	-	-	315,094
Investments available for sale	12	20,565,344	-	-	20,565,344
Total		57,448,698	3,099,364	3,985,060	64,533,122

*(in Hryvnias and in thousands)***Geographical concentration**

The following table summarizes geographical concentration of monetary assets and liabilities:

	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 measured at fair value through other comprehensive income	18,801,468	10	-	18,801,478
Other assets	59,431	-	-	59,431
	72,268,158	6,584,575	10,120	78,862,853
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	(834,776)	3,563,951	(25,578)	2,703,597

	31 December 2017			Total
	Ukraine	OECD countries	CIS and other foreign banks	
Assets				
Cash and cash equivalents	7,264,287	-	-	7,264,287
Precious metals	7,958	-	-	7,958
Due from credit institutions	352,773	3,318,528	68,253	3,739,554
Derivative financial assets	910	-	-	910
Loans to customers and financial leases	33,646,433	-	-	33,646,433
Trading securities	315,094	-	-	315,094
Investments available for sale	20,576,656	7	-	20,576,663
Other assets	189,054	-	-	189,054
	62,353,165	3,318,535	68,253	65,739,953
Liabilities				
Due to the National Bank of Ukraine	414,104	-	-	414,104
Due to credit institutions	1,946,930	-	-	1,946,930
Derivative financial liabilities	3,775	-	-	3,775
Due to customers	60,646,118	-	-	60,646,118
Provisions for guarantees and commitments	209,392	-	-	209,392
Other liabilities	73,822	-	-	73,822
	63,294,141	-	-	63,294,141
Difference between assets and liabilities	(940,976)	3,318,535	68,253	2,445,812

*(in Hryvnias and in thousands)***Liquidity risk and funding management**

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. 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 1 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 is grouped based on dates from reporting date to maturity date in accordance with relevant agreements.

After 31 December 2018, the Bank on 21 February 2019 transferred funds of two legal entities from current accounts in the amount of UAH 1,478,480 thousand according to the decision of executive bodies.

Analysis of assets and liabilities of the Bank by the estimated dates of their recovery or repayment is discussed in Note 34.

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 2018 and 2017 based on the remaining time to maturity. 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.

Financial liabilities as at 31 December 2018	Up to 3 months	From 3 to 12 months	From 1 to 5 years	More than 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
Gross settled derivative financial instruments:					
- amounts payable	(668,531)	–	–	–	(668,531)
- amounts receivable	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

Financial liabilities as at 31 December 2017	Up to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Due to the National Bank of Ukraine	87,181	254,503	108,811	–	450,495
Due to credit institutions	1,695,756	13,034	284,447	–	1,993,237
Gross settled derivative financial instruments:					
- amounts payable	(1,139,386)	–	–	–	(1,139,386)
- amounts receivable	1,143,162	–	–	–	1,143,162
Due to customers	47,746,975	12,845,605	824,711	82,208	61,499,499
Other liabilities	73,822	–	–	–	73,822
Total undiscounted financial liabilities	49,607,510	13,113,142	1,217,969	82,208	64,020,829

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	More than 5 years	Total
31 December 2018	2,325,277	2,773,525	889,543	–	5,988,345
31 December 2017	1,353,100	5,160,700	538,584	161,290	7,213,674

The Bank expects that not all of the commitments and contingencies will be drawn before expiry of the commitments.

*(in Hryvnias and in thousands)***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 an 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.

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 2018						
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
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
31 December 2017						
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets	13,034,202	8,794,395	19,484,002	17,176,738	5,530,433	64,019,770
Liabilities	48,448,249	4,687,910	8,673,407	1,046,519	151,068	63,007,153
Difference between assets and liabilities	(35,414,047)	4,106,485	10,810,595	16,130,219	5,379,365	1,012,617
1%	(339,587)	34,202	40,577			(264,808)
-1%	339,587	(34,202)	(40,577)			264,808

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 Hryvnias and in thousands)***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 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 2018 are as follows:

	<i>UAH</i>	<i>USD</i>	<i>EUR</i>	<i>Other currencies</i>	<i>Total</i>
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 measured 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					
Amounts due to 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	
Off-balance items					
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	

(in Hryvnias and in thousands)

The major foreign currency denominated positions of assets and liabilities as at 31 December 2017 are as follows:

	UAH	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	6,405,125	696,893	148,614	13,655	7,264,287
Precious metals	-	-	-	7,958	7,958
Due from credit institutions	309,426	2,826,203	339,701	264,224	3,739,554
Loans to customers and financial leases	17,748,295	10,156,133	5,742,005	-	33,646,433
Trading securities	347	314,747	-	-	315,094
Investments available for sale	9,421,464	9,671,266	1,483,933	-	20,576,663
Investment property	348,834	-	-	-	348,834
Property and equipment and intangible assets	1,736,061	-	-	-	1,736,061
Assets held for sale	60,508	-	-	-	60,508
Other property	740,764	-	-	-	740,764
Current income tax assets	4,921	-	-	-	4,921
Deferred income tax assets	187,584	-	-	-	187,584
Other assets	515,526	52,417	15,713	-	583,656
Total assets	37,478,855	23,717,659	7,729,966	285,837	69,212,317
Liabilities					
Amounts due to National Bank of Ukraine	414,104	-	-	-	414,104
Due to credit institutions	250,048	1,287,794	340,997	68,091	1,946,930
Due to customers	31,720,689	21,561,912	7,202,229	161,288	60,646,118
Provisions for guarantees, commitments and legal risks	13,140	-	196,252	-	209,392
Other liabilities	345,231	9,041	10,661	2,662	367,595
Total liabilities	32,743,212	22,858,747	7,750,139	232,041	63,584,139
Net long/(short) recognized position	4,735,643	858,912	(20,173)	53,796	
Off-balance items					
Assets receivable	961,247	185,442	208,342	7,546	1,362,577
Assets payable	(93,674)	(1,086,693)	(98,945)	(86,130)	(1,365,442)
Net long/(short) unrecognized position	867,573	(901,251)	109,397	(78,584)	
Total long/(short) recognized and unrecognized position	5,603,216	(42,339)	89,224	(24,788)	

The tables below indicate the currencies to which the Bank had significant exposure as at 31 December 2018 and 2017 on its non-trading monetary assets and liabilities and its estimated cash flows. The analysis includes the effect of a possible change in the currency exchange rate of UAH against foreign currencies with all other variables remaining unchanged in the Bank's statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities that are available in the Bank's portfolio). A negative amount in the table reflects a potential net decrease in profit or in equity while a positive amount reflects a net potential increase in profit or in equity.

Currency	Increase in foreign currency exchange rate % 31 December 2018	Effect on profit before tax 31 December 2018	Increase in foreign currency exchange rate % 31 December 2017	Effect on profit before tax 31 December 2017
USD	6.00%	(9,657)	14.00%	(5,928)
EUR	8.00%	(7,796)	22.00%	19,629
Currency	Decrease in foreign currency exchange rate % 31 December 2018	Effect on profit before tax 31 December 2018	Decrease in foreign currency exchange rate % 31 December 2017	Effect on profit before tax 31 December 2017
USD	-6.00%	9,657	-10.00%	4,234
EUR	-8.00%	7,796	-9.00%	(8,030)

*(in Hryvnias and in thousands)***33. 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):

<i>Assets/liabilities</i>	<i>Fair value hierarchy</i>	<i>Valuation techniques and key inputs</i>
Investments measured as fair value through profit or loss	2	Discounted cash flows. Future cash flows are estimated based on the inputs that are observable either directly or indirectly and the estimates use one or more observable quoted prices for orderly transactions in the markets that are not considered active.
Investments measured 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, other property	3	The Bank engages professional independent appraisers to determine the fair value of its buildings and land plots, assets held for sale 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 Hryvnias and in thousands)

The following table summarizes assets and liabilities recognized at fair value on initial recognition using a three level fair value hierarchy:

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Trading securities	-	333	-	333
Investments measured 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
Total	10	18,791,012	1,226,925	20,017,947
Liabilities measured at fair value				
Derivative financial liabilities	-	1,830	-	1,830
Total	-	1,830	-	1,830
	31 December 2017			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Trading securities	-	315,094	-	315,094
Investments available for sale	7	20,565,344	11,312	20,576,663
Derivative financial assets	-	910	-	910
Investment property	-	-	348,834	348,834
Buildings and land plots	-	-	994,989	994,989
Total	7	20,881,348	1,355,135	22,236,490
Liabilities measured at fair value				
Derivative financial liabilities	-	3,775	-	3,775
Total	-	3,775	-	3,775

Movements in Level 3 financial instruments measured at fair value

During 2018 and 2017, there were no changes in the amounts of assets and liabilities, which are measured at fair value in Level 3.

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:

	As at 31 December 2018		As at 31 December 2017	
	Carrying amount	Effect of potential alternative assumptions	Carrying amount	Effect of potential alternative assumptions
Financial assets				
Investments measured at fair value through other comprehensive income	11,312	(11,312)	X	X
Investments available for sale	X	X	11,312	(11,312)

*(in Hryvnias and in thousands)***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 the fair value, expected cash flows are discounted at market rates prevailing as at the reporting date for similar instruments.

<i>Financial assets / financial liabilities</i>	<i>Fair value hierarchy</i>	<i>Valuation technique(s) and key input(s)</i>
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 issuer, its risk profile and economic performance of the industry and geographical jurisdiction where the issuer operates. The most significant inputs 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 2018			
	Level 1	Level 2	Level 3	Total
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

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed				
Cash and cash equivalents	7,264,287	–	–	7,264,287
Due from credit institutions	–	–	3,739,554	3,739,554
Loans to customers and financial leases	–	–	34,456,461	34,456,461
Total	7,264,287	–	38,196,015	45,460,302
Liabilities for which fair values are disclosed				
Due to the National Bank of Ukraine	–	–	414,104	414,104
Due to credit institutions	–	–	1,946,930	1,946,930
Due to customers	–	–	60,775,916	60,775,916
Total	–	–	63,116,950	63,116,950

(in Hryvnias and in thousands)

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 2018		31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	14,035,435	14,035,435	7,264,287	7,264,287
Due from credit institutions	727,055	727,055	3,739,554	3,739,554
Loans to customers and financial leases	45,236,844	44,886,482	33,646,433	34,456,461
Total financial assets	59,999,334	59,648,972	44,650,274	45,460,302
Financial liabilities				
Due to the National Bank of Ukraine	4,303,770	4,303,770	414,104	414,104
Due to credit institutions	5,825,397	5,825,397	1,946,930	1,946,930
Due to customers	65,121,926	65,213,414	60,646,118	60,755,916
Total financial liabilities	75,251,093	75,342,581	63,007,152	63,116,950

34. 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 32 for the Bank's contractual undiscounted repayment obligations.

	31 December 2018				31 December 2017			
	Within one year	More than one year	Maturity undefined	Total	Within one year	More than one year	Maturity undefined	Total
Cash and cash equivalents	14,035,435	-	-	14,035,435	7,264,287	-	-	7,264,287
Precious metals	1,754	-	-	1,754	7,958	-	-	7,958
Derivative financial assets	523	-	-	523	910	-	-	910
Due from credit institutions	727,055	-	-	727,055	3,739,554	-	-	3,739,554
Loans to customers and financial leases	25,776,930	19,459,914	-	45,236,844	17,733,094	15,913,339	-	33,646,433
Trading securities	333	-	-	333	315,094	-	-	315,094
Investments measured at fair value through other comprehensive income	8,851,026	9,950,452	-	18,801,478	X	X	X	X
Investments available for sale	X	X	X	X	8,619,180	11,957,483	-	20,576,663
Investment property	-	-	278,028	278,028	-	-	348,834	348,834
Property and equipment and intangible assets	-	-	1,710,795	1,710,795	-	-	1,736,061	1,736,061
Assets held for sale	-	-	-	-	60,508	-	-	60,508
Other property	-	-	799,144	799,144	-	-	740,764	740,764
Current tax assets	-	4,921	-	4,921	-	4,921	-	4,921
Deferred tax assets	-	75,432	-	75,432	-	187,584	-	187,584
Other assets	553,253	-	-	553,253	583,656	-	-	583,656
Total	49,946,309	29,490,719	2,787,967	82,224,995	38,324,241	28,063,327	2,825,659	69,213,227
Due to the National Bank of Ukraine	4,303,770	-	-	4,303,770	318,488	95,616	-	414,104
Due to credit institutions	4,559,270	1,266,127	-	5,825,397	1,691,410	255,520	-	1,946,930
Derivative financial liabilities	1,830	-	-	1,830	3,775	-	-	3,775
Due to customers	63,310,853	181,1073	-	65,121,926	59,799,667	846,451	-	60,646,118
Provisions for guarantees and commitments	589,528	-	-	589,528	209,392	-	-	209,392
Other liabilities	626,529	-	-	626,529	367,595	-	-	367,595
Total	73,391,780	3,077,200	-	76,468,980	62,390,327	1,197,587	-	63,587,914
Net amount	(23,445,471)	26,413,519	2,787,967	5,756,015	(24,066,086)	26,865,740	2,825,659	5,625,313

(in Hryvnias and in thousands)

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 2018 amounted to UAH 23,629,570 thousand) that arose as at 31 December 2018 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 4,223,268 thousand, bonds of the State Mortgage Institution in the amount of UAH 19,218 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 2018, 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 4,242,486 thousand.
- ▶ Stable balances on current customer accounts determined based on statistical analysis of fluctuations in current customer account balances. As at 31 December 2018, stable balances on current accounts were estimated to be equal to UAH 13,983,297 thousand. Based on the going concern assumption, actual maturity of the stable balances may be considered as undefined.
- ▶ Stable balances on customer in other accounts determined based on statistical analysis of fluctuations in other customer accounts. As at 31 December 2018, stable balances on other accounts were estimated to be equal to UAH 4,267,148 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 2018 in the amount of UAH 23,629,925 thousand based on the estimated maturities of the abovementioned financial instruments has decreased a liquidity gap and may be estimated in the amount of UAH 1,136,639 thousand.

35. 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 2018, the Bank was by 94.94% a state-owned bank under control of the Ministry of Finance of Ukraine (2017: 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.

Translation from Ukrainian original

PUBLIC JOINT STOCK COMPANY
JOINT STOCK BANK "UKRGASBANK"

Notes to the financial statements
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(in Hryvnias and in thousands)

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 2018			31 December 2017		
	State controlled entities	Other related parties	Key management personnel	State controlled entities	Other related parties	Key management personnel
Assets						
Cash and cash equivalents	4,005,260	-	-	4,504,623	-	-
Current accounts with the National Bank of Ukraine	1,966,874	-	-	1,242,025	-	-
Current accounts and overnight placements with other credit institutions	450,392	-	-	443,046	-	-
Due from credit institutions	10,097	-	-	100	-	-
Loans to customers, gross	17,948,725	446	16,869	14,857,167	1,034	17,640
Less: expected credit losses/allowance for impairment	(523,536)	-	(39)	(585,160)	(1)	(125)
Trading securities	333	-	-	315,094	-	-
Investments measured at fair value through other comprehensive income	18,798,301	-	-	X	X	X
Investments available for sale	X	X	X	20,573,488	-	-
Liabilities						
Due to the National Bank of Ukraine	4,303,770	-	-	414,104	-	-
Due to credit institutions	98,678	43,535	-	50,526	8,482	-
Due to customers – deposits	6,129,630	92,045	44,723	6,036,396	179,758	47,163
Due to customers – current accounts	13,236,590	5,484	18,111	19,065,151	11,464	19,496
Commitments and guarantees issued	4,615,112	2,397	6,643	9,801,428	372	6,913
Statement of profit or loss and other comprehensive income						
Interest income on loans to customers	1,872,874	317	942	1,318,339	128	810
Interest income on trading securities	14,982	-	-	23,016	-	-
Interest income on investments measured at fair value through other comprehensive income	2,243,827	-	-	X	X	X
Interest income on investments available for sale	X	X	X	2,021,768	-	-
Interest income on deposit certificates of the National Bank of Ukraine	796,914	-	-	531,359	-	-
Interest expense on due to the National Bank of Ukraine	185,256	-	-	73,803	-	-
Interest expense on due to credit institutions	7,141	465	-	5,472	348	-
Interest expense on due to customers	2,209,948	2,573	1,705	2,115,567	3,508	2,652
Allowance for impairment of loans: (provision)/recovery	61,624	1	86	(372,925)	-	22
Net (losses)/profits from trading securities	(3,277)	-	-	5,116	-	-
Net gains on investments measured at fair value through other comprehensive income	19,496	-	-	X	X	X
Net gains on investments available for sale	X	X	X	51,818	-	-
Other operating expense	135,170	-	-	110,773	-	-

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 2018, 52% of assets and 37% of liabilities were concentrated in operations with state-owned companies, the National Bank of Ukraine, state banks and government authorities (2017: 60% of assets and 56% of liabilities).

(in Hryvnias and in thousands)

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 2018	31 December 2017
Salaries and bonuses	83,667	42,434
Total remuneration to key management personnel	83,667	42,434

36. 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. 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 2018 and 31 December 2017 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 2018 and 2017.

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 2018 and 2017, 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 2018 and 2017, the Bank's capital adequacy ratio on this basis was as follows:

	31 December 2018	31 December 2017
Base capital	5,897,810	5,142,662
Supplementary capital	169,895	173,685
Deductible	333,669	6,660
Regulatory Capital	5,728,036	5,309,687
N2 ratio	12.07%	13.98%
N3 ratio (actually calculated since 1 January 2019)	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 2018 and 2017:

	31 December 2018	31 December 2017
Tier 1 capital	7,206,082	6,449,193
Tier 2 capital	(1,450,067)	(823,880)
Total capital	5,756,015	5,625,313
Risk weighted assets	50,171,203	45,173,595
Tier 1 capital ratio	14.36%	14.28%
Total capital ratio	11.47%	12.45%

As at 31 December 2018 the Bank was in compliance with the capital ratio calculated in accordance with the Basel Accord.

*(in Hryvnias and in thousands)***37. 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>Total</i>
Carrying amount at 31 December 2016	574,997	220,114	795,111
Additions	–	80,939	80,939
Repayment	(180,000)	–	(180,000)
Non-cash transactions	19,107	(245)	18,862
Translation differences	–	35,101	35,101
Carrying amount at 31 December 2017	414,104	335,909	750,013
Additions	15,787,606	1,432,794	17,220,400
Repayment	(11,900,075)	(80,389)	(11,980,464)
Non-cash transactions	2,135	7,790	9,925
Translation differences	–	2,519	2,519
Carrying amount at 31 December 2018	4,303,770	1,698,623	6,002,393

38. Subsequent events

After 31 December 2018, there were no events that would have an impact on these financial statements and would require disclosure.