Joint Stock Company
"The State Export-Import Bank of Ukraine"

Consolidated management report

Annual consolidated financial statements

For the year ended 31 December 2019,
with independent auditor's report

Translation from Ukrainian original

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Consolidated management report
Joint Stock Company "The State Export-Import Bank of Ukraine"

(Consolidated management report was prepared in accordance with the requirements of Article 40-1 of Law of Ukraine On Securities and Stock Market, the Regulation of Disclosure of Information by Securities Issuers, approved by resolution No. 2826 of the National Securities and Stock Market Commission of Ukraine (NSSMC) on December 3, 2013, Law of Ukraine On Accounting and Financial Reporting in Ukraine, the Instruction on the Procedure for the Preparation and Publication of Financial Statements of Banks of Ukraine approved by the NBU Board Resolution No. 373 dated October 24, 2011).

Joint Stock Company "The State Export-Import Bank of Ukraine" (hereinafter – "Ukreximbank", "JSC Ukreximbank", , the "Bank/bank" or the "issuer") was established in 1992.

Ukreximbank performs its activity on the basis of Bank License No.2 dated October 5, 2011 extended on August 7, 2019.

As of December 31, 2019 and 2018 100% of Ukreximbank share capital was owned by the state represented by the Cabinet of Ministers of Ukraine.

Head Office of Ukreximbank is located in Kyiv at the address: 127, Antonovycha str. The Bank has 22 branches and 38 sub-branches (as of December 31, 2018 it had 22 branches and 39 sub-branches) and two representative offices in London and New-York. The Bank and its branches is a single legal entity.

Historically, the key activity of Ukreximbank is servicing of export and import transactions. Currently, Ukreximbank has the diversified customer base, which includes significant number of large industrial and state-owned enterprises. Ukreximbank accepts deposits from individuals and legal entities, extends loans, provides payment services within Ukraine and effects money transfers abroad, fulfils foreign exchange transactions, invests funds, performs servicing of the customers' cash and settlement operations and renders other banking services.

One of the key Ukreximbank functions is facilitation of servicing, on the Government of Ukraine behalf, of the loan agreements entered into by the Government of Ukraine and governments of other countries. Ukreximbank acts as an agent of the Government of Ukraine and effects servicing of loans provided by international financial institutions in accordance with the terms and conditions of such agreements.

Ukreximbank has subsidiaries - Ukreximleasing Leasing Company and Eximleasing LLC (hereinafter together the Ukreximbank, Ukreximbank, Ukreximbank JSC, Bank/Bank or the issuer).

The Ukreximleasing Leasing Company subsidiary 100% owned by Ukreximbank was established in 1997 and registered in Ukraine conducting trade and leasing transactions.

The Eximleasing LLC subsidiary 100% owned by Ukreximbank was established in 2006 and is registered in Ukraine conducting trade and leasing transactions.

Human resources, employment, respect for human rights, intellectual capital and its use for the Bank goals achievement, anticorruption efforts.

Pursuant to the JSC Ukreximbank Human Resources Policy (hereinafter - Human Resources Policy) the Bank guarantees equal employment opportunities, namely:

- the Bank takes a decision on hiring, appointment and transfer to office, as well as other decisions that has an impact on the staff employment irrespective of ancestry, social and property status, racial and ethnic background, sex, political views, religious convictions, membership in trade union or other citizen group, line of work and nature of occupation.

For example, as of December 31, 2019 the share of women employed on executive positions was 52% of the entire Bank staff, including 30% in the Board of the Bank.

- the Bank not only provides a job, but also facilitates the integration of people with disabilities in social, collective, public life and provides all opportunities for their professional and personal self-fulfillment.

As of December 31, 2019 the share of people with disabilities was 4.6% of the entire Bank staff.

- the Bank is focused on support of employees approaching retirement age and gradual adaptation of employees of this category to a new social status. The employees approaching retirement age and pension age employees have opportunity to work actively and they are involved in transfer of experience and knowledge to young colleagues.

As of December 31, 2019 the share of employees approaching retirement age and pension age employees was 5.7% of the entire Bank staff.

Besides, the Bank facilitates the provision of young people with the first job, as well as organizes and provides a traineeship or practical training for students and young specialists at the Bank.

In 2019, 87 students underwent a traineeship and 8 specialists were provided with the first job at the Bank.

In terms of respect of human rights the Bank is governed by the Constitution of Ukraine and the JSC Ukreximbank Code of Corporate Ethics, namely:

- The Bank guarantees equal opportunities for all employees and job candidates to the respective positions at the Bank irrespective of their age, sex, family status, sexual orientation, religious, racial, national affiliation, political convictions, disabilities and other circumstances.
- The Bank appreciates personality, features and potential, which every employee contributes to the Bank activity and supports the ongoing development of employees' skills and competence.
- All decisions regarding the staff (selection, hiring, training, job progression, appraisal, incentivation and motivation, retirement, etc.) are taken only on the basis of the employee qualification, his/her job performance and other job-related factors.
- The Bank in its activity does not apply harassment in respect to its employees, customers, competitors, etc. in any form whatsoever – psychological, verbal or physical on the basis of age, sex, family status, sexual orientation, religious, racial, national affiliation, political convictions, disabilities or other circumstances.

The Bank recognizes existence of currently existing risks of slavery, human beings trafficking, peonage, forced or compulsory labor and other forms of human exploitation and it is ready to combat with all forms of such practices.
The Bank does not use and support the use of child labor, who does not reach the minimal age established by the labor legislation since which their employment is allowed.

The Bank annually sets the rates of working hours as per calendar with the five-day 40 hours working week with two day-offs on Saturday and Sunday with mandatory compliance with the rates of working hours.

In accordance with the applicable laws of Ukraine the Bank employees are granted with various types of leaves, in particular, annual vacation (basic and additional leave (for special nature of work)), additional study leave, social leaves (maternity protection leave and leave to attend a child up to the age of three years for employees who have children, etc.), leave without pay.

Besides the Bank takes care of its employees' health, in particular, pays for services provided under voluntary health insurance scheme for the Bank employees.

The human resources strategy treats the staff as the Bank's core asset and the staff costs as the investments in the Bank development. Furthermore, the Bank is primarily a team of professionals, and the Bank achievements are results of each employee performance.

Efficient human resources management envisages availability of three key components: professionalism, working ability and job involvement of employees, maintenance and development of which is in the focus of the human resources management strategy.

These components are maintained and developed due to quality staff selection and recruitment, system of adaptation, training and development, well established internal communications and through the use of instruments of tangible and intangible incentives.

As of December 31, 2019 93% of the entire Bank staff had university degree, among them:

- 16% had two or more university degrees;
- 1% had scientific degree.

Besides, 63% of the Bank staff had job seniority for more than 7 years.

The Bank invests in development of leaders, who in their turn teach, develop, motivate and direct other Bank employees for addressing current and strategic challenges of the Bank.
Thus, in 2019, in order to provide efficient business activity and achieve the Bank's goals:

- 1,691 (51%) of the Bank staff underwent remote training (in average each employee undergoes nearly 5 remote trainings per year);
- 275 (18%) of the Bank employees were involved 176 educational events arranged by external providers, including 25 international learning events attended by 42 employees.

In accordance with the requirements of the Law of Ukraine On Prevention of Corruption, the Bank approved and implemented the Anticorruption Program of Joint Stock Company "The State Export-Import Bank of Ukraine" (hereinafter – Anticorruption Program). The provisions of the aforesaid Anticorruption Program stipulate the rights and obligations of the Bank employees with the view of prevention and counteraction to corruption in the Bank activities. Moreover, the Anti-Corruption Officer has been appointed in order to control the implementation of the Bank Anticorruption Program.

At the same time, in accordance with requirements of the Regulation on Organization of Risk Management System in the Ukrainian Banks and Banking Groups (approved by Resolution of the National Bank of Ukraine No. 64 dated June 11, 2018) and in order to ensure effective performance of anti-corruption activities in structural units of the banking institution, in 2019, the Bank developed and implemented interbank documents: *Policy on Prevention of Conflicts of Interests* and *Code of Conduct (Ethics)*.

Technological resources and their application for achievement of the Bank goals

Application of the software and hardware products from the well-known domestic and foreign suppliers (CS TEK,*NVP Information Technologies*, Terrasoft, SIA AGroup, OpenWay, Oracle, Microsoft, SAP, HP, Cisco, EMC, VMware, Riverbed, Nortel, Dell, RedHat, Micro Focus) allows to build the information system flexibly and efficiently for handling the Bank business tasks.

In 2019, the Bank continued its work on transition to B2 Core Banking, on the basis of which, as of January 1, 2020, such modules as *General Ledger*, *Settlement and Cash Services*, *Administration*, *Household Payments*, *Individual Safe Deposit Boxes*, *Financial Monitoring*, *SEP of NBU*, *Loans to legal entities and individuals*, *Interbank Loans*, *Loans from Non-Residents*, *Deposits of individuals and legal entities*, *Factoring*, *Securities*, *Security and Insurance Contracts*, *Cashier Accounts, ATM Cash Collection*, *CS::BI System Showcases*, *Overdrafts*, *Loan Debt Monitoring*, *Cash Account Limits*, *Export-Import Contracts*, *Worn Notes*, *Credit Registry Consolidator*, *Current Account Product* were implemented; transition to the use of IBAN international bank account numbers was effected.

The transition to the iFOBS industrial system for remote customer servicing, which replaced the in-house Client-Bank system, was completed. New modules of this system are being developed and implemented in order to gain competitive advantages, in particular, it is planned that a module, allowing to enter into contracts with clients electronically, to affix the bank and client electronic signatures, with the possibility of verification of legal significance at any time on the sites of any domestic ACSK, will be implemented.

In 2019, the Customer Profile 360 Module of the CRM System developed by Terrasoft Company, which has become a real tool for organization of work on development and adaptation of new technology and principles for selling the products and services and services to corporate clients, and a key element in implementation of the effective motivation system of employees, involved in the customer acquisition and servicing.

On October 30, 2019, the Bank signed up for S.W.I.F.T. GPI service to be implemented in 2020. This service will allow the Bank to have complete information about all the stages of international payments through a number of correspondent banks, including information on the crediting of funds to the beneficiary account and commissions withheld at each stage during this process. The S.W.I.F.T. GPI subscription gives the Bank an opportunity to improve interaction with the customers and offer them exclusive services when making international payments.

Way4 processing system provides reliable fail-safe functioning of card processing in 24x7 mode in cooperation with such international payment systems as Visa, Mastercard, AmEx and the national payment system *Prostir*. The system, which fully complies with PCI DSS standards, has in implemented, in addition to the implemented basic functionality of card processing, modern GooglePay/ApplePay technologies for Visa cards of the Bank, Retail with CashBack, PIN Delivery by SMS. The 3D Secure 1.0/2.1 platform is introduced to provide for additional security in respect of MasterCard online payments. MABU (Mastercard Automatic Billing Updater) certification has been passed – reducing transaction refusals. AmEx certification for BIN 34 acceptance has been completed. The processing system serves not only JSC Ukreximbank, but also a number of affiliate banks, which do not have their own processing system.

An updated external site of the Bank has been introduced with the implementation of modern technological solutions and changes to the concept of information presentation.

The AutoAudit commercial solution was implemented to support the work of internal auditors in order to centralize the accumulation of relevant information and to significantly improve organization of the internal audit processes.

The centralized controlled printing has been implemented at the Bank Head Office and across all branches using Canon technologies and bank electronic authorization. This reduced the overall use of paper by 40%.

Almost all physical servers are transferred to the VMware virtual environment. This made possible the rational use of the server capacities and enabled the virtualized servers to run in a fault-tolerant configuration. The Trend Micro Deep Security server security system was introduced, which in particular allows the *virtual patch* to be automatically applied to address the server vulnerabilities.

JSC Ukreximbank uses modern means of protection of electronic information against network attacks, virus attacks, SPAM, etc.

2019 Awards

MasterCard Award For the virtuous financial market players mediation
MasterCard payment system once again marked JSC Ukreximbank as a reliable settlement bank.

Award from Citibank For the quality of international payments in US Dollars
Citibank (New York, USA) awarded JSC Ukreximbank with the *Straight Through Processing Excellence Award* for making international payments in US Dollars.

Bank Financial Health Rating
JSC Ukreximbank has become one of the leaders of the *Bank Financial Health Rating* in the group of the largest representatives of the banking sector, prepared by the analytical company *International Center for Policy Studies* together with experts of the Independent Association of Banks of Ukraine. In particular, the state bank was ranked number two in terms of reliability.

The Financial Oscar. Rating of the Business Magazine
JSC Ukreximbank won in *Export Support*, *Eco-Bank*, and *Corporate Partner* nominations.

Rating of Banks and Financial Institutions of Ukraine, 2018. Project of the Association of Ukrainian Banks and Ukraine Business Publishing House
JSC Ukreximbank received the award for winning in the *Best Bank in Leasing Market* nomination in the *Rating of Banks and Financial Institutions of Ukraine, 2018.*

Deutsche Bank Award For the quality of settlements in Euros
Based on results of making international payments in 2018, JSC Ukreximbank received the prestigious Operational Excellence Award from the global financial institution Deutsche Bank. In particular, the Euro settlements were highly appreciated, the level of automatic processing of which reaches 100%.

Positive Rating Actions of the Fitch Ratings in respect of JSC Ukreximbank
On September 24, 2019, the Fitch Ratings upgraded the long-term foreign currency and national currency issuer default rating (IDRs) to *B* from *B-*, the rating outlook was reconsidered from *Stable* to *Positive* and upgraded the support rating to *4* from *5* for Joint Stock Company "The State Export-Import Bank of Ukraine" (JSC Ukreximbank).

Rating of the most reliable banks of Ukraine in 2019 according to Forinshurer Magazine
In the new rating for 2019, JSC Ukreximbank is among the three most reliable banks for individual clients and legal entities, as well as those trusted by insurance companies.

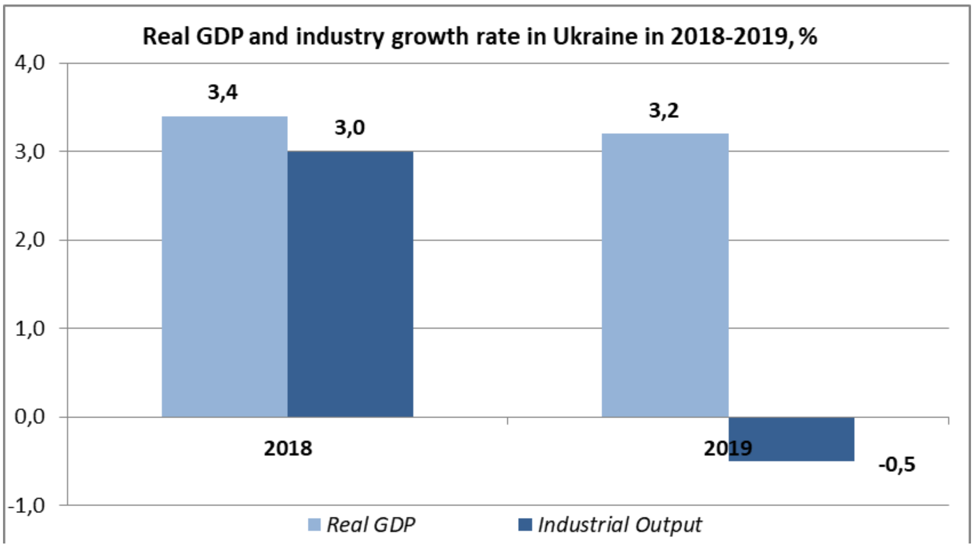
Banks 2019. Financial Club Media Agency
JSC Ukreximbank was noted in the nominations *Savings Bank for Business* (absolute increase of Hryvnia deposits of legal entities for January – November 2018) and *Currency Bank for Business* (absolute increase of foreign currency loans to legal entities for January – November 2018).

Bank Financial Health Rating
JSC Ukreximbank has become one of the leaders of the *Bank Financial Health Rating* in the group of the largest representatives of the banking sector, prepared by the analytical company *International Center for Policy Studies* together with experts of the Independent Association of Banks of Ukraine. In particular, the state bank was ranked number two in terms of reliability.

Nature of business (external environment summary, where the Bank performs its activities, brief summary of the existing business model, core products and services).

External environment summary

The continued moderate fiscal and tight monetary policy of the Government and the National Bank helped to maintain macro-financial stability and substantially to reduce inflation, despite the *political turbulence* risks in the context of the 2019 double elections in Ukraine. At the same time, the consolidation of authorities contributed to increase the confidence of foreign investors, which together with the subscription of Ukraine to the system of the international depository *Clearstream* encouraged a significant increase in non-resident demand for government debt securities denominated in national currency. Significant amounts of currency inflows under the financial account and transfers of funds from labor migrants on the background of continued growth in exports of goods and services contributed to the strengthening of Hryvnia exchange rate, despite the peak of external debt payments, which have been successfully effected.



Source: The State Statistics Service of Ukraine

The persistence of high consumer (supported by personal income growth) and investment demand together with the record grain harvest led to the continuation of economic recovery in Ukraine. However, in 2019 there was a decline in production and sales of industrial products, as well as slowdown in agricultural production rates. Instead, high domestic demand generated high growth rates in the construction, trade and some service industries. Totally, GDP growth slowed to 3.2% in 2019.

Following the reporting date, the Board of Directors of the National Bank of Ukraine adopted resolution on reduction of the interest rate from 13.5% per annum, established on December 13, 2019 to 11% per annum starting from January 31, 2020, to 10% per annum starting from March 13, 2020, and to 8 % per annum starting from April 24, 2020, respectively. The National Bank continued to soften monetary policy and support the Ukrainian economy in the world economy slowdown circumstances.

At the same time, it is expected that the spread of the coronavirus (COVID-19), which began in 2020, will lead to a recession in the global economy and a significant slowdown in economic activities in Ukraine. The implementation by the Government of temporary restriction on business and social activities in March 2020, together with a significant decline of global demand, as well as reassessment by investors of the risks of developing countries, may negatively affect the economic performance and foreign trade of Ukraine, complicate the attraction of financing, negatively affect the banking system of the country and lead to further devaluation of the national currency versus to major currencies. Thus, the official NBU exchange rate of Ukrainian Hryvnia to US Dollar decreased by 14.6%, from UAH 23.6862 for USD 1.00 on January 1, 2020 to UAH 27.1441 for USD 1.00 on April 27, 2020.

Such factors as decline of the liquidity and profitability levels of the corporate sector, including as a result of temporary restriction on business activities, and the devaluation of Hryvnia versus to foreign currencies, may adversely affect the quality of servicing of the Bank loan portfolio. The Bank management assesses the loans in terms of impairment taking into account the abovementioned risk factors and will reflect these changes in creation of provisions for expected credit risks, if necessary, in the subsequent reporting periods. At the same time, when calculating expected credit losses as of December 31, 2019, the Bank used models, containing macroeconomic forecasts available at that date.

The stabilization of the economy of Ukraine in the near future depends on the slowdown in the spread of the pandemic and the success of actions taken by the Government, and continued financial support of Ukraine by international donors and international financial institutions.

Management monitors the current situation and takes action, if necessary, to minimize any adverse effects as far as possible. The adverse pace of developments in respect of spread of the coronavirus pandemic (COVID-19) may continue to adversely affect the Bank financial position and performance in a way, that currently cannot be determined.

Key macroeconomic indicators in 2018 - 2019

Indicators	*As of December 31, 2018*	*As of December 31, 2019*
Real GDP, change in %	3,4	3,2
Consumer price index (CPI), change in % (up to December of current year)	9,8	4,1
Industrial output, change in %	3,0	-0,5
Recorded unemployment, % *(according to ILO methodology)*	9,1	8,6
The NBU international reserves, USD bln.	20,8	25,3
Official exchange rate of Hryvnia to US Dollar, UAH/USD	27,69	23,69

Source: The State Statistics Service of Ukraine

According to data of the National Bank of Ukraine for 2019, the positive balance of the consolidated balance of payments amounted to almost USD 6.0 bln. due to significant inflows under financial account, including approximately USD 4.4 bln. of the portfolio investments for purchase of Hryvnia government bonds (T-bills). At the same time, the net purchase of foreign currency by the National Bank in 2019 amounted to USD 7.9 bln., which is the highest figure for the last 14 years. Under such circumstances, despite the continuous growth of the negative balance of foreign trade with goods and services as of the end 2019, the National Bank managed to increase the international reserves by 22% to USD 25.3 bln. (eqv.).

Balance of Payment of Ukraine in 2018 - 2019, USD million

Balance of Payment Accounts	*As of December 31, 2018*	*As of December 31, 2019*
A. Current Account	(4 367)	(1 322)
B. Capital Account	37	38
C. Financial Account	(7 207)	(7 264)
D. Overall Balance (= A + B – C)	2 877	5 980

Source: The State Statistics Service of Ukraine

Reduction of the fundamental inflation pressure allowed the National Bank to gradually ease the monetary policy in order to support the economic growth. For this purpose, during 2019 the NBU consistently reduced the discount rate 5 times (from 18.0% to 13.5%). Under these conditions, according to data of the National Bank, in 2019 the monetary base (reserve funds) grew by 9.6%, the broad money base (M3) – by 12.6%.

Existing Business Model

Existing business model envisages:

- focusing on ongoing implementation of the programs together with IFIs under lending projects to the export-oriented enterprises;
- expanding the number of commercial banks to which financing is provided under the IFI programs;
- focusing on existing and attraction of new customers for servicing of their export-import transactions and for provision of consultation support;
- expansion of corporate customer base;
- retain retail customers with significant account balances.

On September 11, 2019, the Government approved the Main Activities of Joint Stock Company "The State Export-Import Bank of Ukraine" for 2019 - 2023. The approval of this resolution will ensure the proper functioning and effective management at the state bank, protection of rights of depositors, creditors and the state as the shareholder.

The document was developed on the basis of the Principles for Strategic Reforms of the Public Banking Sector, prepared by the Ministry of Finance jointly with international financial institutions and approved by the Government on February 21, 2018. The main activity areas are focused on strengthening the strong positions of the bank in the market using new business opportunities and ensuring a stable level of profitability.

Eco-responsibility

The Bank contributes to improving the energy efficiency of the Ukrainian economy and defines the financing of projects in the field of environmental protection and introduction of energy-saving technologies as one of its important activities. JSC Ukreximbank adheres to the responsible financing policy and pays attention to the environmental component, in particular:

- Applies environmental and social risk assessment procedures in respect of credit projects;
- Does not provide financing to socially hazardous and environmentally harmful industries;
- Implements initiatives aimed at reduction of the negative impact of business activities on the environment, etc.

The environmental and social management system is integrated into the bank lending activities. The assessment of environmental and social risks is carried out at the stage of analysis of credit projects, and monitoring of such risks is carried out at the stage of their management. Distance learning courses are conducted on a regular basis to ensure that the Bank employees are adequately informed of the current risk assessment system.

The Bank regularly conducts training seminars for representatives of enterprises of different sectors of the economy and participates in representative activities to promote energy efficiency programs and encourage investment in this field.

Core products and services

Core products and services of the banking institution are:

- loans
- deposits
- cash and settlement services
- payment card transactions
- securities transactions
- trade finance transactions
- factoring
- services provided using remote servicing systems (Client-Bank system, internet banking, mobile banking).

The goals of management and strategies for achievement of these goals (information about priority of actions for achievement of results, highlighting of activities in the area of research and development)

The strategic goals and priorities of the Bank for 2019 – 2023 are, in particular:

- to become a leading bank for export-import financing and corporate lending in Ukraine, in particular by retaining existing customers and attracting new ones to service their export-import transactions, as well as consultancy support;
- to maintain the Bank activity as a leading provider in the Ukrainian financial sector of a wide range of corporate banking services for the state enterprises (SEs), large, medium and small enterprises (SMEs) focused on international economic activity, guided by long-term, approved and value-driven strategy;
- to reduce the volume of the loan portfolio in non-strategic sectors;
- to create the stable mechanisms for financing the bank transactions, taking into account the current situation in the credit and money markets and the priority of reducing the value of credit resources and other debt instruments, which will be offered by the bank;
- to review the possibility of attraction of the minority investments from a strategic international financial institution.

Following the determination by the Cabinet of Ministers of Ukraine of the main (strategic) directions of activities of the state bank in September 2019, the renewed composition of the Supervisory Board of JSC Ukreximbank ensures currently the development and approval of the new strategy for development of the bank, which in the long run will entail an increase in its market value.

Key financial recourses, use thereof for achievement of goals (equity structure, financial mechanism, liquidity and cash flows)

Since 2016 JSC Ukreximbank has been defined by the NBU as a systemically important bank, which corresponds to the high status of the bank in the banking system of Ukraine and at the same time puts forward some increased requirements to ensure the safety margin.

In particular, firstly, as of January 1, 2020, systemically important banks must comply with the enhanced values of ratios:

- Instant liquidity ratio (H4) – not less than 30%.
- The maximum amount of credit risk per counterparty (H7) – not more than 20%.

Secondly, such banks should form, in addition to the regulatory capital adequacy ratio, a buffer of systemically importance, which will take effect starting from January 1, 2021. The buffer of systemically importance for JSC Ukreximbank should be 1.5%.

Thirdly, according to requirements of the National Bank, such banks should have a recovery plan, which will help to stabilize promptly the work of these institutions in the crisis circumstances.

During the reporting year, JSC Ukreximbank had a sufficient level of equity capital, successfully used diversified sources of funding to create a reliable liquidity reserves, timely and in full secured the repayment of the borrowed funds.

The Bank equity capital was formed mainly through the statutory capital, which amounted to UAH 38.73 bln. as of December 31, 2019. During the reporting period, additional issue of shares or other replenishment of capital were not performed.

Equity structure of JSC Ukreximbank

UAH, thousand

Equity	*As of December 31, 2018*	*As of December 31, 2019*	Dynamics
Share capital	38,730,042	38,730,042	-
Revaluation reserves	(816,406)	337,779	1,154,185
Result from transactions with the shareholder	635,104	635,104	-
Accumulated deficit	(30,260,073)	(30,948,626)	(688,553)
Reserve and other funds	162,926	162,926	-
Total equity	**8,451,593**	**8,917,225**	**465,632**

Liabilities of JSC Ukreximbank decreased by UAH -21.8 bln. (or -14%). One of the key factors for such decrease was the revaluation of foreign currency liabilities due to the revaluation of Hryvnia to US Dollar and Euro.

In the reporting year, the Bank made a planned repayment of eurobonds (in the amount of USD 445 mln.) in accordance with contractual terms and conditions, which generally contributed to decrease of the cost of borrowed funds.

During the year, the Bank increased the volumes of funding from the EBRD and other international financial institutions. In the fourth quarter of 2019, the Bank borrowed in the international capital market funds in amount of USD 100 mln. on the terms and conditions of subordinated debt for the 10 years period.

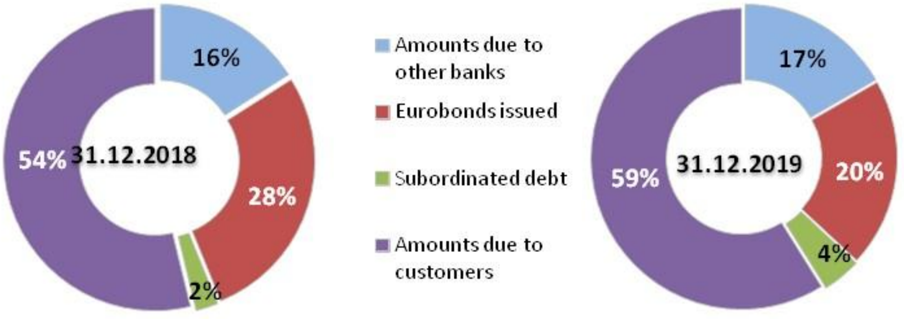
In the domestic market, the Bank was increasing its resource base through client's funds, primarily in national currency.

Liabilities of the Bank

Liabilities	*As of December 31, 2018*	*As of December 31, 2019*	Dynamics Absolute value	%
Amounts due to credit institutions	24,405,913	21,825,762	(2,580,151)	-11%
Amounts due to customers	82,163,124	77,125,819	(5,037,305)	-6%
Eurobonds issued	42,541,905	26,553,076	(15,988,829)	-38%
Subordinated debt	3,584,690	5,429,914	1,845,224	51%
Other liabilities	496,248	494,528	(1,720)	0%
Total liabilities	**153,191,880**	**131,429,099**	**(21,762,781)**	**-14%**

The most important item in the Bank liabilities structure is amounts due to customers, the share of which increased from 54% to 59% during 2019. The share of subordinated debt during the reporting year increased from 2% to 4% (+ USD 100 mln.).

Main changes in the liabilities structure



The Bank channels the borrowed funds for financing the real sector of the Ukrainian economy:

- Provides long-term loans to borrowers of various industries (agriculture, trade, chemical industry, energy sector, real estate, mechanical engineering, metallurgy, transport, etc.);
- Implements programs of international financial organizations;
- Supports exporters;
- Promotes energy efficiency of domestic enterprises.

During 2019 JSC Ukreximbank actively implemented state measures aimed at revitalizing the development of the Ukrainian economy, participated together with IFIs in joint export-oriented projects, programs of energy efficiency, energy saving and modernization of domestic enterprises:

- Received the syndicated loan for amount of EUR 80 mln. from the EBRD to finance renewable energy and energy efficiency projects.
- Started joint implementation of the new EU4Business-EBRD loan program in national currency to support small and medium-sized enterprises under the Deep and Comprehensive Free Trade Area Agreement between the EU and Ukraine. The amount of financing is the Hryvnia equivalent of USD 25 mln.
- Concluded another Cooperation Agreement with the China Export and Credit Insurance Agency (SINOSURE) with the total financial insurance limit of USD 500 mln. The aim is to develop international trade and support key sectors of the Ukrainian economy.
- Continued to implement the *Belarusian Import* program, in the framework of which Ukrainian enterprises of different industries can obtain a loan for purchase of machinery and equipment of the Belarussian production with the loan rate compensation.
- JSC Ukreximbank for the second time acted as coordinator in a joint project of Ukraine and the European Investment Bank (EIB) aimed at supporting of SMEs working in the agricultural sector of economy.

The Bank may from time to time consider the possibility of redemption of issued Eurobonds, as the case may be, through the direct redemption from the market or otherwise taking into account the market price and market liquidity.

Assets of JSC Ukreximbank fell by -13% during 2019. In addition to the negative revaluation of the currency part, the decrease in assets is associated with the decrease in loan portfolio due to the planned concentrated repayments of large corporate clients, as well as the partial repayment of the government securities portfolio in accordance with contractual terms and conditions.

The Bank used the released liquidity to repay Eurobonds and also created a reliable liquidity reserve by placing free funds on correspondent accounts and for investing in the NBU deposit certificates.

An integral part of the Bank lending policy was minimization of risks, improvement the quality of the loan portfolio and customer service, provision for the adequate level of loans yield.

Assets of the Bank

UAH, thousand

Assets	*As of December 31, 2018*	*As of December 31, 2019*	Dynamics Absolute value	%
Cash and cash equivalents	18,545,858	33,469,935	14,924,077	80%
Loans to customers	72,496,358	53,285,804	(19,210,554)	-26%
Investment securities	62,492,511	48,365,848	(14,126,663)	-23%
Other assets	8,108,746	5,224,737	(2,884,009)	-36%
Total assets	**161,643,473**	**140,346,324**	**(21,297,149)**	**-13%**

The share of highly liquid assets (cash and cash equivalents) as of the accounting year increased by 12.4 y-o-y to 24%, and the most risk assets (loans to customers) — decreased by -7 y-o-y to 38%.

Major changes in the assets structure

The main performance results and prospects of further development (financial and non-financial indicators enabling to understand the major trends and factors that impact the business, the Bank performance results, its connection to the goals of the leadership and the strategies of achieving these goals, analysis of significant changes in financial standing, liquidity and performance results, the reasons of change of indicators during the accounting period, the intention of the Bank strategy implementation in the longer term)

JSC Ukreximbank follows a consistent, prudent and conservative policy as related to assets formation, timely and in full represents deductions to provisions under the loans to customers. The Bank takes care of the balanced assets structure, optimal for reliable conduct of customer transactions and financing of the real economy sector. The liquidity level continuously remains adequate for fulfillment of all obligations.

As related to the business model strategic transformation the Bank performed gradual exit from the retail market (in line with the Strategic directions of the Bank activities designed by the Cabinet of Ministers and the Principles of Sate Banking Sector Strategic Reforming).

Actions taken by the Bank for this purpose in the last years:

- optimization of the retail chain and respective number of employees;
- review of the retail product line and discontinuation of low efficiency retail products offer;
- re-focus on large retail customers segment in retail business.

At the same time the Bank traditionally remains focused on:

- assets – lending to large corporate customers (approximately 96% of the loan portfolio), as well as investment into securities (government bonds) and NBU depository certificates;
- liabilities – diversified funding sources (individuals and legal entities, external borrowings, long-termed MFO resources).

As per the results of the accounting year JSC Ukreximbank provided profitability and complied with the regulatory requirements, becoming one of the three largest banks in the terms of assets, loans to customers and obligations.

In 2019 the Bank transferred dividends to the State budget of Ukraine in the amount of UAH 767.1 mln.

JSC Ukreximbank performance

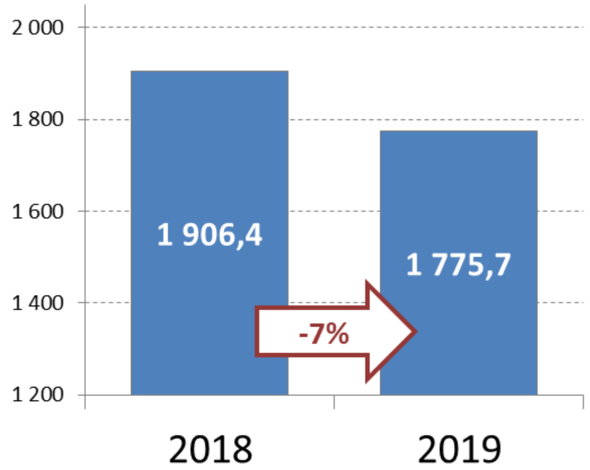
In 2019, JSC Ukreximbank received UAH 65.3 mln. of consolidated net revenue, compared to UAH 804.8 mln received in the previous year. The major reasons of revenue decrease was the reduction of net interest income, increase of operating expenses, increase of expenses for provisioning under loan transactions and depreciation of deferred tax asset.

UAH thousand

Indicator	*As of December 31, 2018*	*As of December 31, 2019*	Change		Structure, %	
			absolute	%	2018	2019
Net interest income	**1,906,362**	**1,775,668**	**(130,694)**	**-7%**	**59%**	**58%**
Interest income	**11,747,735**	**11,568,804**	**(178,931)**	**-2%**	**100%**	**100%**
Loans to customers	7,445,158	7,230,491	(214,667)	-3%	63%	62%
Securities	4,132,600	3,566,198	(566,402)	-14%	35%	31%
Amount due to credit institutions	158,740	349,279	190,539	120%	2%	3%
Financial leases	11,237	422,836	411,599	3,663%	0.1%	4%
Interest expenses	**(9,841,373)**	**(9,793,136)**	**48,237**	**0%**	**100%**	**100%**
Amount due to customers	(3,837,274)	(4,537,990)	(700,716)	18%	39%	46%
Issued Eurobonds	(4,184,372)	(3,469,631)	714,741	-17%	43%	35%
Amount due to credit institutions	(1,503,708)	(1,444,093)	59,615	-4%	15%	15%
Subordinated debt	(316,019)	(339,913)	(23,894)	8%	3%	4%
Other interest expenses	-	(1,509)	(1,509)	-	0%	0.02%
Net non-interest revenue	**1,311,169**	**1,298,015**	**(13,154)**	**-1%**	**41%**	**42%**
Net fee revenue	627,473	651,788	24,315	**4%**	**20%**	**21%**
Fee revenue	997,821	1,082,054	84,233	8%	31%	35%
Fee expenses	(370,348)	(430,266)	(59,918)	16%		
Dealing results	**478,238**	**541,344**	**63,106**	**13%**	**15%**	**18%**
Other income	**205,458**	**104,883**	**(100,575)**	**-49%**	**6%**	**3%**
Net operating income	**3,217,531**	**3,073,683**	**(143,848)**	**-4%**	**100%**	**100%**
Operating expenses	**(2,150,269)**	**(2,380,836)**	**(230,567)**	**11%**	**100%**	**100%**
Personnel expenses	(1,334,023)	(1,520,639)	(186,616)	14%	62%	64%
Depreciation	(100,519)	(111,058)	(10,539)	10%	5%	5%
Other operating expenses	(715,727)	(749,139)	(33,412)	5%	33%	31%
Operating income	**1,067,262**	**692,847**	**(374,415)**	**-35%**		
Revaluations results	(952,223)	2,921,018	3,873,241	-		
Expenses for asset reservation and modification	794,928	(2,979,287)	(3,774,215)	- -30%		
Income before tax	909,967	634,578	-275,389			
Expenses from income tax	(105,136)	(569,298)	(464,162)	441%		
Net income	804,831	65,280	(739,551)	-92%		

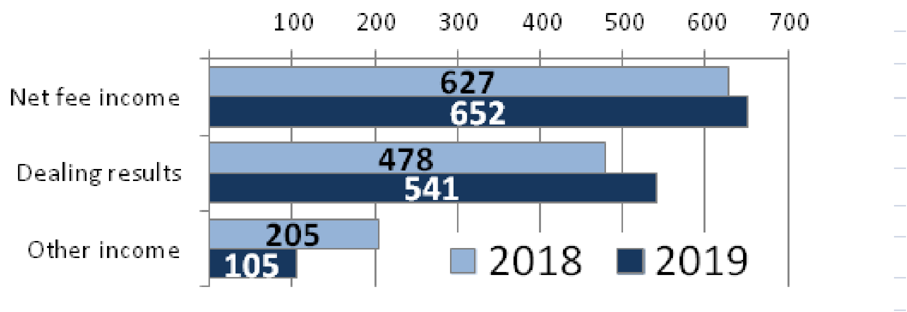
The Bank net interest income for the accounting year decreased by UAH -130.7 mln. (or -7%), due to reduction of the loan portfolio and securities portfolio volume. At the same time repayment of a part of the issued Eurobonds portfolio facilitated to decrease of the respective interest expenses.

Net interest income, UAH mln.

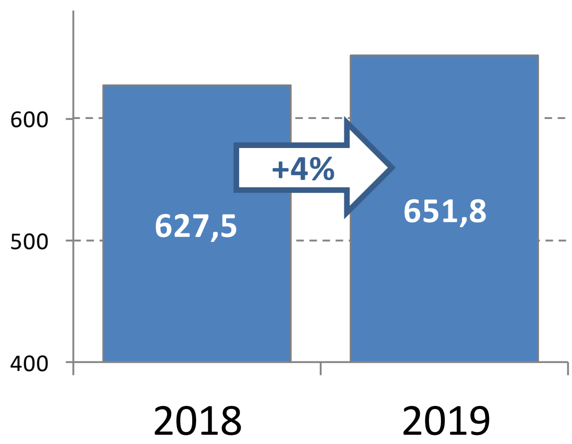


As related to the non-interest income a net fee income (+UAH 24.3 mln. or +4%) and dealing results (+UAH 63.1 mln. or +13%) increased. The growth was partially counter balanced by decrease of other income due to the absence of nonrecurrent and irregular proceeds that took place in the previous year (in the amount of –UAH 100.6 mln. or -49%).

Net non-interest income, UAH mln.

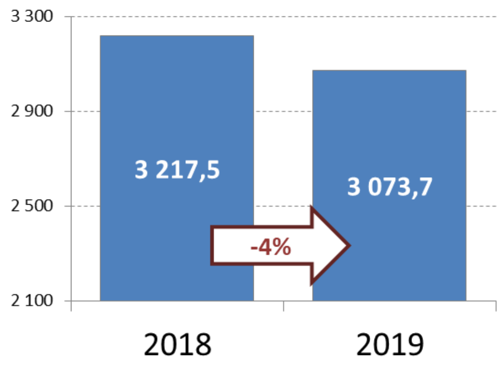


Net fee income, UAH mln.



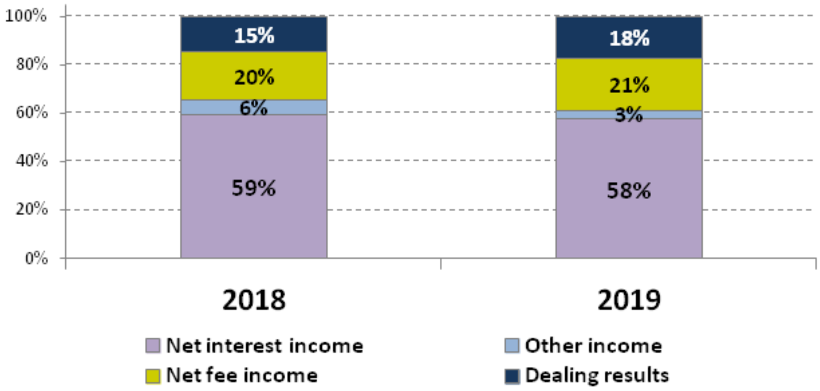
The highest upward trend of the fee income was demonstrated by off-balance-sheet transactions (bills of exchange guarantees, uncovered guarantee provision) and cash settlement transactions (acquiring of payment cards, payments by card within the distribution channel, remote servicing).

Net operating income, UAH mln.



The Bank in general has a stable operating income structure that reflects the structure and the nature of its transactions.

Net operating income components



The interest transactions income traditionally prevails in the net operating income structure of the Bank. One of the Bank's priorities is to reduce dependence on risky (interest) transactions in favor of non-interest ones by improving the service, including the implementation of innovative products and technologies, improving the quality of services, simplifying and unifying the methods of obtaining them.

The key performance indicators (performance indicators used by the management to assess the Bank performance in accordance with the set objectives, analysis of significant changes in financial condition, liquidity and performance compared to targets, their changes during the reporting period)

JSC Ukreximbank uses indicators (ratios) of liquidity, capital adequacy, profitability and efficiency to assess the financial standing and profitability.

Performance indicators	*As of December 31, 2018*	*As of December 31, 2019*	Changes
Liquidity rate, %	11.5%	23.8%	12.3%
Capital adequacy rate, %	12.8%	19.5%	6.7%
Tier I capital; adequacy rate, %	9.8%	12.0%	2.2%
Loan portfolio coverage rate with customers funds, %	113.3%	144.7%	31.4%
Net interest margin, %	1.21%	1.24%	0.03%
Return on assets, %	0.48%	0.04%	-0.44%
Return on equity, %	7.1%	0.8%	-6.3%
Operating expenses, % of net operating income	66.8%	77.5%	10.7%

Information on entering into derivatives or derivative securities deeds by the issuer

The Bank did not make transactions with foreign currency derivatives, as well as transactions in foreign currencies with other derivative financial instruments, if their underlying assets are foreign exchange assets, forex rates, interest rates, indices.

Corporate governance report

1. The purpose of the Bank activities.

The purpose of the Bank activities is to create favorable conditions for economic development and support of domestic producers, servicing of export-import transactions, credit and financial support of restructuring processes, strengthening and realization of production and trade potential of industries and enterprises that are export-oriented or perform activities related to the production of import-substituting products, as well as making a profit in the interests of the Bank and its shareholder by:

- attraction of external and internal loan resources and investments;
- obtaining and granting loans on behalf of and under the instruction of the Cabinet of Ministers of Ukraine or another body authorized by the state in accordance with the applicable law, servicing the relevant share of Ukraine's foreign debt under the loans obtained by the state or under the state guarantees, within the Bank's agency functions;
- financing and guaranteeing of export-import transactions of enterprises;
- providing credit and financial support to foreign economic entities in order to promote domestic goods in the foreign markets;
- implementation of a set of measures to finance investment projects, including at the expense of budget and loan funds, funds of business entities, foreign investments and loans, support of investment projects and control over the rational use of borrowed funds;
- provision of banking services, conduct of transactions in the money, currency and stock markets, in particular in the field of foreign economic activity;
- cooperation with international financial organizations, governmental, non-governmental organizations and credit and financial institutions of foreign countries in order to attract financial resources to the Ukrainian economy;
- conduction of other activities and other transactions in accordance with the applicable law, licenses, permits issued by the National Bank or other authorized bodies, and the provisions of the Charter.

2. Information on compliance/non-compliance with the principles or the code of corporate governance (with a link to the source of their text), deviations and reasons for such deviations during the year.

The Code (principles) of the Bank corporate governance was under development in 2019. During 2019, the Management Board was guided in its activities by the provisions of the Law On Banks, other regulations, the Charter and the Regulation on the Supervisory Board and the Regulation on the Management Board respectively.

In cases not regulated by the law, the Charter, the Regulation on the Supervisory Board, the Regulation on the Management Board, the Supervisory Board and the Management Board govern their activities in accordance with the following guidelines and recommendations:

- the methodological recommendations on organization of corporate governance in the banks of Ukraine, approved by the Resolution of the Board of the National Bank of Ukraine No. 814 dated December 3, 2018 (hereinafter the NBU Methodical recommendations);
- the principles of corporate governance approved by the Decision of the National Commission on Securities and Stock Market No. 955 dated July 22, 2014;
- the document of the Basel Committee on Banking Supervision "Principles of Corporate Governance in Banks" dated July 2015.

3. Information on the owners of significant interest (including persons exercising control over the financial institution), their compliance with the requirements established by the law and the change in their composition during the year

As of December 31, 2019 100% of the Bank authorized capital was owned by the State represented by the Cabinet of Ministers of Ukraine. Address: 01008, Kyiv, 12/2, Hrushevskoho street.

4. Information on the general meeting of the Bank shareholders and a general description of the decisions approved during the meeting.

According to Article 7 of the Law of Ukraine On Banks and Banking the sole shareholder of a state bank is the state. The function of the state corporate rights management in the state bank is performed by the Cabinet of Ministers of Ukraine. The body that manages the corporate rights of the state in the state bank also performs the function of the supreme governing body of the state bank.

Decisions of the supreme body are formalized by the acts of the Cabinet of Ministers of Ukraine, drafts of which are prepared and submitted for review by the Cabinet of Ministers of Ukraine by the central executive body that ensures the formation of the state financial policy, and are not subject to approval by other interested bodies.

5. Procedure of appointment and dismissal of the Bank officers.

The Supervisory Board of the Bank
The Supervisory Board is a collegial governance body of the Bank, which within its competence manages the Bank, controls and regulates the Bank Management Board in order to implement the Bank development strategy, and protects the rights of depositors, creditors and the state as a shareholder of the Bank.

Members of the Supervisory Board are appointed by the Cabinet of Ministers of Ukraine as the supreme governing body of the Bank in the manner prescribed by law, in particular:

- one state representative of the Supervisory Board is appointed by the Cabinet of Ministers of Ukraine as the supreme governing body on the recommendation of the President of Ukraine, one on the recommendation of the Cabinet of Ministers of Ukraine and one on the recommendation of the Supreme Council Committee on Finance, Tax and Customs Policy;
- the independent members of the Supervisory Board are appointed by the Cabinet of Ministers of Ukraine as the supreme governing body of the Bank based on a recommendation of the Selection Board established by the Cabinet of Ministers of Ukraine.

Taking into consideration the special role of the state bank supervisory board in the new corporate governance system, the Law establishes a special procedure for selection and appointment of the members of the state bank supervisory board.

In order to ensure the independence of the supervisory boards of state-owned banks, the Law limited the right of the supreme body to terminate the authorities of the supervisory board members of its own accord to only two cases, namely: repeated disapproval by the supreme body of the state bank development strategy approved by the supervisory board of the bank and non-compliance with the strategy and/or the business plan for state bank development, which is confirmed by the results of the annual evaluation according to the procedure prescribed by the supreme body.

All other grounds for termination of authorities of the supervisory board members by the supreme body are based on legal facts that arose not on the initiative of the supreme body, including establishing the fact of non-compliance by a state bank supervisory board member with the requirements to the members of the supervisory board; at the request of at least five members of the supervisory board of the state bank or the National Bank of Ukraine if a member of the supervisory board of the state bank improperly performs his/her duties or does not meet the requirements for professional suitability and business reputation.

The Bank Management Board:
The permanent executive body of the Bank is the Management Board, which conducts current management of its activities, must act in the interests of the Bank and avoid conflicts of interest and is responsible for the efficiency of its work according to the Charter and the Regulation on the Management Board. Only the Bank employees may be appointed the members of the Management Board.

The Board consists of the Chairman of the Board, Deputy Chairmen and other members of the Board. The number of members of the Board is at least eight.

The Chairman of the Management Board and other members of the Management Board are appointed and dismissed by the Supervisory Board on the recommendation of the Supervisory Board Committee on Appointments and Remuneration of officials. Candidates for the positions of the Chairman of the Management Board and other members of the Management Board are determined on the terms of competitive selection, including from the Bank employees, in accordance with the procedure established by the Supervisory Board.

The National Bank approves the positions of the Chairman and other members of the Management Board in accordance with the procedure established by itself.

The Chairman of the Board takes office after his approval by the National Bank.

The grounds for termination of authorities of the Chairman and other members of the Board, including the early termination of office, is established by the law.

The Management Board is headed by the Chairman of the Management Board, who manages the activities of the Management Board and has the right to represent the Bank without a power of attorney.

The Chief Accountant
In accordance with the Bank Charter, the Chairman of the Management Board appoints and dismisses employees in accordance with the organizational chart.

6. The authorities of the Bank officers.

The powers of the Bank's officials are set out in the Bank Charter, Regulation on the Supervisory Board and the Regulation on the Management Board of the Bank, which are available free of charge on the Bank official website at https://www.eximb.com/ua/bank/corp-management.html.

Moreover, the order on personal distribution of functions among the members of the Management Board is effective at the Bank.

7. Information on the composition of the Bank Supervisory Board and its change during the year, including the committees formed by it, as well as information on the meetings held with a general description of the approved decisions.

Historically, prior to the appointment of the new Supervisory Board in accordance with the requirements of Article 7 of the Law, meaningful performance of the Supervisory Board responsibilities to ensure effective corporate governance of the Bank was impossible due to the lack of quorum in the Bank Supervisory Board. In particular, in the period from November 2018 to June 2019, meetings of the Supervisory Board were not held.

The new composition of the Supervisory Board was formed only on July 5, 2019 and on July 8, 2019 the first meeting was held.

As of the end of 2019 the Bank Supervisory Board consisted of 8 (eight) members, five of which were independent members of the Supervisory Board and other three were representatives of the state. The personnel of the Supervisory Board as of the end of 2019 was as follows:

- Gordienko Oliana Pavlivna, the independent member of the Supervisory Board;
- Konovets Serhii Oleksandrovych, the independent member of the Supervisory Board;
- Chichlo Dimitri, the independent member of the Supervisory Board;
- Menu Dominique, the independent member of the Supervisory Board;
- Laslo Urban, the independent member of the Supervisory Board;
- Strakhova Viktoriia Kostiantynivna, member of the Supervisory Board, the representative of the State from the President of Ukraine;
- Butsa Yurii Bohdanovych, member of the Supervisory Board, the representative of the State from the Cabinet of Ministers of Ukraine;
- Kapliuk Dmytro Evhenovych, member of the Supervisory Board, the representative of the State from the Supreme Council of Ukraine.

The Acting Chairman of the Supervisory Board as of January 7, 2020 was Oliana Gordienko.

In 2019, the following changes took place in the personnel of the Supervisory Board:

- According to the Law On Amendments to Certain Legislative Acts of Ukraine on improvement of the financial sector functioning in Ukraine «(came into force on November 10, 2018) the authorities of the Chairman and the members of Bank Supervisory Board were terminated: Greba Roman Volodymyrovych, Shevaliov Artem Valentynovych, Voloshyn Viachelav Eduardovych, Parakuda Oleg Vasyliovuch, Batiuk Oleg Volodymyrovych, Balchenko Serhii Olksiiovych, Smovzhenko Tamara Stepanivna, Denysenko Vitalii Mykolaiovych and Perevesentsev Oleksii Yuriovych due to the expiry of the authorities duration;
- pursuant to the Order of the Cabinet of Ministers of Ukraine No. 336-p dated May 22, 2019 (came into force on June 14, 2019) the new members of the Bank Supervisory Board were appointed: Thorsten Paul, Fisher Steven, Chichlo Dimitri, Gordienko Oliana Pavlivna, Menu Dominique, Konovets Serhii Oleksandrovych, Shulga Alla Anatoliivna and Butsa Yurii Bohdanovych;
- pursuant to the Order of the Cabinet of Ministers of Ukraine No. 518-p dated July 05, 2019 Strakhova Viktoriia Kostiantynivna was appointed the member of the Bank Supervisory Board;
- pursuant to the Order of the Cabinet of Ministers of Ukraine No. 877-p dated September 29, 2019 the authority of Thorsten Paul as the member of the Bank Supervisory Board was terminated;
- pursuant to the Order of the Cabinet of Ministers of Ukraine No. 1025-p dated November 03, 2019 the authority of Shulga Alla Anatoliivna as the member of the Bank Supervisory Board was terminated;
- pursuant to the Order of the Cabinet of Ministers of Ukraine No. 1077-p dated November 20, 2019 Laslo Urban was appointed the independent member of the Bank Supervisory Board;
- pursuant to the Order of the Cabinet of Ministers of Ukraine No. 1119-p dated November 27, 2019 Kapliuk Dmytro Evhenovych was appointed the member of the Bank Supervisory Board;
- pursuant to the Order of the Cabinet of Ministers of Ukraine No. 1404-p dated December 27, 2019 the authority of Fisher Steven as the member of the Bank Supervisory Board was terminated.

All members of the Bank's Supervisory Board meet the qualification requirements for business reputation and professional suitability, have significant managerial and professional experience, understanding of financial analysis and risk aspects of the Bank activities.

The business reputation and professional suitability of the Supervisory Board members and for independent members - compliance with the requirements of independence legislation, were assessed in the process of appointing of the Supervisory Board members to their positions and approving them as members of the Bank Supervisory Board.

The selection of candidates for the positions of the Supervisory Board independent members was held on the basis of a transparent competition by recruitment agencies with international experience in providing services for the selection of bank management. The winners were determined based on the results of interviews and their evaluation in accordance with the established criteria by the tender commission, which included representatives of the relevant Committee of the Supreme Council of Ukraine, the President of Ukraine and the Cabinet of Ministers of Ukraine.

The Cabinet of Ministers of Ukraine approved the candidacies of independent members and representatives of the state on the bank supervisory board.

Independent members of the Supervisory Board meet the requirements for their independence established by law.

The number of members of the Supervisory Board of the Bank as of the end of 2019 is 8 people, which in accordance with Part 29 of Article 7 of the Law On Banks, allows the Supervisory Board to hold competent meetings.

The Supervisory Board, in order to ensure the full composition of its number, requires the appointment of one more independent member.

The Supervisory Board has established all committees required to be established in accordance with Part 32 of Article 7 of the Law On Banks, namely: the Audit Committee, the Risk Committee and the Nomination and Remuneration Committee.

In pursuance of the Law On Banks, the heads of the Risk Committee and the Appointment and Remuneration Committee are the independent members of the Supervisory Board, e.g. the Head of the Risk Committee is Dominique Menu, and the head of the Appointment and Remuneration Committee is Gordienko Oliana Pavlivna. Pursuant to the requirements of the Law On Banks, the majority of members of each of the Supervisory Board appointment and remuneration and risk committees are independent. All members of the audit committee are independent.

Moreover, in order to ensure the effective operation of the Bank Supervisory Board and to implement the main activities of the Bank for 2019-2023, approved by the Order of the Cabinet of Ministers of Ukraine, a strategy committee, an information technology and operations committee, a management committee and compliance and the committee on settlement of problem debts were established.

The Committees assist the Supervisory Board in exercising its authorities by preliminary study and preparation for consideration at the meeting of issues within the competence of the Supervisory Board. The functions of the Supervisory Board committees are defined in accordance with the legislation in the regulations on the Supervisory Board committees which are approved by the Supervisory Board.

The Supervisory Board started its activities in accordance with the updated Article 7 of the Law On Banks in July 2019.

In 2019, the efforts of the Supervisory Board were focused on the full launch and adjustment of its work and internal processes, as well as the organization of work in strategically important areas of the Bank activity and addressing urgent issues within its competence.

For less than 6 months in 2019, the Supervisory Board held 18 meetings, in particular:

- established internal communications processes between members of the Supervisory Board;
- established important communications with the Management Board members and control units;
- established the committees of the Supervisory Board, approved their regulations and fully launched their work;
- launched the process of updating the Management Board;
- actively worked on the development of the Bank development strategy;
- approved a number of the Bank internal documents, in particular on risk management and internal control.

During 2019, the Supervisory Board, among other things, made decisions on the following strategic issues of the Bank operation and development:

- 7 (seven) Supervisory Board committees were established;
- The Audit Committee Regulation, the Risk Committee Regulation, the Appointment and Remuneration Committee Regulation, the Strategy Committee Regulation and the Governance and Compliance Committee

Regulation were approved, as well as amendments to the Regulation on the Bank Management Board were made and approved in order to bring it into compliance with the law, the Supervisory Board Regulation and the Bank Charter were also amended;

- Based on the recommendations of the Appointment and Remuneration Committee of the Supervisory Board, the regulation on the procedure for the competitive selection of the Chairman and members of the Management Board was approved and the competitive selection of candidates for the position of the Chairman of the Management Board and preparatory actions for the competitive selection of other members of the Management Board were initiated;
- The Bank's budget for 2019 was approved;
- The Supervisory Board agreed for the borrowing by the Bank on the terms and conditions of subordinated debt of up to USD 150 million through the issue of Eurobonds in international capital markets or by entering into bilateral loans with a creditor bank, an international financial institution;
- In order to develop the Bank development strategy in accordance with the main (strategic) areas of the bank activity determined by the Cabinet of Ministers of Ukraine as the highest governance body of the Bank in September 2019 and based on the recommendations of the Supervisory Board Strategy Committee, the terms and conditions of an agreement with a consulting firm for providing professional advice on the development of the Bank development strategy were approved and an active development of the Bank development strategy was initiated together with the selected consulting firm;
- For ensuring the efficiency of the risk management system and control thereof, based on the recommendations of the Risk Committee, the organizational structure of the risk management system of the Bank as well as a number of internal documents and forms of management reporting on risk issues were reviewed, limits for asset-side transactions were set;
- The Bank internal audits plan for the fourth quarter of 2019 was approved and the competitive selection of an audit firm for mandatory audit of the Bank's financial statements for 2019 and 2020 was conducted and its results were approved, and the competitive selection of qualified independent expert (groups of experts)for external evaluation of the Bank internal audit function (as required by the National Bank of Ukraine Resolution No. 311 of May 10, 2016) was conducted and its results were approved;
- the Bank Internal Audit Regulation was amended and approved;
- The procedure for competitive selection of Appraisers for appraisal of the Bank property and the terms and conditions of the voluntary liability insurance contract for the directors and senior officials of the Bank were approved.

The Supervisory Board established 7 (seven) committees involved in preliminary addressing of the issues delegated to them within the competence of the Supervisory Board and preparation of the issues for consideration by the Supervisory Board at the meeting, including:

- Audit Committee
- Appointment and Remuneration Committee
- Risk Committee
- Strategy Committee
- Information Technology and Operations Committee
- Governance and Compliance Committee
- NPL Workout Committee

Audit Committee

The objective is to assist the Supervisory Board in exercising its powers to ensure the operation and control over the efficiency of the internal control system and the internal audit function at the Bank, compliance with internal audit policies and the conduct of the external audit.

The composition of the Committee
Committee Head: Sergiy Konovets.
Committee members: Dimitri Chichlo, Stiven Fisher (whose membership in the Committee was terminated due to termination of his powers as a member of the Supervisory Board pursuant to Decree of the Cabinet of Ministers of Ukraine No. 1404-p dated December 27, 2019), Oliana Gordienko(whose membership in the Committee was terminated in accordance with resolution of the Supervisory Board dated December 6, 2019 based on an application by Oliana Gordienko and due to updating the structure, number and composition of the Supervisory Board Committees) and Dominique Menu.

Number of meetings held: In 2019, the Committee held 9 meetings in accordance with the meeting attendance records.

The main issues addressed by the Committee were:

- preparation and submission to the Supervisory Board of recommendations related to approval of the Regulation on the Committee;
- providing recommendations on the procedure for conducting a competition for the selection of audit entities that may be designated to provide services of the mandatory audit of the Bank financial statements;
- conducting a competition for the selection of audit entities that may be designated to provide services of the mandatory audit of the Bank financial statements;
- providing recommendations on the plan of work of the internal audit unit;
- selection of an external audit company to evaluate the performance of internal audit unit;
- discussion of the results of recent NBU inspections on the specific issues of the Bank activities and control of internal audit to eliminate the identified deficiencies;
- providing recommendations on the budget of the Supervisory Board;
- providing recommendations on the reorganization of the Bank internal audit unit.

Risk Committee

The objective is to assist the Supervisory Board in exercising its powers to control the adequacy and efficiency of the Bank risk management system.

The composition of the Committee
Committee Head: Dominique Menu.

Committee members: Dimitri Chichlo, Steven Fisher (whose membership in the Committee was terminated due to termination of his powers as a member of the Supervisory Board pursuant to Decree of the Cabinet of Ministers of Ukraine No. 1404-p dated December 27, 2019), Alla Shulga (whose membership in the Committee was terminated due to termination of her powers as a member of the Supervisory Board pursuant to Decree of the Cabinet of Ministers of Ukraine No. 1025-p dated November 3, 2019), Thorsten Paul (whose membership in the Committee was terminated due to termination of his powers as a member of the Supervisory Board pursuant to Decree of the Cabinet of Ministers of Ukraine No. 877-p dated September 29, 2019), Viktoriya Strakhova, Laszlo Urban, Dmytro Kapliuk.

Number of meetings held: In 2019, the Committee held 12 meetings in accordance with the meeting attendance records.

The main issues addressed by the committee were:

- preparation and submission to the Supervisory Board of recommendations related to approval of the Regulation on the Committee;
- discussing and reviewing the Bank internal risk reports for the third quarter of 2019 on key risk indicators, credit risks, loan portfolio, liquidity risk, banking book interest rate risk, market risk and operational risk;
- development and submission of recommendations to the Supervisory Board for approval of certain internal documents on risk management and compliance control at the Bank;
- development and submission of recommendations to the Supervisory Board on the forms of management reporting on credit risk, liquidity risk, banking book and market risks, operational risk and the results of stress testing and capital;
- development and submission of recommendations to the Supervisory Board on the procedure for competitive selection of the appraisers for the purpose of the Bank property appraisal;
- submission of recommendations to the Supervisory Board on the establishment / structure of a permanent compliance control unit and approval of the organizational structure of the risk management system (risk management unit structure);
- submission of recommendations to the Supervisory Board on certain asset-side transactions of the Bank;
- analysis of the Bank loan portfolio, in particular the portfolios of the 100 largest customers, as well as the 100 largest problem loans subject to writing-off, in order to develop a strategy and an operation plan to workout the existing problem assets for efficient operation and maximization of the value of the non-performing loan portfolio.

Appointment and Remuneration Committee

The objective is to assist the Supervisory Board in exercising its powers to control the effectiveness of the Bank appointment and remuneration management.

The composition of the Committee
Committee Head: Oliana Gordienko.

Committee members: Steven Fisher (whose membership in the Committee was terminated due to termination of his powers as a member of the Supervisory Board pursuant to Decree of the Cabinet of Ministers of Ukraine No. 1404-p dated December 27, 2019), Alla Shulga (whose membership in the Committee was terminated due to termination of her powers as a member of the Supervisory Board pursuant to Decree of the Cabinet of Ministers of Ukraine No. 1025-p dated November 3, 2019), Thorsten Paul (whose membership in the Committee was terminated due to termination of his powers as a member of the Supervisory Board pursuant to Decree of the Cabinet of Ministers of Ukraine No. 877-p dated September 29, 2019), Sergiy Konovets, Viktoriya Strakhova, Laszlo Urban, Dmytro Kapliuk.

Number of meetings held: In 2019, the Committee held 9 meetings in accordance with the meeting attendance records.

The main issues addressed by the Committee were:

- preparation and submission to the Supervisory Board of recommendations related to approval of the Regulation on the Committee;
- election of the Corporate Secretary;
- providing the Supervisory Board with recommendations on approving the regulation on the procedure for competitive selection of the Bank Chairman of the Management Board and the Management Board members;
- conducting the transparent competitive selection of an international recruitment company for the provision of management recruitment services and providing the Supervisory Board with recommendations for approving the results of such competitive selection;
- carrying out preparatory measures/ conducting competitive selection of candidates for the position of Chairman of the Management Board;
- carrying out preparatory work on selection / appointment of heads of risk management units, compliance control unit, internal audit unit of the Bank;
- carrying out preparatory work on changes to the organizational structure of the Bank to establish a permanent risk management unit, compliance control unit, project office and subordination of these units to the Bank Supervisory Board;
- providing the Supervisory Board with recommendations on the number, structure and composition of the Committees of the Supervisory Board, with a view to improve the effectiveness of the work of the relevant Committees of the Supervisory Board and to better application of the skills and knowledge of each Supervisory Board member.

Strategy Committee

The objective is to assist the Supervisory Board in exercising its powers in the strategic management of the Bank and control over the implementation of the Bank development strategy and business plan.

The composition of the Committee
Committee Head: Steven Fisher (whose membership in the Committee was terminated due to termination of his powers as a member of the Supervisory Board pursuant to Decree of the Cabinet of Ministers of Ukraine No. 1404-p dated December 27, 2019).

Committee members: Yuriy Butsa, Dimitri Chichlo, Sergiy Konovets, Viktoria Strakhova (whose membership in the Committee was terminated in accordance with resolution of the Supervisory Board dated December 6, 2019 based on an application by Viktoria Strakhova and due to updating the structure, number and composition of the Supervisory Board Committees), Thorsten Paul (whose membership in the Committee was terminated due to termination of his powers as a member of the Supervisory Board pursuant to Decree of the Cabinet of Ministers of Ukraine No. 877-p dated September 29, 2019), Laszlo Urban, Oliana Gordienko.

Number of meetings held: In 2019, the Committee held 7 meetings in accordance with the meeting attendance records.

The main issues addressed by the Committee were:

- preparation and submission to the Supervisory Board of recommendations related to approval of the Regulation on the Committee;
- analysis of the main (strategic) Bank activities approved by the Cabinet of Ministers of Ukraine on September 11, 2019;
- competitive selection of a consulting firm to provide professional advice on the development of the Bank development strategy and to provide the Supervisory Board with the recommendations on approving the results of such competitive selection;
- development of the Bank development strategy together with the selected consulting firm;
- providing the Supervisory Board with recommendations on the Bank 2019 budget (business plan (including the budget) of the Bank for 2019);
- providing the Supervisory Board with recommendations on approving the Bank borrowing on the terms and conditions of the subordinated debt of up to US $ 150 million through the issue of Eurobonds in international capital markets;

- providing the Supervisory Board with recommendations on the Bank business plan for 2020-2029, which contains the Bank capitalization program for 2020-2029, and recommendation to approve it by the Bank Supervisory Board.

Governance and Compliance Committee

The objective is to assist the Supervisory Board in exercising its powers to ensure the efficient organization of corporate governance at the Bank.

The composition of the Committee
Committee Head: Yuriy Butsa.

Committee members: Oliana Gordienko, Dominique Menu, Laszlo Urban, Viktoriya Strakhova.

Number of meetings held: In 2019, the Committee held 6 meetings in accordance with the meeting attendance record.

The main issues addressed by the committee were:

- preparation and submission to the Supervisory Board of recommendations related to approval of the Regulation on the Committee;
- providing the Supervisory Board with recommendations on approval of amendments to the Regulation on the Management Board of the Bank (in order to address the issue of holding meetings of the Management Board using the electronic communication means);
- revision and updating of the Regulation on the Management Board, including bringing it in compliance with the law, Regulation on the Management Board, and the Bank Charter;
- making changes to the organizational structure of JSC Ukreximbank regarding the establishment of the Corporate Secretary's Office (and its structure) at the Head Office;
- providing the Supervisory Board with recommendations on the organization of the legal support for the Supervisory Board.

IT and Operations Committee

The objective is to assist the Supervisory Board in monitoring the performance of the Bank business processes, operations, information technology and information security in order to implement the Bank strategy.

The composition of the Committee
Committee Head: Dimitri Chichlo.

Committee members: Dominique Menu, Yuriy Butsa, Sergiy Konovets, Dmytro Kapliuk, Viktoriya Strakhova, Alla Shulga (whose membership in the Committee was terminated due to termination of her powers as a member of the Supervisory Board pursuant to Decree of the Cabinet of Ministers of Ukraine No. 1025-p dated November 3, 2019).

Number of meetings held: In 2019, the Committee held 5 meetings in accordance with the meeting attendance record.

The main issues addressed by the committee were:

- preparation and submission to the Supervisory Board of recommendations related to approval of the Regulation on the Committee;
- an overview of the main challenges in the field of information technology and operational management, as well as an overview of information systems and the process of loan approval at the Bank, in order to improve the efficiency of business processes, operations, information technologies and information security of the Bank;
- consideration of providing recommendations on the expediency of the Bank transition to electronic document circulation and digital technologies;
- providing recommendations on completing the migration from Grant to the B2 Core Banking system, developing an action plan to complete such migration;
- comprehensive consideration of the issue of a new organizational structure of the Bank;
- providing recommendations on the need to start the IT Asset Inventory process and create CMDB in accordance with ITIL standards and to start developing the Bank Continuity Business Plan with a primary focus on business activity recovery systems;
- development and provision of recommendations on the procedure for the competitive selection of the appraiser to appraise the Bank property.

NPL Workout Committee

The primary objective is to assist the Supervisory Board in exercising its powers to establish and maintaining implementation of an efficient process of the problem asset workout at the Bank.

The composition of the Committee
Committee Head: Laszlo Urban.
Committee members: Steven Fisher (whose membership in the Committee was terminated due to termination of his powers as a member of the Supervisory Board pursuant to Decree of the Cabinet of Ministers of Ukraine No. 1404-p dated December 27, 2019), Dominique Menu, Viktoriya Strakhova, Dmytro Kapliuk, Oliana Gordienko.

Number of meetings held: The Committee did not hold meetings in 2019, since the NPL Workout Committee was established only at the end of 2019 (according to the resolution of the Supervisory Board dated December 6, Minutes of the meeting of the Supervisory Board No. 14 dated December 9, 2019).

The main issues addressed by the committee were:
No issues were addressed, as no committee meetings were held.

8. Information on the composition of the Bank's executive body and its change during the year, including the committees established by the Bank, as well as information on the meetings held including general description of the decisions taken.

The Management Board is a permanent executive body of the Bank that carries out the day-to-day management of its activities, must act in the Bank interests and avoid conflicts of interest and is responsible for the efficiency of its operation in accordance with the Bank Charter and Regulation on the Bank Management Board. Only Bank employees may be the Management Board Members.

The Management Board includes the Chairman of the Management Board, Deputy Chairmen of the Management Board and other Management Board Members. The Management Board includes at least eight members.

The Chairman of the Management Board and other Board Members must comply with the requirements of the Law of Ukraine On Banks and Banking and the regulations of the National Bank of Ukraine in terms of professional suitability and business reputation.

The procedure for convening and holding meetings, voting, taking and execution resolutions of the Management Board are determined by Bank Charter and Regulation on the Bank Management Board.

The Board manages the day-to-day operation of the Bank, the fundraising and is responsible for the efficiency of its work in accordance with the Bank Charter and Regulation on the Bank Management Board.

The Management Board acts on behalf of the Bank in accordance with the competence stipulated by law and the Charter, on the basis of the regulation approved by the Supervisory Board. The Management Board reports to and controlled by the Supervisory Board.

The Management Board is headed by the Chairman of the Management Board, who coordinates the Management Board activity and is entitled to represent the Bank without a power of attorney.

When performing their responsibilities, the Management Board Members are obliged to act in the interests and for benefit of the Bank, the Bank customers, comply with the requirements of the law, the provisions of the Charter and other documents of the Bank and are obliged to put the interests of the Bank above their own ones.

The Management Board meetings are held when necessary, but at least once a month.

The Management Board is entitled to approve resolutions, if at least two thirds of its members of the actually appointed Management Board are present at its meeting.

The Management Board resolutions are approved by a simple majority of the votes of its members who attend its meeting. In the event of an even division of votes, the vote of the Chairperson at the board meeting is decisive.

In 2019 the composition of the Management Board was the following:

Oleksandr Viktorovych Hrytsenko, Chairman of the Management Board
Oleh Vitaliiovych Belinskyi, Deputy Chairman of the Management Board, Member of the Management Board
Volodymyr Mykhailovych Kotov, Deputy Chairman of the Management Board, Member of the Management Board
Svitlana Mykolaivna Monastyrska, Member of the Management Board - Deputy Chairman of the Management Board
Serhiy Mykolaiovych Myskiv, Member of the Management Board - Deputy Chairman of the Management Board
Olga Aleksieieva Mykolaivna, Member of the Management Board
Viktoriia Oleksandrivna Ruda, Member of the Management Board
Oleksandr Volodymyrovych Sokolov, Member of the Management Board
Oleksandr Volodymyrovych Schur, Member of the Management Board

In 2019, the composition of the Management Board was not changed.

72 meeting of the Bank Management Board were held in 2019. All meetings were held with quorum present according to the Charter (at least two thirds of its members of the actually appointed Management Board are present at its meeting).

Issues submitted for consideration of the Management Board were within the competence of the Management Board according to the Bank Charter. Among the key issues considered by the Management Board were:

- preparation and submission for consideration of the Supervisory Board of issues, which according to the applicable law and the Bank Charter are subject to consideration and addressing by the Supervisory Board: consideration of the annual financial statement/consolidated annual financial statements together with the opinions of the external auditor, Bank development business plan;
- approval of threshold key risk indicators, issues on the results of risk appetite stress testing, consideration of management reporting on credit risks based on the results for the quarter, approval of the list of the Bank related persons;
- approval of the most important rules, procedures and internal regulations;
- approval of decisions on charity support;
- approval of appointment, termination, transfer of heads of structural units of the Head Office and branches;
- approval of the Credit Committee and Problem Assets Committee decisions;
- consideration of issues on taking measures for compliance with the requirements of the applicable law of Ukraine in the field of financial monitoring;
- other issues, consideration of which is within the competence of the Management Board according to the Bank Charter.

In accordance with the Bank Charter the following Committees were established and operated at the Bank in 2019:

- Credit Committee
- Retail Committee
- Problem Assets Committee
- Assets and Liabilities Committee (ALCO)
- Fees and Commissions Committee
- Information Security Committee
- Tender Committee

Credit Committee

In 2019, the composition of the Credit Committee was the following:

- V.O. Ruda, Member of the Board, Head of the Credit Committee;
- S.M. Myskiv, Member of the Management Board - Deputy Chairman of the Management Board, Deputy Head of the Credit Committee (acted as a Head of the Credit Committee, if V.O. Ruda, member of the Management Board - Head of the Credit Committee was temporarily absent);
- T.V. Koruna, Head of Credit Risk Analysis Department - Deputy Chairman of the Credit Committee (acted as a Head of the Credit Committee, if V.O. Ruda, member of the Management Board –Head of the Credit Committee and S.M. Myskiv, Member of the Management Board - Deputy Chairman of the Management Board - Deputy Head of the Credit Committee were temporarily absent);
- V.A.Voloschenko, Head of Economic Security and Information Support Department of Economic Security Division, Member of the Credit Committee;
- O.Yu. Moskalenko, Head of Legal Division, Member of the Credit Committee;
- P.O. Nechiporenko, Head of Collateral Management Division, Member of the Credit Committee;
- R.A.Batrakov, Head of Industry and Energy Production Companies Division, Member of the Credit Committee;
- B.M. Zenkin, Head of Corporate Business Division, Member of the Credit Committee.

The Credit Committee operated in accordance with the Credit Committee Regulation as amended and approved by the Bank Management Board Resolution dated August 25, 2010 (Minutes No. 25) and enacted by the Order No. 416 dated August 31, 2010.

Credit Committee meetings were generally held twice a week.

The main functions of the Credit Committee include issues on management of the corporate loan portfolio of the bank, assessment of individual and portfolio risks of lending.

On a monthly basis, the Credit Committee reviewed and approved the volumes of provisions under IFRS and the amount of credit risk on asset-side banking transactions in accordance with the NBU requirements.

On a quarterly basis, the Credit Committee confirmed the consolidated lists of counterparty banks, for which total limits for risk acceptance for interbank transactions are set. Following the results of monthly monitoring of the financial condition of the counterparty banks, and in case of detection of any additional information on significant changes in the activity of counterparty banks, the issues of approval / revision / cancellation of limits of acceptance of risks by JSC Ukreximbank from counterparty banks were submitted to the Credit Committee.

In 2019, the Credit Committee held 98 meetings, where 1,086 issues were considered and decisions were made thereon. The most of the decisions dealt with issues on changing the terms and conditions of asset-side transactions, conducting asset-side transactions with corporate clients, establishing and reviewing the terms and conditions for conducting interbank credit risk transactions, reports of the Bank's structural units on the state of lending transactions, improving the regulatory documents on lending procedures, etc.

Retail Business Committee

In 2019, the composition of the Retail Business Committee (hereinafter – the RBC) was the following:

- S.M. Monastyrska, Member of the Management Board - Deputy Chairman of the Management Board - Head of the RBC (in 2019 she was on parental leave);
- A.V.Kozlov, Chief Risk Officer (was appointed a member of the RBC and assigned with the functions of the Head of the RBC for the period of the parental leave of S.M. Monastyrska, member of the Management Board - the Deputy Chairman of the Management Board);
- B.B. Leusch, Head of SME and Individual Borrowers Credit Risk Assessment Department, Credit Risk Analysis Division - Deputy Head of the RBC (acts as a Head of the RBC in the absence of the Head of the CRB for the reasons stipulated by the applicable law of Ukraine: business trip, vacation, temporary disability, termination of employment, etc.);
- V.O. Gretska, Head of the Retail Business Organization and Support Division - Deputy Head of the RBC (acts as a Head of the RBC, if the Head of the CRB and B.B. Leusch, Member of the RBC, are absent for the reasons stipulated by the applicable law of Ukraine: business trip, vacation, temporary disability, termination of employment, etc.) ;
- V.Yu. Guzii, Head of the Bank Regional Branch Network Security Department of the Economic Security Division, Member of the RBC;
- I.V.Hrynenko, Head of Retail Business Legal Support Department of Legal Division, Member of the RBC;
- V.A.Dedkov, Head of the Small and Medium Business Division, Member of the RBC;
- P.A. Skakun, Head of Analytical Information Department of Corporate Business Division, Member of the RBC;
- S.V.Skrynskyi, Head of Department of SME and Individual Borrowers Collateral Evaluation, the Collateral Management Division, Member of the RBC.

In 2019, the Retail Business Committee held 56 meetings, where 466 issues were considered and decisions were made thereon.

The most of the decisions were related to issues on conducting asset-side transactions with individual and SME borrowers, changing of lending terms and conditions, improving the regulatory documents on lending procedures, reporting information on analysis of the state and quality of the loan portfolio, the results of monitoring compliance with credit limits, coverage ratios for foreign currency lending transactions, etc.

Problem Assets Committee

In 2019, the composition of the Problem Assets Committee (hereinafter – PAC) was the following:

- V.M. Kotov, Deputy Chairman of the Management Board, Member of the Management Board –Head of the PAC;
- A.V. Kozlov, Chief Risk Officer - Deputy Head of the PAC;
- K.S. Drozd, Head of Problem Assets Credit Risk Assessment Department of Credit Risk Analysis Division, member of the PAC;

- V.I. Besedin, Head of the Claim Administration and Protection of Bank Interests in the Courts, Legal Division, member of the PAC;
- A.M. Ananchenko, Head of Financial Division, member of the PAC;
- V.M. Lishchenko, chief analyst of Economic Security Division, member of the PAC;
- O.G. Marchuk, Head of Problem Assets Workout Division, member of the PAC;
- O.V. Vizhunov, Head of Non-core Assets Division, member of the PAC (his membership in the Committee was terminated on March 27, 2019);
- S.M. Denisov, Head of SME and Individuals Problem Debt Collection Department, Problem Assets Workout Division, member of the PAC.

The Problem Assets Committee operated in accordance with the Problem Assets Committee Regulation as amended and approved by Resolution of the Bank Management Board dated March 29, 2017 (Minutes No. 15) and enacted by the Order No. 179 dated April 28, 2017.

The Problem Assets Committee defined the terms and conditions for implementing measures aimed at recovery of debt under lending transactions, which is recognized as problem debt (hereinafter referred to as "Problem Debt"), as well as the possibility and conditions for implementing measures for management of the Bank's assets, which are not used for conducting banking operations and do not support technological implementation of banking functions (hereinafter - Non-core Assets).

In 2019, 33 meetings of the PAWC (Problem Asset Workout Committee) were held, at which 97 issues were considered and decided concerning approval of a problem debt repayment action plan, debt repayment measures and maintenance of the subject of collateral (consent to the postponement of the enforcement of a court decision on debt seizure, filing lawsuits and appealing decisions, filing orders for debt enforcement, attachments, etc.), giving consent to the liquidator and surety for the sale of the pledged property, protection and monitoring the maintenance of the subject of collateral under the Problem Debt, paying in advance and recovering the expenses of the liquidator, reporting information, etc.

Assets and Liabilities Committee

As of January 1, 2020, the Asset and Liability Committee (hereinafter - ALCO) includes 12 persons:

- Manokha S.O., Head of the Group of Advisors to the Chairman of the Bank Management Board - Head of the ALCO;
- Monastyrska S.M., Member of the Management Board - Deputy Chairman of the Management Board - Deputy Head of the ALCO, in the case of temporary absence of the ALCO Head, performs the functions of the ALCO Head (during 2019 she was on the child care leave);
- Ruda V.O., Member of the Management Board (a member of the ALCO, who, during the period of maternity leave, childbirth and child care leave of Monastyrska S.M., Member of the Management Board - Deputy Chairman of the Management Board was appointed Deputy Head of the ALCO, who performs the functions of the ALCO Head in the case of temporary absence of the Committee Head);
- Belinskyi O.V., Deputy Chairman of the Management Board, Member of the Management Board - Deputy Head of the ALCO (in the case of temporary absence of the Committee Head, Monastyrska S.M., Deputy Head of the Committee and Ruda V.O., member of the Committee, during her appointment as a Deputy Head of the Committee, performs the functions of the Committee Head);
- Alieksieieva O.M., Member of the Management Board - member of the ALCO;
- Shchur O.V., Member of the Management Board - member of the ALCO;
- Maksiuta S.A.,CFO - member of the ALCO;
- ShchulipenkoYu.I., Head of Planning and Analysis Division - member of the ALCO;
- Oshedsha N.M., Head of Risk Control and Risk Management Methodology Division - member of the ALCO;
- Sekun O.V., Head of Treasury Division - member of the ALCO;
- Sokyrko S.S., Head of Assets and Liabilities Division - member of the ALCO;
- Hretska V.O., Head of Retail Business Organization and Support Division - member of the ALCO.

The ALCO carried out its activity in accordance with the Regulation on the Assets and Liabilities Committee in the wording approved by Resolution of the Management Board of the Bank No. 85dated February 28, 2013 (Minutes No. 13) and brought into effect on March 06, 2013.

The ALCO meetings are usually held twice a month.

The ALCO ensures optimization of the overall assets and liabilities structure, compliance with liquidity risk ratios, capital adequacy ratio, interest rate, currency and market risk ratios within the ranges defined by the JSC Ukreximbank Risk Management Policy.

Within the powers delegated by the Management Board, the ALCO delegated a part of its powers to the Assets and Liabilities Subcommittee (hereinafter referred to as the Subcommittee), in particular, regarding making decisions, within the certain parameters, for establishing individual terms and conditions for attracting funds on deposit and current accounts and deposit lines, setting interest rates on short-term deposits, establishing terms and conditions for running regional specials to attract fixed-term individual deposits.

In 2019, 56 ALCO meetings were held, at which 267 issues were considered and decided, and 67 Subcommittee meetings were held, at which 973 issues were considered and decided.

The main part of the decisions taken by the ALCO related to the following issues:

- terms and conditions for attracting funds on an individual basis (rate, currency, term, transaction size, terms and conditions of interest recalculation in case of early termination of deposit, etc.),
- reporting information,
- setting interest rates and transfer rates on the asset-side and liability-side transactions, the recommended spread and the cost of interest-bearing obligations under the loan programs,
- establishing limits for asset-side and liability-side transactions and risks,
- use of a foreign currency position to repay the loan debt and reduce the volume of the loan debt growth,
- approval of the regulations and amendments thereto regarding the competence of the ALCO,
- accreditation of insurance companies,
- participation in an auction for the placement of domestic government bonds.

Tariff Committee

During 2019, the Tariff Committee composition (hereinafter referred to as TC) was as follows:

- Belinskyi O.V., Deputy Chairman of the Management Board, Member of the Management Board - Head of the TC;
- Monastyrska S.M., Member of the Management Board - Deputy Chairman of the Management Board - Deputy Head of the TC, in the case of temporary absence of the TC Head, performs the functions of the TC Head (during 2019 she was on the child care leave);
- Ruda V.O., Member of the Management Board (during the period of maternity leave, childbirth and child care leave ofMonastyrska S.M., Member of the Management Board - Deputy Chairman of the Management Board she was appointed a member of the TC, who performs the functions of the TC Deputy Head);
- Oshedsha N.M., Head of Risk Control and Risk Management Methodology Division - member of the TC;
- Hretska V.O., Head of Retail Business Organization and Support Division- member of the TC;
- Diedkov V.O., Head of Small and Medium-Sized Business Division - member of the TC;
- Zienkin B.M., Head of Corporate Business Division - member of the TC;
- Kozoriz O.L., Head of Financial Institutions and Trade Finance Division - member of the TC;
- Maksiuta S.A.,CFO - member of the TC;
- Mukan S.V., Head of Programs of Planning and Analysis Division - member of the TC (included into the TC from April 04, 2019);
- Tyshchenko O.B., Head of the Electronic Banking Services Division - member of the TC;
- Skakun R.A. Head of Analytical Information Department, Corporate Business Division - member of the TC;
- NekrasovaYu.B., Head of Operation Division- member of the TC;
- Naumov O.O., Executive Director of Planning and Analysis Division - member of the TC (excluded from the TC on April 04, 2019);
- Marushchak M.V., Head of Direct Sales Department, Corporate Business Division - member of the TC (excluded from the TC on April 04, 2019).

The TC performed its activities in accordance with the Regulation on the Tariff Committee in the wording approved by the Resolution of the Management Board of the Bank dated September 25, 2013 (Minutes No. 58) and brought into effect by Order No. 412 dated October 10, 2013.

The TC meetings are usually held once a week.

The main functions of the Tariff Committee are to address issues related to the management of fees rates for the banking services and the analysis of the relationship between the cost of services and market competitiveness. The Tariff Committee determines and implements the Bank fee and commission policy.

In 2019, the Tariff Committee held 57 meetings, at which 603 issues were considered and decided.

The main decisions of the Tariff Committee related to issues such as setting individual fees and commission and promotional fees for the banking services, determining the list of corporate customers, changes to the standard fees for the banking services, introducing new tariff packages and introducing changes thereto, approving regulations on implementation of the fee and commission policy and other issues.

Information Security Committee

During 2019, JSC Ukreximbank Information Security Committee composition (hereinafter referred to as the Committee) was as follows:

- Kotov V.M., Deputy Chairman of the Management Board – Head of the Committee;
- Konoshchuk V.O., Head of Electronic Information Protection Division - Deputy Head of the Committee;
- YelahinaZh.S., CCO - member of the Committee;
- Bakai A.V., Head of Internal Security and Protection Division - member of the Committee;
- Lozova O.V., Head of Banking Transaction Methodology Division - member of the Committee;
- NekrasovaYu.B., Head of Operation Division- member of the Committee;
- Oshedsha N.M., Head of Risk Control and Risk Management Methodology Division - member of the Committee;
- Kholodovskyi M.I., Head of Business Process Information and Technological Support Division - member of the Committee;
- Bolshakov O.M., Head of Factoring and Bill Transaction Development and Support Department, Corporate Business Division - member of the Committee (excluded from the Committee on February 14, 2019);
- Kharchenko A.B., Head of Documentary Business Division - member of the Committee (included to the Committee on February 14, 2019).

The Committee performed its activities in accordance with the Regulation on the Information Security Committee in the wording approved by the Resolution of the Management Board of the Bank dated October 26, 2011 (Minutes No. 60) and brought into effect by Order No. 664 dated December 21, 2011.

Meetings of the Committee are held once a month as needed.

The Committee ensured the process of developing, implementing, operating, monitoring, reviewing, maintaining and improving the information security management system.

In 2019, the Committee held 5 meetings, at which 66 issues were reviewed and decided.

The main part of the decisions made related to such issues as approval of reports on the results of information security risks assessment in terms of the critical business processes, approval of descriptions of the critical business processes, approval of the regulations on information security management system.

Tender Committee

During 2019, the Tender Committee composition (hereinafter referred to as the Tender Committee) was as follows:

- Maksiuta S.A.,CFO - Head of the Tender Committee;
- Ananchenko A.M., Head of Financial Division - Deputy Head of the Tender Committee (in the absence of the Head of the Tender Committee fulfilled his duties);
- MoskalenkoO.Yu., Head of Legal Division - Member of the Tender Committee;
- Savchenko I.V., Head of Economic Security Division, Corruption Prevention Officer - Member of the Tender Committee;
- Kalenska O.M., Head of Internal Bank Transaction Support and Tax Accounting Division - Deputy Chief Accountant of the Bank - Member of the Tender Committee;
- Chaldykin D.O., Head of Documentation Management Organization and Archive Keeping Department, Administration Division - Member of the Tender Committee;
- Berezhna T.V., Head of Procurement Organization and Support Department - Member of the Tender Committee (in case of temporary absence of Tender Committee secretary performs her functions);
- Tender Committee member, Tender Committee secretary, senior economist-analyst of Procurement Organization and Support Department:
  - from January 1, 2019 to November 14, 2019 –Sychkova L.A.;
  - from November 15, 2019 to December 31, 2019 - Vorontsova T.V.

During 2019, the Tender Committee supported the Bank business activities to meet the Bank needs for goods, works, services through competitive bidding of suppliers (contractors) of such goods / works / services and fulfillment of the requirements of the applicable procurement law of Ukraine.

In order to maintain the Bank business activity, the Tender Committee carried out procurement planning and approval of the annual procurement plan under the above threshold and negotiated procurement procedures, as well as amendments thereto; approved the tender documents (amendments to some of them) under the above threshold procurement procedures and decided on the intention to conclude the contract in the cases envisaged by the Procurement Procedure, including based on the results of the negotiated procurement procedure; prepared and posted answers to the questions of participants in the ProZorro electronic procurement system (hereinafter - the System); considered the requirements for elimination of violations in the course of the procurement procedure and made decisions thereon in accordance with the provisions of the Procurement Procedure; decided on the cancellation of the procurement procedure in the cases provided for in the Procurement Procedure. In addition, pursuant to Article 79 of the Commercial Code of Ukraine, reports on the concluded contracts for purchase of goods, works and services at the expense of the Bank were prepared and published on the web-portal of the Authorized Body (Ministry of Economic Development, Trade and Agriculture of Ukraine).

The main Tender Committee decisions taken during 2019 related to approval of procurement plans for 2019, procurement through the System, consideration of requests (complaints), preparation and posting to the System of answers on the user questions in the System, preparation and publication on the Web portals of the Authorized Body (Ministry of Economic Development, Trade and Agriculture of Ukraine) of the reports on the concluded contracts for purchase of goods, works and services at the expense of the Bank and information on changes of the material terms and conditions of such contracts.

9. *Facts of violation by the Bank Supervisory Board Members and Bank Management Board Members of the internal rules resulted in damage caused to the Bank or the Bank customers*

Facts of violations by the Bank Supervisory Board Members and Bank Management Board Members of the internal rules resulted in damage caused to the Bank or consumers of financial services over 2019 are not available.

10. Remedial actions taken by the public authorities towards the Bank during the year, including the Bank Supervisory Board and Bank Management Board Members

According to the resolution of the public authorities, JSC Ukreximbank was fined in the amount of UAH 2,188.4 thousand during the year. The Bank Supervisory Board Members and Management Board Members were not subject to remedial actions. At the same time, over 2019 the powers of the particular Supervisory Board Members were terminated by Resolution of the supreme body.

11.*Amount of remuneration for the year of the Bank Supervisory Board Members and Bank Management Board Members*

The remuneration of the JSC Ukreximbank Supervisory Board[1] and Management Board members in 2019 amounted to UAH 76,484 thousand.

12. *Significant risk factors that influenced the activities of the financial institution during the year*

In 2019, the Bank was influenced by the same risk factors as the other banking institutions and the banking system of Ukraine as a whole, in particular. The significant risk factors, which could adversely affect the Bank activity, over 2019 were not observed.

13. *Availability in a financial institution of a risk management system and its key characteristics*

The Bank considers the establishment and proper functioning of a comprehensive and adequate risk management system as one of the key elements to ensure the Bank sustainable development and effective operation, and the achievement of its current and strategic goals.

To that effect, the Bank sets out the following key risk management objectives:

- limiting, minimizing and mitigating the Bank risks;
- ensuring / maintaining an acceptable level of risk within the risk appetite and limits set by the Bank;
- ensuring the financial soundness of the Bank and the availability of the necessary level of unencumbered high quality assets;
- complying with the requirements of the National Bank of Ukraine.

[1]The JSC Ukreximbank Supervisory Board Members remuneration in 2019 consisted of the remuneration amount, reimbursement payments to the Supervisory Board Members and procurement by JSC Ukreximbank on its own behalf and out of its own expense of the services required by the Supervisory Board Members to fulfill their obligations.

Risk management at the Bank is carried out through identifying, assessing, continuous and qualitative risk analysis, identifying and establishing an acceptable level of risk (including limits for each type of risk), risk forecasting, capital appreciation based on the results of risk assessment and / or forecasting (including stress testing), monitoring and control of risks, including taking into account their level of acceptability for each type of risk, implementation of measures to mitigate / reduce the level of risks and reporting on risks to the management of the Bank, including the Supervisory Board, the Risk Committee of the Supervisory Board, the Management Board and other collegial bodies of the Bank (daily, monthly, quarterly).

The Bank organizes a risk management system based on the distribution of responsibilities between all Bank units and branches using the three lines of defence model:

- the first line of defence - at the level of the Bank business units and the Bank support units. These units accept and bear responsibility for the risks - directly organize and conduct banking transactions with due account to the transaction risk level of risk of the transaction, are included in the process of identification, assessment and monitoring of risks, reporting on them and, as well as other units, comply with the requirements of internal regulations, in particular regarding the risk management;
- the second line of defence - at the level of the risk management unit and the compliance control unit. These units are generally responsible for risk management and develop appropriate internal risk management regulations, including methodologies, models, procedures, etc., conduct risk assessment and monitoring, and prepare risk reports;
- the third line of defence - at the level of the internal audit unit, which performs periodic audits and assessments of the quality and efficiency of the risk management system and provides appropriate recommendations for further improvement as a result of such audits.

The Bank risk management is governed by a number of Bank risk management regulations, including the risk management strategy, the risk management policies (by different types of risks), credit risk thresholds, appetite limits, appropriate techniques, models, rules, procedures, rulings, etc., most of which were updated by the Bank in 2019, taking into account the requirements of Resolution of the Board of the National Bank of Ukraine No. 64 dated June 11, 2018.

The Bank identified the following material risks:

- credit risk;
- liquidity risk;
- banking book interest rate risk;
- market risk;
- operational risk;
- compliance risk.

The main units for the identification, assessment and monitoring of credit risk, liquidity risk, banking book interest rate risk, market risk, operational risk are the risk management units: Credit Risk Analysis Division and Risk Control and Risk Management Methodology Division, which report to the CRO, and in terms of the compliance risk –the Compliance Control Division.

The Bank risk management system is constantly being improved and adjusted to the current situation and challenges with strict compliance with legal requirements.

In particular, upon the completion of forming (in accordance with the new requirements of the Law of Ukraine On Banks and Banking regarding the governing bodies of the state-owned banks) a new composition of the Supervisory Board of the Bank, a number of the underlying documents on risk management (strategy, policies, procedure for escalation of violations of risk limits, procedure for determination and operation with related parties, etc.) are approved by the stated governing body, the resolution was made to reorganize the risk block and create a separate Directorate responsible to the Supervisory Board (as expected, the process will be finalized in 2020), the reporting on risk management was formalized, the prompt reporting and communication was arranged between the Supervisory Board, Management Board, risk management unit and compliance control unit on an ongoing basis.

In order to develop the risk management system, the Bank systematically undertakes measures to enhance the risk management culture. Thus, periodical training of the staff is introduced, support is provided to the units for practical application of tools and mechanisms for the effective risk management. Communication on the comprehensive risk management system operation is performed on a regular basis.

14. Information about the internal control system performance result for the year and its key features

The Bank introduced an effective and operative internal control system (ICS).

The main purpose of the internal control system (ICS) at JSC Ukreximbank is to provide the Supervisory Board, the Management Board of the Bank with a reasonable guarantee of achievement of the overall goals and objectives of the Bank, increase the level of internal control organization and improve the efficiency of the completed tasks, as well as ensure the stability, security and efficiency of processes and transactions of the Bank, while ensuring the efficient operation, protection against potential errors, avoidance of irregularities, losses, damages in the Bank activities.

The Bank internal control system is aimed at:

- the achievement of the Bank operation objective, including the compliance with the planned indicators, ensuring the efficiency and effectiveness of operations, efficient assets and liabilities management, including that aimed at maintaining assets;
- ensuring the stability, continuity and security of the Bank activities, improving the processes of conducting the banking transactions, controlling procedures and protecting the interests of the Bank-founder, depositors and lenders;
- ensuring the effectiveness of the corporate governance within the Bank by operating a comprehensive, efficient and adequate risk management system;
- ensuring completeness, timeliness and accuracy of accounting, preparation and submission of financial, statistical, management, tax and other statements;
- compliance of the Bank activities with the law of Ukraine, including the regulations of the National Bank of Ukraine, the standards of professional associations, to which the Bank is applicable, the Bank internal regulations.

The Bank internal control system is developed with due account to the following principles:

- Efficiency and effectiveness means organization of a continuous internal control, integrated into the current activities of the Bank and understandable at all levels of the Bank employees.
- Distribution of responsibilities means avoidance of a situation where one person fully controls the function or type of activity of the Bank (separating the control function from the operations of the Bank).
- Integrity means coverage of all types of activities of the Bank and all its Units at all organizational levels.
- Timeliness means that the internal control system makes it possible to get information on the risk of loss before such losses are incurred, in order to prevent such bank losses and use appropriate adequate response measures.
- Independence means separating the functions of assessment of the internal control system efficiency and the functions of organization and implementation of the internal control system.
- Confidentiality means prevention of information disclosure to persons unauthorized to receive such information.

The Bank ensures the functioning of the internal control system through:

- control over the compliance with the applicable law of Ukraine and internal regulations of the Bank by all employees of the Bank;
- distribution of responsibilities;
- control over the risk management system;
- control over information security and information exchange;
- implementation of internal control procedures;
- internal control system monitoring;
- implementation of internal audit procedures.

The internal control system covers all monitoring procedures at the Bank, operates constantly and at all levels.

The Bank regulations establish the rules of banking operations, an integral part of these documents are control procedures at each and all stages of business processes, indicating the frequency and timing of control measures, persons responsible for compliance with control procedures depending on the type of operations and number of units - participants in the process.

Based on the results of audits in 2019, the Internal Audit Division provided recommendations to the Supervisory Board and the Management Board on improving the methods and instruments of internal control, risk management system, including compliance. There were no significant deficiencies that negatively affected the financial performance of the Bank.

15. ***Results of the internal audit (control) system operation during the year***

The Bank internal audit system is generally effective and meets the requirements of the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors.

During 2019, the Division worked in accordance with the plan approved by the resolution of JSC Ukreximbank Supervisory Board. The Internal Audit Division submits reports quarterly and annually to JSC Ukreximbank Supervisory Board and every six months to the National Bank of Ukraine.

16. ***Facts of assets disposal during the year in excess of the size established in the Charter of a financial institution***

During the year 2019, JSC Ukreximbank did not dispose assets in the amount exceeding the amount specified in the Charter.

17. ***Results of asset evaluation in the event of sale/purchase thereof during the year in the amount exceeding the amount specified in the Bank Charter***

During 2019, JSC Ukreximbank did not sell or buy assets in the amount exceeding the amount specified in the Bank Charter.

18. ***Transactions with related parties, including within an industry-financial group or other association performed during the year. Such information is not a commercial secret***

The Bank pays sufficient attention to detecting of the Bank related parties, preparation and updating of the list thereof in order to control risks under the Bank related parties transactions.

The Bank submits to the NBU the information about the Bank related parties on a monthly basis according to the procedure prescribed by the NBU regulations.

Information on the transactions with related parties is disclosed in Note 29 Related Party Transactions of JSC Ukreximbank annual financial statements for the year ended December 31, 2019.

19. ***External auditor activities over 2019***

Ernst & Young Audit Services LLC was appointed as the Bank external auditor for 2019.

General information on the external auditor appointed during 2019 (including the total audit activity experience, the number of years during, which it provides audit services to the Bank, a list of other audit services provided to the Bank during 2019):

The total audit activity experience of Ernst & Young Audit Services LLC is more than 25 years. During last 4 years Ernst & Young Audit Services LLC has been providing the audit services to the Bank. No other audit services were provided to the Bank in 2019.

Cases of conflicts of interest and / or combinations of internal auditor functions:

No cases of conflicts of interest and/or combinations of internal auditor functions were available.

Rotation of auditors in the financial institution over the last five years:

The Bank external auditors were rotated over the last five years. Particularly, PricewaterhouseCoopers Audit LLC was determined as the Bank external auditor in 2014-2015, and Ernst & Young Audit Services LLC - in 2016-2019.

Application of recommendations of the financial services markets state regulatory bodies in relation to the auditor's report

The Audit Chamber of Ukraine during the year 2019 did not apply penalties to the Bank external auditor. The financial services markets state regulatory authorities did not detect the facts of submission of false financial reports of the institution, as confirmed by the auditor's report.

Opinions of the Audit Committee of the Supervisory Board on the independence of the external audit and independence of the external auditor

Audit Committee of the Supervisory Board did not provide notes regarding the independence of the external audit conducted.

20. Protection of the rights of consumers of financial services by the financial institution, in particular:

Appeals are handled at the Bank in accordance with the Law of Ukraine On Citizens' Appeal, other regulations of Ukraine, as well as JSC Ukreximbank internal regulatory documents.

The Bank customers' appeals are considered by the Chairman of the Management Board of the Bank (in accordance with the Law of Ukraine On Citizens' Appeal and the Charter of the Joint Stock Company The State Export and Import Bank of Ukraine approved by Resolution of the Cabinet of Ministers of Ukraine No. 1250dated 10.08.2000), as well as the officers authorized by the Chairman of the Management Board of the Bank, being entitled to sign the replies to such appeals, and in case of disagreement of a citizen with the resolution related to his/her appeal, the appeal are resolved in court.

Within the reporting period, the Bank duly considered and satisfied 5 different appeals regarding provision of banking services.

In 2019, the Bank carried out 77 proceedings initiated on the basis of the lawsuits filed by individuals who applied as consumers of financial services. Of these, the claims were denied in 20 cases, satisfied - 6 (of which partially - 3), 1 proceeding was closed at the request of the Bank in connection with the absence of the subject of the dispute (debt repayment), 5 proceedings were left without consideration, 44 claims are pending in the courts (4 of them - in cassation and 1 - in appellate instance) and 1 claim is returned in connection with a failure to pay the court fee.

Chairman of the Management Board **I.V. Metsger**

Building a better working world

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Independent auditor's report

To the Shareholder of Joint Stock Company "The State Export-Import Bank of Ukraine"

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries (hereinafter the "Bank"), which are presented on pages 34 to 118 and comprise the consolidated statement of financial position (consolidated balance sheet) as at 31 December 2019, the consolidated statement of profit and loss (consolidated income statement), the consolidated statement of comprehensive income, the consolidated statement of changes in equity (consolidated statement of equity) and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2019 and its consolidated financial performance and its consolidated 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.

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 consolidated financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each 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 consolidated 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 consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses of loans to customers	
The appropriateness of allowance for expected credit losses (ECL) of loans to customers was significant to our audit because it is a key area of judgment for management. The Bank's ECL allowance calculations are outputs of complex models with a number of underlying assumptions regarding development of ECL models, including the various formulas and the choice of inputs, selection of forward-looking macroeconomic scenarios and their probability weightings, the estimation of the amount and timing of cash flows from collateral etc. The use of different assumptions could produce significantly different estimates of impairment of loans to customers. Taking into account the significance of the loans to customers balances and high level of subjectivity of assumptions, we considered that assessment for expected credit losses of loans to customers was a key audit matter. The Bank's management approaches to assessing and managing credit risk are described in Note 11 and Note 26 to the consolidated financial statements.	Our audit procedures included the assessment of the consistency of the methodology used by the Bank for the assessment of the ECL allowance under IFRS 9 as at 31 December 2019 and for the year then ended. With respect to allowance for expected credit losses calculated on an individual basis, our audit procedures comprised evaluation of the reasonableness of management assumptions by analysing assessment of financial condition of the counterparty, forecasts of future cash flows and valuation of underlying collateral which were incorporated in multiple scenarios for a sample of loans. With respect to allowance for expected credit losses calculated on a collective basis, our audit procedures comprised testing of the design and operating effectiveness of the Bank's internal controls in respect of ECL allowance calculation including correctness of identification and calculation of triggers for significant increase in credit risk and credit impairment, staging identification, PDs and LGDs.

Key audit matter	How our audit addressed the key audit matter
	We involved our risk management specialists to assist us with the analysis of the validation procedures performed by the Bank's experts in respect of models with forward-looking information on macro-economic factors, which included updated statistical information for 2019 year. We also tested the inputs to the underlying models and their mathematical accuracy. We analysed associated disclosures in Note 11 and Note 26 to the consolidated financial statements in respect of allowance for expected credit losses of loans to customers.
Valuation of indexed state bonds at fair value through profit or loss	
Valuation of indexed state bonds with the embedded foreign exchange derivatives at fair value through profit or loss was a key area of judgments for management due to complexity of estimations regarding the choice of variable inputs, such as risk-free rates in national and foreign currencies, current spot rate and volatility of exchange rate, and subjective valuation techniques. Taking into account the significance of the carrying amount of indexed state bonds at fair value through profit or loss to the consolidated financial statements and related estimation uncertainty, we considered valuation of the above assets to be a key audit matter. Notes 12 and 27 to the consolidated financial statements provide information on the indexed state bonds at fair value through profit or loss.	Our audit procedures in respect of the valuation of indexed state bonds at fair value through profit or loss comprised inquiries of the Bank's management about the significant assumptions applied, consideration and testing of inputs used, including mathematical accuracy of the calculation and comparing the results in the models to the amounts recognised in the consolidated financial statements. We analysed the Bank's disclosures in relation to the indexed state bonds at fair value through profit or loss.
Valuation of deferred tax assets	
The Bank has significant recognised and unrecognised deferred tax asset balances as at 31 December 2019. Recognition of deferred tax asset is dependent on the availability of future taxable profits. There is an inherent uncertainty involved in forecasting future taxable profits. The analysis of the recognition and recoverability of deferred tax asset was one of the matters of most significance in our audit because the amounts are material, the assessment process is judgmental, and is	Our audit procedures comprised evaluation of the reasonableness of management assumptions in relation to deferred tax asset's recoverability by analysing the availability of sufficient future taxable profits based on the business plan and the forecast. We discussed the underlying judgements with the Bank's management, tested tax positions and timing of future deductions. In addition, we considered the historical accuracy of management's estimates by comparing

Key audit matter	How our audit addressed the key audit matter
based on assumptions that are affected by expected future market and economic conditions. Notes 4 and 16 to the consolidated financial statements provide information on the judgements and amounts of deferred tax asset.	budgeted and actual data. We also compared the assumptions used in the business plan and the forecast with available banking market information and the overall Ukrainian economy projections. We also analysed the deferred tax asset disclosures prepared by the Bank and presented in the consolidated financial statements.

Other information included in the Consolidated Management Report and Annual Information of the Issuer of Securities for 2019

Other information comprises the Bank's Consolidated Management Report (including the Corporate Governance Report, but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and other information in the 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 consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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 Supervisory board for the consolidated financial statements

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

In preparing the consolidated 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 consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of Bank's subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Bank. We remain solely responsible for our audit opinion.

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 them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory board, we determine those matters that were of most significance in the audit of the consolidated 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 "Instruction on preparation and publication of financial statements of banks in Ukraine" as approved by Resolution of the Board of National Bank of Ukraine №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 consolidated financial statements, Consolidated 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 Consolidated Management report in light of the knowledge and understanding obtained during the course of the audit of the Bank's consolidated financial statements. We have nothing to report in this regard.

Report on other legal and regulatory requirements

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

Appointment of the auditor and period of engagement

We were first appointed as independent auditors to perform a statutory audit of the Bank's consolidated financial statements on 13 April 2017 by the Supervisory board. Our appointment renewed annually by the Supervisory board. On 8 November 2019 our appointment has been approved by the Supervisory board for a total period of uninterrupted engagement for performing the statutory audit of two years. The period of total uninterrupted engagement for performing the statutory audit of the Bank is four years.

Translation from Ukrainian original

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 27 April 2020 in accordance with Article 35 of Law No. 2258-VIII.

Provision of non-audit services

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

Pryshchepko Y.Y.
Auditor

Registration number in the Register of auditors and audit firms: 101251

Kyiv, Ukraine

27 April 2020

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONSOLIDATED BALANCE SHEET)

As at 31 December 2019

(thousands of Ukrainian hryvnia)

	Notes	*31 December 2019*	*31 December 2018*
Assets			
Cash and cash equivalents	6	33,469,935	18,545,858
Amounts due from credit institutions	9	256,172	569,890
Loans to customers	10	53,285,804	72,496,358
Investment securities:	11		
- at fair value through profit or loss		25,731,949	26,653,561
- at fair value through other comprehensive income		22,633,899	35,789,095
- at amortised cost		–	49,855
Current income tax assets	15	246,882	161,080
Investment property	12	1,035,586	1,153,243
Property and equipment	13	1,616,461	1,646,109
Intangible assets	14	59,173	54,266
Deferred income tax asset	15	1,463,771	2,033,021
Non-current assets held for sale		–	39,614
Other assets	16	546,692	2,451,523
Total assets		140,346,324	161,643,473
Liabilities			
Amounts due to credit institutions	17	21,825,762	24,405,913
Amounts due to customers	18	77,125,819	82,163,124
Eurobonds issued	19	26,553,076	42,541,905
Subordinated debt	20	5,429,914	3,584,690
Provision for credit-related commitments	22	49,062	71,796
Other liabilities	16	445,466	424,452
Total liabilities		131,429,099	153,191,880
Equity	21		
Share capital		38,730,042	38,730,042
Revaluation reserves		337,779	(816,406)
Result from transactions with the shareholder		635,104	635,104
Accumulated deficit		(30,948,626)	(30,260,073)
Reserve and other funds		162,926	162,926
Total equity		8,917,225	8,451,593
Total equity and liabilities		140,346,324	161,643,473

Authorised for release and signed

27 April 2020

Chairman of the Board I.V. Metsher

Chief Accountant N.A. Potemska

V.M. Medko
247-89-16

CONSOLIDATED STATEMENT OF PROFIT AND LOSS (CONSOLIDATED INCOME STATEMENT)

For the year ended 31 December 2019

(thousands of Ukrainian hryvnia)

	Notes	2019	2018
Interest income			
Interest income calculated using effective interest rate			
- loans to customers		7,230,491	7,445,158
- investment securities at fair value through other comprehensive income		2,337,146	2,895,190
- investment securities at amortised cost		2,724	11,075
- amounts due from credit institutions		349,279	158,740
Other interest income			
- investment securities at fair value through profit or loss		1,226,328	1,226,335
- finance leasing		422,836	11,237
		11,568,804	11,747,735
Interest expense			
Amounts due to customers		(4,537,990)	(3,837,274)
Eurobonds issued		(3,469,631)	(4,184,372)
Amounts due to credit institutions		(1,444,093)	(1,503,708)
Subordinated debt		(339,913)	(316,019)
Other interest expenses		(1,509)	–
		(9,793,136)	(9,841,373)
Net interest income		1,775,668	1,906,362
Net gains/(losses) on modification of financial assets at amortised cost		38,115	(778,755)
(Expenses)/reversal of expenses for expected credit losses	8	(3,036,021)	1,602,446
Reversal of expenses/(expenses) for expected credit losses on credit-related commitments	8	18,619	(28,763)
Commission income		1,082,054	997,821
Commission expense		(430,266)	(370,348)
Net gains/(losses) on investment securities at fair value through profit or loss		(924,980)	(1,422,103)
Net losses on investment securities at fair value through other comprehensive income reclassified from statement of comprehensive income on settlement		(7,780)	(52,803)
Net gains from foreign currencies			
- dealing		541,206	478,028
- translation differences		3,970,946	553,897
Net gains/(losses) from precious metals			
- dealing		138	210
- revaluation		489	(382)
Other income		104,883	205,458
Personnel expenses	24	(1,520,639)	(1,334,023)
Depreciation and amortisation	13, 14	(111,058)	(100,519)
Other operating expenses	24	(866,796)	(746,559)
Profit before tax		634,578	909,967
Income tax expense	15	(569,298)	(105,136)
Profit for the year		65,280	804,831

Authorised for release and signed

27 April 2020

Chairman of the Board I.V. Metsher

Chief Accountant N.A. Potemska

V.M. Medko
247-89-16

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(thousands of Ukrainian hryvnia)

	Notes	*2019*	*2018*
Profit for the year		65,280	804,831
Other comprehensive income / (loss)			
Other comprehensive income / (loss) to be reclassified to the consolidated statement of profit and loss (the consolidated income statement) in subsequent periods			
Net gains / (losses) on investment securities at fair value through other comprehensive income	21	1,167,422	(1,014,931)
Income tax related to components of other comprehensive income		–	–
Other comprehensive income / (loss) for the year, net of tax		1,167,422	(1,014,931)
Total comprehensive income / (loss) for the year		1,232,702	(210,100)

Authorised for release and signed

27 April 2020

Chairman of the Board I.V. Metsher

Chief Accountant N.A. Potemska

V.M. Medko
247-89-16

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONSOLIDATED STATEMENT OF EQUITY)

For the year ended 31 December 2019

(thousands of Ukrainian hryvnia)

	Share capital	*Revaluation reserve*	*Result from transactions with the shareholder*	*Accumulated deficit*	*Reserve and other funds*	*Total equity*
At 1 January 2018	38,730,042	211,783	635,104	(30,490,129)	162,926	9,249,726
Income for the year	–	–	–	804,831	–	804,831
Other comprehensive loss for the year	–	(1,014,931)	–	–	–	(1,014,931)
Total comprehensive loss for the year	–	(1,014,931)	–	804,831	–	(210,100)
Depreciation of revaluation reserve, net of tax (Note 21)	–	(13,258)	–	13,258	–	–
Part of profit allocated for payment of dividends	–	–	–	(588,033)	–	(588,033)
At 31 December 2018	38,730,042	(816,406)	635,104	(30,260,073)	162,926	8,451,593
Income for the year	–	–	–	65,280	–	65,280
Other comprehensive income for the year	–	1,167,422	–	–	–	1,167,422
Total comprehensive income for the year	–	1,167,422	–	65,280	–	1,232,702
Depreciation of revaluation reserve, net of tax (Note 21)	–	(13,237)	–	13,237	–	–
Part of profit allocated for payment of dividends (Note 21)	–	–	–	(767,070)	–	(767,070)
At 31 December 2019	38,730,042	337,779	635,104	(30,948,626)	162,926	8,917,225

Authorised for release and signed

27 April 2020

Chairman of the Board I.V. Metsher

Chief Accountant N.A. Potemska

V.M. Medko
247-89-16

CONSOLIDATED STATEMENT OF CASH FLOWS (direct method)

For the year ended 31 December 2019

(thousands of Ukrainian hryvnia, unless otherwise stated)

	Notes	2019	2018
Cash flows from operating activities			
Interest received		10,403,230	10,983,682
Interest paid		(9,464,510)	(9,147,472)
Commissions received		1,112,140	954,532
Commissions paid		(430,266)	(370,071)
Result from dealing in foreign currencies and precious metals		541,344	478,238
Personnel expenses		(1,517,929)	(1,298,241)
Other operating income received		103,666	125,507
Other operating and administrative expenses paid		(733,565)	(689,231)
Cash flow from operating activities before changes in operating assets and liabilities		14,110	1,036,944
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		275,193	135,145
Loans to customers		11,350,584	(8,610,367)
Other assets		347,485	(1,731,536)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(888,684)	(209,292)
Amounts due to the National Bank of Ukraine		–	(2,424)
Amounts due to customers		3,223,094	(7,481,738)
Other liabilities		(278,794)	50,983
Net cash flows from operating activities before income tax		14,042,988	(16,812,285)
Income tax paid in advance		(138,140)	(105,880)
Net cash flows from operating activities		13,904,848	(16,918,165)
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		25,236,732	42,976,965
Purchase of investment securities		(12,762,719)	(32,115,352)
Dividends received		394	560
Proceeds from sale of non-current assets held for sale		–	1,821
Purchases of property, equipment and intangible assets		(75,165)	(111,375)
Proceeds from sale of property and equipment		–	76
Proceeds from sale of investment property		–	104,136
Net cash flows from investing activities		12,399,242	10,856,831
Cash flows from financing activities			
Part of profit allocated for payment of dividends		(767,070)	(588,033)
Lease payments	7	(5,154)	–
Proceeds from subordinated debt	7	2,397,803	–
Proceeds from Eurobonds issued	7	–	4,020,167
Redemption of Eurobonds issued	7	(11,730,648)	–
Proceeds from borrowings from credit institutions	7	5,470,370	6,334,445
Repayment of borrowings from credit institutions	7	(3,939,153)	(4,735,876)
Net cash flows from financing activities		(8,573,852)	5,030,703
Effect of changes in exchange rates on cash and cash equivalents		(2,793,196)	(284,387)
Effect of changes in credit losses on cash and cash equivalents		(12,965)	(5,341)
Net change in cash and cash equivalents		14,924,077	(1,320,359)
Cash and cash equivalents, 1 January		18,545,858	19,866,217
Cash and cash equivalents, 31 December	6	33,469,935	18,545,858

Authorised for release and signed

27 April 2020

Chairman of the Board — I.V. Metsher

Chief Accountant — N.A. Potemska

V.M. Medko 247-89-16

1. Principal activities

Joint Stock Company "The State Export-Import Bank of Ukraine" (hereinafter - "Ukreximbank") was founded in 1992. Ukreximbank operates under banking licence # 2 dated 7 August 2019.

As at 31 December 2019 and 2018, 100% of Ukreximbank's shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

Ukreximbank's head office is located in Kyiv at 127 Antonovycha Str. It has 22 branches and 38 operating outlets (31 December 2018: 22 branches and 39 operating outlets) and two representative offices located in London and New-York. Ukreximbank and its branches form a single legal entity.

Traditionally, the main focus of Ukreximbank's operations was the servicing of various export-import transactions. Currently, Ukreximbank's customer base is diversified and includes a number of large industrial and state-owned enterprises. Ukreximbank accepts deposits from entities and individuals, issues loans, transfers payments in Ukraine and internationally, exchanges currencies, makes investments, provides cash and settlements, and renders other banking services to its customers.

One of Ukreximbank`s main activities is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government with other foreign governments. Ukreximbank acts as an agent, on behalf of the Ukrainian Government, with respect to loans from foreign financial institutions based on the aforementioned agreements.

The Bank's aim (in accordance with the Charter) is to create favourable conditions for the economic development and support of the domestic producers, to service export and import operations, to provide credit and financial support of restructuring processes, to strengthen and implement the industrial and trade potential of the industries and manufacturers that are export-oriented or carry out the activities related to the production of import-substituting products, and also to receive gains in favour of the Bank and its shareholder.

Ukreximbank prepares the separate annual financial statements and annual consolidated financial statements that comprise performance indicators of Ukreximbank and its subsidiaries: Leasing Company "Ukreximleasing" and Eximleasing LLC (together referred to as the "Bank").

"Ukreximleasing", a 100% owned subsidiary, was founded in 1997 and is registered in Ukraine, and operates in the trading and leasing business.

Eximleasing LLC, a 100% owned subsidiary, was founded in 2006 and is registered in Ukraine, and operates in the trading and leasing business.

2. Basis of preparation

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" # 996-XIV of 16 July 1999 in respect of the preparation of financial statements (as amended).

The annual consolidated financial statements are prepared under the historical cost convention except as disclosed in the Summary of significant accounting policies, for example, investment securities at fair value through other comprehensive income, investment securities at fair value through profit or loss and investment property are measured at fair value, buildings are measured at revalued amount, assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

These annual consolidated financial statements are presented in thousands of Ukrainian hryvnia ("UAH"), unless otherwise indicated.

(thousands of Ukrainian hryvnia, unless otherwise stated)

2. Basis of preparation (continued)

Reclassifications

In 2019, the Bank decided to represent the difference between the amount of interest calculated at the effective interest rate on gross carrying amount and the interest income calculated at the effective interest rate on amortised cost of a financial asset as a result of recovery of credit-impaired financial assets because of the client's repayment of debt on the accrued income for the amount recognised as an adjustment to interest income in prior periods in the expenses for expected credit losses. In 2018, the Bank stated the said amounts in interest income.

The effect of such reclassification on the disclosures in the consolidated statement of profit and loss (consolidated income statement) for the year ended 31 December 2018 is as follows:

	As previously reported	*Amount reclassifications*	*Adjusted amount*
Interest income	12,089,114	(341,379)	11,747,735
(Expenses)/reversal of expenses for expected credit losses	1,261,067	341,379	1,602,446

In 2019, the Bank classified guarantees that provide compensation to one party if another party fails to perform a contractual obligation as performance guarantees. In the previous reporting periods, the Bank classified such guarantees as financial guarantees.

The effect of reclassification of provisions for performance guarantees on the disclosures in the consolidated statement of profit and loss (consolidated income statement) for the year ended 31 December 2018 is as follows:

	As previously reported	*Amount reclassifications*	*Adjusted amount*
Reversal of expenses/(expenses) for expected credit losses	(29,313)	550	(28,763)
Other operating expenses	(746,009)	(550)	(746,559)

3. Summary of significant accounting policies

Changes in accounting policies

The accounting policies adopted in the preparation of these annual consolidated condensed financial statements are consistent with those followed in the preparation of the Bank's consolidated annual financial statements for the year ended 31 December 2018, except for the adoption of the new standards and amendments thereto applied for the first time from 1 January 2019. The nature and effect of these changes are disclosed below. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 Leases

IFRS 16 which was issued in January 2016 and replaced 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 became effective for annual periods beginning on or after 1 January 2019.

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

The Bank applied IFRS 16 for the first time using a modified retrospective approach without any impact of the first application of IFRS 16 on the Bank's retained earnings/losses. The Bank applied the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

The Bank used 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.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

The adoption of IFRS 16 had no significant impact on the Bank's financial position and the results of its operations.

The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:

	31 December 2018	*Effect of transition to IFRS 16*	*1 January 2019 considering the transition to IFRS 16*
Property and equipment			
Property and equipment	1,646,109	–	1,646,109
Right-of-use assets	–	11,316	11,316
Total property and equipment	1,646,109	11,316	1,657,425
Other assets			
Other assets	2,451,523	(498)	2,451,025
Total other assets	2,451,523	(498)	2,451,025
Other liabilities			
Other liabilities	424,452	–	424,452
Lease liabilities	–	10,818	10,818
Total other liabilities	424,452	10,818	435,270

Nature of the effect of adoption of IFRS 16

The Bank has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Bank classified each of its leases (as a lessee) at the lease commencement date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to the ownership of the leased asset to the Bank; otherwise, it was classified as an operating lease. Finance leases were capitalised at the lease commencement date at fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest amounts and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach to all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

Leases previously classified as finance leases

As at the date of transition to IFRS 16, the Bank had no existing leases previously classified as finance leases.

Leases previously classified as operating leases

The Bank recognised right-of-use assets and lease liabilities for the leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, as adjusted for the lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments discounted using the interest rate specified in the lease contract. The Bank used the incremental borrowing rate if the rate in the lease contract was not determinable.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the short-term lease exemptions to the leases with the lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contained options to extend lease contracts with validity of 12 months or less.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	34,652
Incremental borrowing rate as at 1 January 2019	19%
Commitments relating to short-term leases and leases of low-value assets	(22,296)
Payments in optional extension periods not recognised as at 31 December 2018	1,763
Effect of discounting at 1 January 2019	(3,301)
Lease liabilities as at 1 January 2019	10,818

Details of the new accounting policies applied by the Bank as a result of transition to IFRS 16 are described below in this note.

The application of the following amendments and improvements to standards and interpretations had no impact on the Bank's consolidated financial statements:

- IFRIC 23 Uncertainty over Income Tax Treatment;
- Amendments to IFRS 9 Prepayment Features with Negative Compensation;
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement;
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures;
- Improvements to IFRS 3 Business Combinations;
- Improvements to IFRS 11 Joint Arrangements;
- Improvements to IAS 12 Income Taxes;
- Improvements to IAS 23 Borrowing Costs.

Fair value measurement

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.

The fair value for financial instruments traded in active market at the reporting date is based on publicly available market prices or direct dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities

Initial recognition

Date of recognition

Financial assets and liabilities, except loans to customers and amounts due to customers, are recognised on the transaction date i.e. the date when the Bank becomes a party to the agreement specifying the terms of the respective instrument. These are regular purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Loans to customers are recognised when funds are transferred to the customers' accounts. Amounts due to customers are recognised when funds are transferred to accounts with the Bank.

Initial measurement of financial 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 subtracted from, this amount. Receivables are measured at the transaction price. If the fair value of financial instruments at initial recognition differs from the transaction price, the Bank recognises Day 1 gain or loss.

All financial assets, except for equity and derivative instruments, are classified and measured at initial recognition based on the business model used by the Bank to manage a particular group of assets, which a financial asset being classified is attributed to, as well as the characteristics of contractual cash flows from this financial asset.

The business model is determined at the level of groups of financial assets that are managed collectively to achieve a particular business goals.

All groups of debt financial assets should be held within one of three business models:

- Business model whose objective is to hold financial assets in order to collect contractual cash flows (BM 1);
- Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (BM 2);
- Business model whose objective is collecting maximum cash flows from sale of assets or business model other than BM 1 and BM 2 (BM 3).

The Bank may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss, if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

At the date of initial recognition of each debt financial asset, other than those classified by the Bank as measured at FVPL for the purpose of eliminating or significantly reducing a measurement or recognition inconsistency, as well as those managed under BM 3, the Bank performs an analysis of contractual cash flows from such financial asset.

The main objective of the contractual cash flows analysis (SPPI test) is to determine whether the terms of agreement on a financial asset conform to the underlying loan agreement and identify the terms of agreement which result in additional risks and/or additional volatility of contractual cash flows not inherent with the underlying loan agreement.

The Bank performs SPPI test at the level of a separate debt financial asset/group of debt financial assets of the respective category of assets managed under BM 1 or BM 2.

Financial assets and liabilities measurement categories

Depending on the business model and the results of the SPPI test, the debt financial assets can be classified as follows:

- Assets at amortised cost (BM 1, SPPI test passed);
- Assets at fair value through other comprehensive income (BM 2; SPPI test passed);
- Assets at fair value through profit or loss (BM 1 or BM 2 and SPPI test failed, BM 3).

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

The Bank classifies and measures derivative instruments and instruments held for trading at FVPL. The Bank may, at its discretion, classify financial instruments as measured at FVPL if such classification will eliminate or significantly reduce a measurement or recognition inconsistency.

Financial liabilities, other than credit-related commitments and financial guarantees, are measured at amortised cost or at FVPL if they are held for trading and are derivative instruments, or at the Bank’s discretion are classified at FVPL.

Amounts due from credit institutions, loans to customers, investment securities at amortised cost

The Bank measures financial assets at amortised cost only if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (BM 1);
- 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.

Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when financial assets are derecognised or impaired, as well as through the amortisation process.

Debt instruments at fair value through other comprehensive income

The Bank measures debt instruments at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:

- A debt instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (BM 2);
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. SPPI criteria are met).

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. 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. For debt instruments measured at FVOCI the Bank recognises allowance for expected credit losses (ECLs). The procedure for recognising ECLs on such assets is provided in Note 25.

Equity instruments at fair value through other comprehensive income

Upon initial recognition of equity financial assets, the Bank occasionally elects to classify irrevocably some of such assets as equity instruments at FVOCI when they meet the definition of equity under IAS 32 and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

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. Dividends are recognised in profit or loss when the right of the payment has been established. 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 / (accumulated losses).

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Financial assets and financial liabilities at fair value through profit or loss

This category includes financial assets and financial liabilities not held for trading and which, upon initial recognition, were classified as such at the Bank's discretion or should be measured at fair value through profit or loss under IFRS 9. The Bank may, at initial recognition, designate a financial instrument as measured at fair value through profit or loss if one of the following criteria is met: Such classification is determined on an instrument-by-instrument basis:

- If it eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- A financial liability contains one or more embedded derivatives and the host is not an asset within the scope IFRS 9, unless the embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract or it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited.

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. Under this criterion, such instruments as Ukrainian state bonds that provide for indexation of the nominal value by maturity according to the changes in the average interbank UAH/USD exchange rate per month prior to the date of issue and per month prior to the maturity date (Note 12), are measured at FVPL.

Financial assets and liabilities at FVPL are recognised in the statement of financial position at fair value. Changes in fair value are recognised in profit or loss, except for a change in the fair value of financial liabilities classified at the Bank's sole discretion at fair value through profit or loss caused by changes in its own credit recognised in other comprehensive income.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate.

Financial guarantees, letters of credit and credit-related commitments

In the normal course of business the Bank issues financial guarantees in the form of letters of credit, guarantees and avals. Financial guarantees are initially recognised as other liabilities 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 of amortised commission and an ECL provision.

Increase in liability related to financial guarantee agreements is recognised in the consolidated statement of profit and loss (the consolidated income statement). The commission received is recognised in the consolidated statement of profit and loss (consolidated income statement) on a straight-line basis over the term of the guarantee agreement.

The contractual nominal value of financial guarantees is not recorded in the consolidated statement of financial position.

Reclassification of financial assets and financial liabilities

The Bank reclassifies all financial assets only when it changes its business model of management thereof. Financial liabilities are never reclassified.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, amounts due from credit institutions and reverse repurchase agreements that mature within ninety days of the date of origination and are free from contractual encumbrances, and are not impaired individually.

3. Summary of significant accounting policies (continued)

Precious metals

Gold and other precious metals are recorded at fair value, which approximate the NBU bid prices and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded as revaluation differences from precious metals in the consolidated statement of profit and loss (the consolidated income statement).

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position (the consolidated balance sheet) and in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions, the NBU or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as cash and cash equivalents, amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and is accrued over the life of repo agreements using the effective interest method.

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

Derivative financial instruments

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets. These financial instruments are held within the business model whose objective is collecting maximum cash flows from sale (BM 3) and are carried at fair value through profit or loss. The fair values are derived based on quoted market prices or valuation models that take into account current and contractual market prices of the underlying instruments and any other relevant factors. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit and loss (the consolidated income statement) as net gains/(losses) from foreign currencies and precious metals dealing.

Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

An embedded derivative that is a component of a hybrid instrument of the host that is a financial asset is not separated but is recorded as part of such a hybrid financial instrument classified as a whole as designated at fair value through profit or loss.

Derivatives embedded in financial liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value through profit or loss.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Promissory notes

Promissory notes purchased are included in trading securities, or in in loans, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

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, amounts due to credit institutions, amounts due to customers, debt securities issued, loans received from international and other financial organisations and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the consolidated statement of financial position (the consolidated balance sheet) and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of profit and loss (the consolidated income statement).

Leases

i. Finance – Bank as a lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is recognised based on a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

ii. Operating – Bank as a lessor

The Bank presents assets subject to operating leases in the consolidated statement of financial position (the consolidated balance sheet) according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of profit and loss (the consolidated income statement) on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised 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.

iii. Leases – Bank as a lessee

<u>Right-of-use assets</u>

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Leases (continued)

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period, in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the lease commencement date, the amount of lease liabilities is increased to reflect the accrual of interest and reduced to reflect the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Bank does not recognise a contract to be a lease contract in case of short-term leases and leases of low-value underlying assets and accounts for no right-to-use assets and lease liabilities. Under such contracts, lease payments are recognised as expense on a straight-line basis over the lease term specified by the contract.

A short-term lease is the lease, which as at the lease commencement date according to the lease contract has the lease term of 12 months or less, and this lease contract includes no automatic lease extension conditions, and the bank does not intend to extend the lease term specified by the contract, nor it intends to acquire the underlying asset. A low value of the underlying asset is the value, which is less than the UAH equivalent of USD 5,000 at NBU's official UAH / foreign currency exchange rate as at the date of completion of the appropriate lease contract.

Significant judgement in determining the lease term of contracts with extension options

The Bank determines the lease term following the lease term specified in the completed contract as at the date of its completion.

If following the lease contract the lease term is 12 months or less as at the lease commencement date, the automatic lease extension conditions being included, and the bank intends to extend the lease term, then the lease term under such contract is determined as the term specified by the contract and increased for the extension term.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position (consolidated balance sheet) only when there is a legally enforceable right to set off the recognised amounts and there is an intention to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

Financial assets

The Bank derecognises a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan. When assessing whether or not to derecognise a financial asset, amongst others, the Bank considers such factors as a change in currency of a financial assets, change in counterparty, interest rate revision to the market rate, as well as whether the modification is such that the instrument would no longer meet the SPPI criterion. Upon initial recognition, loans are classified as Stage 1 for ECL measurement purpose, unless the new loan is deemed to be purchased or originated credit impaired financial asset.

If the modification does not result in derecognition of a financial asset, based on the change in cash flows discounted at the original effective interest rate, the Bank records a modification gain or loss from modification of financial assets in Net gains/(losses) on modification of financial assets at amortised cost in the consolidated statement of profit and loss (consolidated income statement).

Financial liabilities

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 recognised in the consolidated statement of profit and loss (the consolidated income statement).

Terms are considered significantly different if the discounted present value of cash flows on new terms, including any fees paid, net of any fees received and discounted at the original effective interest rate, differs by at least 10% from the discounted present value of remaining cash flows on the original financial liability. If an exchange of debt instruments or a change in terms is accounted for as repayment, then any expenses or commissions paid are recognised as part of gains or losses on repayment. If an exchange or change in terms is not accounted for as repayment, then any expenses and fees paid adjust the carrying amount of the liability and are amortised over the life of the modified liability.

Derecognition other than for substantial modification

Financial assets

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

- The rights to receive cash flows from the financial 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; and
- The Bank either (a) has transferred substantially 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.

Financial liabilities

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

3. Summary of significant accounting policies (continued)

Asset management

The Bank provides fiduciary management services construction financing funds ("CFF"). The Bank acts as an agent in such arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management business. Accordingly, the Bank does not recognise liabilities relating to the funds under management. Funds under management are not legal entities under the laws of Ukraine. The management of fund activity is effectively delegated to the Bank. The funds keep their current accounts in the Bank to the extent to which the funds are not invested in eligible assets, which meet the investment profile for the fund.

Taxation

The current income tax charge is calculated in accordance with Ukrainian taxation regulations. Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are 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 taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Ukraine also has various operating taxes, which are assessed on the Bank's activities. These taxes are recorded in other operating expenses in the consolidated statement of profit and loss (the consolidated income statement).

Property and equipment

Equipment is carried at cost excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment.

Following initial recognition at cost, buildings and land are subsequently carried at their revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are 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 revaluation reserve which is included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of profit and loss (the consolidated income statement), in which case the increase is recognised in the consolidated statement of profit and loss (the consolidated income statement). A revaluation deficit is recognised in the consolidated statement of profit and loss (consolidated income statement), except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the property revaluation reserve.

The transfer from the property revaluation reserve to retained earnings / (accumulated deficit) is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Specifically, the accumulated depreciation at the revaluation date is subtracted from the original (revalued) cost of property, plant and equipment, and the resulting net carrying amount is revalued to its fair value. The revalued amount of an asset as at the revaluation date equals its fair value and the accumulated depreciation equals zero. Upon disposal, any revaluation of property relating to the particular asset being sold is transferred to retained earnings / (accumulated deficit).

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

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:

	Years
Buildings	15-75 years
Furniture, fittings and other assets	2-25 years
Equipment and computers	2-15 years
Motor vehicles	5 years

Leasehold improvements (refurbishment costs for premises under lease contract) are depreciated over a period not exceeding the leasing period.

The asset’s residual values, useful lives and methods are reviewed and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses unless they qualify for capitalisation.

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets are measured at initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation 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 amortised over the useful economic lives of five to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Investment property

Investment property is property held to earn rental income or for capital appreciation and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value.

Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement in gains/(losses) less (losses)/gains on revaluation of investment property in the year in which they arise.

Assets held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and the prospective sale is deemed feasible.

The sale qualifies as highly probable if the Bank’s management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Furthermore, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Bank measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss if events or changes in circumstance indicate that the carrying amount of assets held for sale may be impaired.

3. Summary of significant accounting policies (continued)

Provisions for other losses

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other benefit obligations

The Bank has contribution pension plan separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The contribution payable to a contribution plan is in proportion to the services rendered to the Bank by the employees, age of employees and years working for the Bank and is recorded as an expense under "Personnel expenses" Unpaid contributions are recorded as a liability. The Bank has no other post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Gain or loss arising from transactions with the shareholder is recognised in equity under "Result from transactions with the shareholder".

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Small and medium-sized business and Interbank and investments business.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position (the consolidated balance sheet) but are disclosed unless the possibility of any future outflow is considered remote. A contingent asset is not recognised in the consolidated statement of financial position (the consolidated balance sheet) but disclosed when an inflow of economic benefits is probable.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees are not considered financial instruments. Performance guarantees are initially recognised at fair value, as evidenced by the amount of compensation received for issuing them, which is subsequently amortised to the Bank's commission income on off-balance transactions on a straight-line basis over the life of a performance guarantee.

Performance guarantees are accounted for in off-balance-sheet in the amount of guarantee commitments. Subsequently, performance guarantees are measured at greater of: the amount of amortised commission and allowance for possible losses on the performance guarantee issued.

Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

Under IFRS 9, interest income on all financial instruments measured at amortised cost, at FVOCI and, at discretion, at FVPL is calculated by applying the effective interest method. Effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Interest and similar income and expense (continued)

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the financial instrument and are an integral part of the effective interest rate, but not future credit losses.

If expected cash flows from financial assets are reviewed for reasons not related to credit risk, the adjustment is disclosed in the statement of financial position as a positive or negative change in the carrying amount of the asset and as an increase or decrease in interest income. The amount of this adjustment is subsequently amortised and recognised in profit or loss as interest income.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets, except for credit-impaired financial assets.

When a financial asset becomes credit-impaired and, accordingly, is attributed to Stage 3, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired financial asset, the Bank calculates interest income using the credit-adjusted EIR to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Upon recovery of impairment of credit-impaired financial assets as a result of the client's repayment of debt on accrued income, whether or not such a recovery of impairment results in the transfer of a financial asset from Stage 3, the difference between the amount of interest calculated at the effective interest rate on the gross carrying amount and the interest income calculated at the effective interest rate on the amortised cost of a financial asset, is recognised as an adjustment (decrease) of the expected credit losses to the amount recognised as an adjustment to interest income in prior years.

Interest income on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest revenue" in the consolidated statement of profit and loss (consolidated income statement).

Commission income

The Bank earns fee and commission income from the diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees arising for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees related a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

3. Summary of significant accounting policies (continued)

Foreign currency translation

Annual consolidated financial statements are presented in Ukrainian hryvnia ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of profit and loss (the consolidated income statement) as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non−monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2019 and 2018 were UAH 23.6862 and UAH 27.6883 to 1 US dollar and UAH 26.4220 and UAH 31.7141 to 1 euro, respectively.

Future changes in accounting policies

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

IFRS 17 Insurance contracts

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

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

- Certain modifications to insurance contracts with direct participation features (variable remuneration method);
- Simplified approach (based on premium split) used primarily for short-term agreements.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, 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. In 2019, the Bank continues to assess the potential effect of IFRS 17 on its consolidate financial statements.

Amendments to IFRS 3 Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. The amendments are effective for periods beginning on or after 1 January 2020.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IFRS 1 and IAS 8 Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments are effective for periods beginning on or after 1 January 2020. The amendments to the definition of material are not expected to have a significant impact on the Bank' consolidated financial statements.

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

Amendments to IFRS 9, IAS 39 and IFRS 7 include a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have a significant impact on the Bank' consolidated financial statements.

4. Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Expected credit losses

The measurement of impairment losses 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 expected credit losses on financial assets. 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 (than are based primarily on historical data) 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;
- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- Segmentation by special characteristics of the separate arrays of assets (groups) for which similar calculation models will be used for ECL calculation;
- Determination of associations between macroeconomic scenarios and economic inputs, such as the consumer price index, GDP growth, export/import growth, and the effect on PDs, EADs and LGDs;
- Identification of individual scenarios for significant assets (except those attributed to Stage 1) including the determination of probability of obtaining cash flows from different sources of origin for various options of the development of events (optimistic, basic, pessimistic).

As at 31 December 2019, the total expected credit losses on financial assets and credit-related commitments amounted to UAH 61,779,429 thousand (31 December 2018: UAH 70,192,745 thousand). Details are provided in Notes 6, 9, 10, 11, 16, and 22.

(thousands of Ukrainian hryvnia, unless otherwise stated)

4. Significant accounting judgements and estimates (continued)

Deferred income tax asset

The recognised deferred tax asset in the amount of UAH 1,463,771 thousand (31 December 2018: UAH 2,033,021 thousand) represents income taxes recoverable through future deductions from taxable profits. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. Future taxable profits and the amount of tax benefits that are probable in the future are based on a 3-year business plan and forecast for 2023-2024 prepared by management. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the management expectations include stabilisation of the economy of Ukraine together with the recovery of the whole banking sector's profitability in 2020, as well as moderate growth in loan portfolio and reduced loan loss provisions charges due to the expected improvement in the economy. Taking into account planned future profits for 2020-2024 and the fact that current Ukrainian tax legislation does not place limits on the term of utilization of tax losses carried forward, management believes that it is appropriate to recognise the deferred tax asset.

5. Segment information

For management purposes, the Bank recognises the following operating segments (business units):

Corporate banking	Business unit that focuses on corporate customers and on selling the products that require an individual approach and are mainly offered to corporate clients.
Small and medium-sized business	Business unit that focuses on servicing small and medium-sized businesses (including individual entrepreneurs) and selling products that are mainly in a standardised form (as per the tariffs approved and the standard procedures).
Retail banking	Business unit that focuses on servicing retail customers (except for individual entrepreneurs) on the full list of products, and selling to individuals (population) products that are mainly in a standardised form (as per the tariffs approved and the standard procedures) and generally do not require any individual approach to be applied.
Interbank and investments business	Business Unit focussing on the provision of services to participants in the financial markets (money, currency, stock, etc.) and the sale of products related to transactions on the financial markets.

In 2019, the Bank changed its approach to the allocation of activities into operating segments, specifically: a new Small and medium-sized business was formed out of the Retail banking.

Accordingly, the Bank has restated comparative information on income and expenses and profit and losses, as well as certain assets and liabilities of the Bank's new operating segments for 2018.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured taking into account income and expenses from other segments.

Unallocated amounts include:

- Income tax receivables and payables, the share of assets and costs associated with the work of the Bank's top management, i.e. personnel performing general management functions at the level of the whole Bank's system and the Bank's staff, supporting directly the work of top management;
- The result of revaluation of an open currency position (except for the portion of the open currency position allocated by the Bank for carrying out operations on purchase/sale/conversion of cash foreign currency and precious metals and conversion of non-cash foreign currency);
- The difference between inter-segment revenues and costs of all business lines, obtained as a result of transfer rates.

For the purposes of segment reporting interest is split on the basis of uniform transfer rates set by the Assets and Liabilities Committee based on the borrowing rate of the Bank.

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information (continued)

During the twelve months ended 31 December 2019 the Bank had revenues from transactions with a single external customer that accounted for more than 10% of the total income of the Bank, namely: UAH 3,312,464 thousand (twelve months of 2018: UAH 3,869,019 thousand). Revenue from transactions with this external customer is reflected in the segment "Interbank and investments business".

Analysis of the Bank's revenue by banking products and services is presented in the consolidated statement of profit and losses (consolidated income statement) as interest income and expenses and Note 23.

The following table presents income and expenses, profit and loss, asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2019:

	Corporate banking	*Small and medium-sized business*	*Retail banking*	*Interbank and investments business*	*Unallocated*	*Total*
External						
Interest income	7,198,960	405,015	52,077	3,912,752	–	11,568,804
Commission income	512,188	253,071	287,788	29,007	–	1,082,054
Other income	57,813	11,894	20,054	4,702	10,420	104,883
Net gains from modification of financial assets at amortised cost	35,722	2,671	–	–	–	38,393
Reversal of expenses for expected credit losses	–	25,756	16,255	–	356	42,367
Reversal of expenses for expected credit losses on credit related commitment	16,230	2,170	444	14	–	18,858
Net gains from foreign currencies	201,423	87,328	17,421	233,019	3,972,961	4,512,152
Net gains from precious metals	–	–	170	–	488	658
Income from other segments	2,425,483	865,396	2,283,728	5,922,492	(11,497,099)	–
Total income	10,447,819	1,653,301	2,677,937	10,101,986	(7,512,874)	17,368,169
Interest expense	(1,800,738)	(656,181)	(1,637,588)	(5,698,496)	(133)	(9,793,136)
Commission expense	(206,000)	(65,325)	(152,876)	(5,695)	(370)	(430,266)
Net loss on modification of financial assets at amortised cost	–	–	(278)	–	–	(278)
Expenses for expected credit losses	(3,053,012)	–	–	(25,376)	–	(3,078,388)
Expenses for expected credit losses on credit-related commitment	–	–	–	–	(239)	(239)
Net loss on investment securities at fair value through profit or loss	–	–	–	–	(924,980)	(924,980)
Net losses on investment securities at fair value through other comprehensive income reclassified from statement of comprehensive income on settlement	–	–	–	–	(7,780)	(7,780)
Net loss from precious metals	–	–	–	(31)	–	(31)
Personnel expenses	(518,807)	(335,254)	(308,291)	(104,198)	(254,089)	(1,520,639)
Depreciation and amortisation	(35,622)	(30,286)	(32,675)	(3,664)	(8,811)	(111,058)
Other operating expenses	(277,292)	(90,746)	(367,644)	(25,149)	(105,965)	(866,796)
Expenses from other segments	(6,685,121)	(348,215)	(72,562)	(3,500,361)	10,606,259	–
Segment results	(2,128,773)	127,294	106,023	739,016	1,791,018	634,578
Income tax expense						(569,298)
Profit for the year						65,280
Assets and liabilities as at 31 December 2019						
Segment assets	52,555,748	3,008,322	2,284,467	80,599,906		138,448,443
Unallocated assets					1,897,881	1,897,881
Total assets						140,346,324
Segment liabilities	29,291,998	10,936,883	26,184,320	64,521,949		130,935,150
Unallocated liabilities					493,949	493,949
Total liabilities						131,429,099
Other segment information						
Capital expenditure	(20,896)	(18,938)	(28,726)	(2,380)	(5,711)	(76,651)

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information (continued)

The following table presents income and expenses, profit and loss, asset and liabilities information regarding the Bank’s operating segments for the year ended 31 December 2018:

	Corporate banking	*Small and medium-sized business*	*Retail banking*	*Interbank and investments business*	*Unallocated*	*Total*
External						
Interest income	7,020,098	398,473	48,907	4,280,257	–	11,747,735
Commission income	431,125	251,749	288,205	26,742	–	997,821
Other income	73,001	10,817	23,520	71,583	26,537	205,458
Net gains from modification of financial assets at amortised cost	–	574	–	–	652	1,226
Reversal of expenses for expected credit losses	1,629,375	–	–	73,797	–	1,703,172
Reversal of expenses for expected credit losses on credit related commitment	–	13,375	–	382	–	13,757
Net gains from foreign currencies	193,576	107,805	37,268	155,945	537,331	1,031,925
Net gains from precious metals	1	1	388	–	–	390
Income from other segments	1,812,160	737,221	1,854,825	7,194,113	(11,598,319)	–
Total income	11,159,336	1,520,015	2,253,113	11,802,819	(11,033,799)	15,701,484
Interest expense	(1,344,411)	(520,799)	(1,254,023)	(6,722,140)	–	(9,841,373)
Commission expense	(163,206)	(66,081)	(133,842)	(6,812)	(407)	(370,348)
Net loss on modification of financial assets at amortised cost	(778,248)	–	(1,732)	(1)	–	(779,981)
Expenses for expected credit losses	–	(80,593)	(17,027)	–	(3,106)	(100,726)
Expenses for expected credit losses on credit-related commitments	(41,920)	–	(596)	–	(4)	(42,520)
Net loss on investment securities at fair value through profit or loss	–	–	–	–	(1,422,103)	(1,422,103)
Net losses on investment securities at fair value through other comprehensive income reclassified from statement of comprehensive income on settlement	–	–	–	–	(52,803)	(52,803)
Net loss from precious metals	–	–	–	(550)	(12)	(562)
Personnel expenses	(403,935)	(352,950)	(283,361)	(91,679)	(202,098)	(1,334,023)
Depreciation and amortisation	(25,834)	(30,240)	(31,747)	(3,504)	(9,194)	(100,519)
Other operating expenses	(175,912)	(114,330)	(354,568)	(26,616)	(75,133)	(746,559)
Expenses from other segments	(5,830,514)	(306,838)	(64,879)	(3,824,482)	10,026,713	–
Segment results	2,395,356	48,184	111,338	1,127,035	(2,771,946)	909,967
Income tax expense						(105,136)
Profit for the year						804,831
Assets and liabilities as at 31 December 2018						
Segment assets	73,732,960	3,124,427	2,270,949	80,137,720		159,266,056
Unallocated assets					2,377,417	2,377,417
Total assets						161,643,473
Segment liabilities	28,669,154	9,917,162	26,547,011	87,850,154		152,983,481
Unallocated liabilities					208,399	208,399
Total liabilities						153,191,880
Other segment information						
Capital expenditure	(28,529)	(33,440)	(41,369)	(3,902)	(8,401)	(115,641)

The significant part of loss for twelve months of 2019 and 2018 from investment securities at fair value through profit and loss related to government bonds revaluation adjusted for exchange rate shift.

Geographical information

Most revenues and capital expenditure relate to Ukraine. The Bank has no significant revenue from other countries. The analysis of assets and liabilities by the geographical principle is provided in Note 25.

(thousands of Ukrainian hryvnia, unless otherwise stated)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2019	*31 December 2018*
Term deposits with other credit institutions up to 90 days	10,682,215	3,906,258
Current accounts with other credit institutions	10,383,491	8,792,208
Deposits certificates of the National Bank of Ukraine up to 90 days	5,008,938	–
Current account with the National Bank of Ukraine	3,744,605	2,952,279
Overnight deposits with other credit institutions	2,280,117	1,741,038
Cash on hand	1,387,450	1,159,416
	33,486,816	18,551,199
Less: allowance for expected credit losses	(16,881)	(5,341)
Cash and cash equivalents	33,469,935	18,545,858

As at 31 December 2019, included in current accounts with other credit institutions is UAH 8,942,731 thousand placed on current accounts with five OECD banks (31 December 2018: UAH 8,123,777 thousand). These banks are the main counterparties of the Bank in performing international settlements. The placements have been made under normal banking terms and conditions.

As at 31 December 2019, overnight deposits in the amount of UAH 2,280,117 thousand were placed with two OECD banks under market interest rate (31 December 2018: UAH 1,741,038 thousand).

7. Changes in liabilities in financial activities

Changes in cash flows from financing activities in the statement of cash flows for 2018 and 2019 were as follows:

	Borrowings from credit institutions	*Eurobonds issued*	*Subordinated debt*	*Lease commitments*	*Total*
Carrying amount at 31 December 2017	21,371,452	38,821,831	3,615,792	–	63,809,075
Additions	6,334,445	4,020,167	–	–	10,354,612
Repayments	(4,735,876)	–	–	–	(4,735,876)
Translation differences	(451,368)	(509,629)	(51,132)	–	(1,012,129)
Other	187,844	209,536	20,030	–	417,410
Carrying amount at 31 December 2018	22,706,497	42,541,905	3,584,690	–	68,833,092
Effect of IFRS 16 implementation	–	–	–	10,818	10,818
Additions	5,470,370	–	2,397,803	377	7,868,550
Repayments	(3,939,153)	(11,730,648)	–	(5,154)	(15,674,955)
Translation differences	(3,404,992)	(4,292,113)	(573,703)	–	(8,270,808)
Other	198,505	33,932	21,124	(35)	253,526
Carrying amount at 31 December 2019	21,031,227	26,553,076	5,429,914	6,006	53,020,223

"Other" includes the effect of accrued but unpaid interest on borrowings from credit institutions, issued Eurobonds and subordinated debt. The Bank classifies the paid interest as cash flows from operating activities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

8. Expenses for expected credit losses

The table below shows the ECL recorded in profit or loss:

For 2019	*Stage 1 Collective*	*Stage 2 Collective*	*Stage 2 Individual*	*Stage 3 Collective*	*Stage 3 Individual*	*POCI*	*Total*
Cash and cash equivalents	12,964	–	–	–	–	–	12,964
Amounts due from credit institutions	(9,931)	–	–	(6)	(5,322)	–	(15,259)
Loans to customers	(410,764)	(39,925)	51,299	92,701	1,621,483	1,701,123	3,015,917
Investment securities at fair value through other comprehensive income	17,274	–	–	–	–	–	17,274
Other financial assets	5,125	–	–	–	–	–	5,125
	(385,332)	(39,925)	51,299	92,695	1,616,161	1,701,123	3,036,021

For 2018	*Stage 1 Collective*	*Stage 2 Collective*	*Stage 2 Individual*	*Stage 3 Collective*	*Stage 3 Individual*	*Total*
Cash and cash equivalents	5,341	–	–	–	–	5,341
Amounts due from credit institutions	(12,664)	–	–	–	(61,666)	(74,330)
Loans to customers	452,319	76,231	(341,725)	28,741	(1,783,698)	(1,568,132)
Investment securities at fair value through other comprehensive income	(1,837)	–	–	–	–	(1,837)
Other financial assets	(7,337)	–	–	–	43,849	36,512
	435,822	76,231	(341,725)	28,741	(1,801,515)	(1,602,446)

Expenses for expected credit losses on credit-impaired financial assets recognised in profit or loss, upon the recovery of impairment of credit-impaired financial assets as a result of the client's repayment of debt on accrued income were adjusted (decreased) for the amount difference between the interest calculated at the effective interest rate on the gross carrying amount and the interest income calculated at the effective interest rate on the amortised cost of financial asset for the amount recognised as an adjustment to interest income in prior years in the amount of UAH 514,230 in 2019 (2018: UAH 341,379 thousand).

Expenses for expected credit losses on POCI financial assets recognised in profit or loss included the adjustment of the gross carrying amount of POCI financial assets in the amount of UAH 66,560 thousand.

The table below shows the ECL on credit-related commitments recorded in profit or loss.

For 2019	*Stage 1 Collective*	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Financial guarantees	(358)	–	29	–	66	(263)
Undrawn loan commitments	(2,044)	(8,182)	(11)	(4,068)	(2,420)	(16,725)
Letters of credit	(1,612)	–	–	–	–	(1,612)
Avals on promissory notes	(19)	–	–	–	–	(19)
	(4,033)	(8,182)	18	(4,068)	(2,354)	(18,619)

For 2018	*Stage 1 Collective*	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Financial guarantees	534	–	1	–	–	535
Undrawn loan commitments	24,429	(2,543)	813	1,748	1,094	25,541
Letters of credit	2,684	–	–	–	–	2,684
Avals on promissory notes	3	–	–	–	–	3
	27,650	(2,543)	814	1,748	1,094	28,763

(thousands of Ukrainian hryvnia, unless otherwise stated)

9. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2019	*31 December 2018*
Loans and deposits		
Ukrainian banks	791,494	811,659
OECD banks	173,642	202,981
CIS and other banks	23,595	58,732
	988,731	1,073,372
Amounts due from other credit institutions		
Current accounts with other credit institutions in precious metals	15,203	131,701
Other amounts due from credit institutions	74,928	210,689
	1,078,862	1,415,762
Less: allowance for impairment	(822,690)	(845,872)
Amounts due from credit institutions	256,172	569,890

As at 31 December 2019, loans and deposits due from credit institutions include UAH 197,237 thousand of security deposits placed mainly as security of the customers’ letters of credit and guarantees (31 December 2018: UAH 261,733 thousand).

The following tables show the analysis of changes in the gross carrying amount and the corresponding ECL on amounts due from credit institutions:

	Stage 1 Collective	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Gross carrying amount at 1 January 2019	585,521	755,793	74,448	1,415,762
New assets originated or purchased	135,884	–	–	135,884
Completed (repaid) assets	(329,783)	–	(5)	(329,788)
Reclassification to Cash and cash equivalents	(24,071)	–	–	(24,071)
Change in carrying amount	(58,357)	(5,322)	(1)	(63,680)
Translation differences	(48,479)	(6,714)	(52)	(55,245)
Gross carrying amount at 31 December 2019	260,715	743,757	74,390	1,078,862

	Stage 1 Collective	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Gross carrying amount at 1 January 2018	618,137	893,655	74,480	1,586,272
New originated or purchased assets	277,706	–	–	277,706
Completed (repaid) assets	(110,789)	–	(18)	(110,807)
Reclassification to Cash and cash equivalents	(77,636)	–	–	(77,636)
Change in carrying amount	(100,911)	(137,228)	–	(238,139)
Translation differences	(20,986)	(634)	(14)	(21,634)
Gross carrying amount at 31 December 2018	585,521	755,793	74,448	1,415,762

(thousands of Ukrainian hryvnia, unless otherwise stated)

9. Amounts due from credit institutions (continued)

	Stage 1 Collective	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Allowance at 1 January 2019	15,631	755,793	74,448	845,872
New originated or purchased assets	3,951	–	–	3,951
Completed (repaid) assets	(9,653)	–	(5)	(9,658)
Reclassification to Cash and cash equivalents	(390)	–	–	(390)
Modifications in allowance	(3,839)	(5,322)	(1)	(9,162)
Translation differences	(1,157)	(6,714)	(52)	(7,923)
Allowance at 31 December 2019	4,543	743,757	74,390	822,690

	Stage 1 Collective	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Allowance at 1 January 2018	36,933	810,271	74,460	921,664
New originated or purchased assets	8,749	–	–	8,749
Completed (repaid) assets	(13,748)	–	–	(13,748)
Reclassification to Cash and cash equivalents	(4,506)	–	–	(4,506)
Interest income adjustment	–	7,824	–	7,824
Modifications in allowance	(3,159)	(61,666)	–	(64,825)
Translation differences	(8,638)	(636)	(12)	(9,286)
Allowance at 31 December 2018	15,631	755,793	74,448	845,872

10. Loans to customers

Loans to customers comprise:

	31 December 2019	*31 December 2018*
Commercial loans	106,196,634	134,331,150
Finance lease receivables	2,401,967	1,360,897
Overdrafts	890,961	1,457,972
Promissory notes	58,089	74,717
	109,547,651	137,224,736
Less: allowance for impairment	(56,261,847)	(64,728,378)
Loans to customers at amortised cost	53,285,804	72,496,358

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Loans to customers (continued)

Commercial loans

The following tables show the analysis of changes in the gross carrying amount and the corresponding allowances for commercial loans:

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*POCI*	*Total*
Gross carrying amount at 1 January 2019	51,764,580	2,371,484	568,180	71,369,112	6,549,920	1,707,874	134,331,150
New assets originated or purchased	8,927,500	–	–	–	–	2,431,378	11,358,878
Completed (repaid) assets	(2,434,051)	(317)	(76,512)	(10,656,389)	(82,200)	–	(13,249,469)
Transfer to Stage 1	73,959	–	(73,959)	–	–	–	–
Transfer to Stage 2	(3,009,652)	2,263,038	1,023,247	(276,336)	(297)	–	–
Transfer to Stage 3	(292,791)	(1,333,996)	(228,796)	1,716,665	138,918	–	–
Adjustment of the carrying amount of POCI	–	–	–	–	–	66,560	66,560
Change in carrying amount	(14,816,931)	(391,927)	(221,576)	3,515,408	292,160	(28,472)	(11,651,338)
Translation differences	(5,636,337)	(291,250)	(77,372)	(7,972,563)	(517,472)	(164,153)	(14,659,147)
Gross carrying amount at 31 December 2019	34,576,277	2,617,032	913,212	57,695,897	6,381,029	4,013,187	106,196,634

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*POCI*	*Total*
Gross carrying amount at 1 January 2018	46,505,346	–	503,037	74,212,985	6,846,200	–	128,067,568
New assets originated or purchased	19,982,185	–	–	–	–	1,779,821	21,762,006
Completed (repaid) assets	(7,496,257)	(76,340)	(168,692)	(7,263,205)	(383,959)	–	(15,388,453)
Transfer to Stage 1	432,265	(373,180)	(56,106)	–	(2,979)	–	–
Transfer to Stage 2	(2,169,886)	3,991,968	543,754	(2,358,418)	(7,418)	–	–
Transfer to Stage 3	(3,662,837)	(1,132,089)	(127,158)	5,176,125	(254,041)	–	–
Change in carrying amount	(1,198,120)	(138,413)	(124,725)	2,900,583	419,598	(41,982)	1,816,941
Translation differences	(628,116)	99,538	(1,930)	(1,298,958)	(67,481)	(29,965)	(1,926,912)
Gross carrying amount at 31 December 2018	51,764,580	2,371,484	568,180	71,369,112	6,549,920	1,707,874	134,331,150

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*POCI*	*Total*
Allowance at 1 January 2019	999,187	198,347	91,662	57,110,096	6,258,714	–	64,658,006
New assets originated or purchased	224,147	–	–	–	–	–	224,147
Completed (repaid) assets	(41,249)	(25)	(3,783)	(654,049)	(61,592)	–	(760,698)
Transfer to Stage 1	2,328		(2,328)	–	–	–	–
Transfer to Stage 2	(74,830)	57,217	39,087	(21,180)	(294)	–	–
Transfer to Stage 3	(40,244)	(104,626)	(30,839)	261,750	(86,041)	–	–
Transfer to POCI	–	–	–	(7,156,277)	–	–	(7,156,277)
Interest income adjustment	–	–	–	2,318,188	273,484	3,709	2,595,381
Recoveries	–	–	–	81,897	9,249	–	91,146
Modifications in allowance	(582,707)	51,222	(33,824)	2,278,399	154,170	1,767,683	3,634,943
Translation differences	(97,544)	(28,170)	(9,433)	(6,437,027)	(497,940)	(8,833)	(7,078,947)
Allowance at 31 December 2019	389,088	173,965	50,542	47,781,797	6,049,750	1,762,559	56,207,701

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Loans to customers (continued)

Commercial loans (continued)

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Allowance at 1 January 2018	1,043,848	–	39,958	58,421,343	6,329,729	65,834,878
New assets originated or purchased	676,392	–	–	–	–	676,392
Completed (repaid) assets	(140,191)	(2,972)	(4,008)	(399,604)	(278,610)	(825,385)
Transfer to Stage 1	14,689	(11,179)	(1,178)	–	(2,332)	–
Transfer to Stage 2	(197,345)	573,955	19,760	(391,625)	(4,745)	–
Transfer to Stage 3	(246,498)	(40,256)	(41,203)	725,153	(397,196)	–
Transfer to POCI	–	–	–	(1,704,856)	–	(1,704,856)
Interest income adjustment	–	–	–	2,864,364	321,649	3,186,013
Recoveries	–	–	–	23,625	2,730	26,355
Modifications in allowance	(129,656)	(332,959)	79,870	(1,384,802)	308,529	(1,459,018)
Translation differences	(22,052)	11,758	(1,537)	(1,043,502)	(21,040)	(1,076,373)
Allowance at 31 December 2018	999,187	198,347	91,662	57,110,096	6,258,714	64,658,006

Undiscounted expected credit losses on initial recognition of such POCI amounted to UAH 6,978,393 thousand (2018: UAH 1,816,879 thousand).

Overdrafts

The following tables show the analysis of changes in the gross carrying amount and the corresponding provisions for overdrafts:

	Stage 1 Collective	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Gross carrying amount at 1 January 2019	1,384,401	12,278	60,969	324	1,457,972
New assets originated or purchased	842,149	–	–	–	842,149
Completed (repaid) assets	(1,186,363)	(33,865)	(58,463)	(15)	(1,278,706)
Transfer to Stage 1	541	(541)	–	–	–
Transfer to Stage 2	(46,241)	46,241	–	–	–
Transfer to Stage 3	(676)	–	676	–	–
Change in carrying amount	(98,839)	(13,155)	(3,182)	142	(115,034)
Translation differences	(15,420)	–	–	–	(15,420)
Gross carrying amount at 31 December 2019	879,552	10,958	–	451	890,961

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Gross carrying amount at 1 January 2018	708,479	–	1,107	–	19	709,605
New assets originated or purchased	1,463,639	–	–	–	–	1,463,639
Completed (repaid) assets	(762,645)	–	(6,463)	–	–	(769,108)
Transfer to Stage 1	39,708	(39,708)	–	–	–	–
Transfer to Stage 2	(123,019)	94,412	28,607	–	–	–
Transfer to Stage 3	(40,213)	(59,455)	(2,408)	59,455	42,621	–
Change in carrying amount	93,952	4,751	(8,565)	1,514	(42,316)	49,336
Translation differences	4,500	–	–	–	–	4,500
Gross carrying amount at 31 December 2018	1,384,401	–	12,278	60,969	324	1,457,972

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Loans to customers (continued)

Overdrafts (continued)

	Stage 1 Collective	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Allowance at 1 January 2019	31,442	458	2,817	249	34,966
New assets originated or purchased	19,867	–	–	–	19,867
Completed (repaid) assets	(24,887)	(2,175)	(4,959)	(12)	(32,033)
Transfer to Stage 1	4	(4)	–	–	–
Transfer to Stage 2	(2,037)	2,037	–	–	–
Transfer to Stage 3	(50)	–	50	–	–
Modifications in allowance	(8,132)	(143)	2,092	135	(6,048)
Translation differences	(311)	–	–	–	(311)
Allowance at 31 December 2019	15,896	173	–	372	16,441

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Allowance at 1 January 2018	23,632	–	68	–	15	23,715
New assets originated or purchased	37,694	–	–	–	–	37,694
Completed (repaid) assets	(21,697)	–	(944)	–	–	(22,641)
Transfer to Stage 1	1,569	(1,569)	–	–	–	–
Transfer to Stage 2	(10,144)	9,472	672	–	–	–
Transfer to Stage 3	(761)	(2,109)	(651)	2,109	1,412	–
Modifications in allowance	1,026	(5,794)	1,313	708	(1,178)	(3,925)
Translation differences	123	–	–	–	–	123
Allowance at 31 December 2018	31,442	–	458	2,817	249	34,966

Finance lease receivables

The following tables show an analysis of changes in gross carrying amount and corresponding ECL on finance lease receivables:

	Stage 1 Collective	*Stage 2 Individual*	*Stage 3 Individual*	*Total*
Gross carrying amount at 1 January 2019	1,356,252	–	4,645	1,360,897
New assets originated or purchased	1,934,295	–	–	1,934,295
Completed (repaid) assets	(902,088)	–	–	(902,088)
Transfer to Stage 2	(177)	177	–	–
Change in carrying amount	8,903	(40)	–	8,863
Gross carrying amount at 31 December 2019	2,397,185	137	4,645	2,401,967

	Stage 1 Collective	*Stage 3 Individual*	*Total*
Gross carrying amount at 1 January 2018	62,654	4,645	67,299
New assets originated or purchased	1,351,486	–	1,351,486
Completed (repaid) assets	(52,408)	–	(52,408)
Change in carrying amount	(5,480)	–	(5,480)
Gross carrying amount at 31 December 2018	1,356,252	4,645	1,360,897

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Loans to customers (continued)

Finance lease receivables (continued)

	Stage 1 Collective	*Stage 2 Individual*	*Stage 3 Individual*	*Total*
Allowance at 1 January 2019	29,798	–	4,645	34,443
New assets originated or purchased	5,588	–	–	5,588
Completed (repaid) assets	(2,677)	–	–	(2,677)
Transfer to Stage 2	(23)	23	–	–
Modifications in allowance	(189)	102	–	(87)
Allowance at 31 December 2019	32,497	125	4,645	37,267

	Stage 1 Collective	*Stage 3 Individual*	*Total*
Allowance at 1 January 2018	1,243	4,645	5,888
New assets originated or purchased	29,727	–	29,727
Completed (repaid) assets	(956)	–	(956)
Modifications in allowance	(216)	–	(216)
Allowance at 31 December 2018	29,798	4,645	34,443

Promissory notes

The following tables show the analysis of changes in the gross carrying amount and the corresponding provisions for promissory notes:

	Stage 1 Collective
Gross carrying amount at 1 January 2019	74,717
New assets originated or purchased	225,893
Completed (repaid) assets	(252,058)
Change in carrying amount	9,537
Gross carrying amount at 31 December 2019	58,089

	Stage 1 Collective
Gross carrying amount at 1 January 2018	52,614
New assets originated or purchased	207,037
Completed (repaid) assets	(187,632)
Change in carrying amount	2,698
Gross carrying amount at 31 December 2018	74,717

	Stage 1 Collective
Allowance at 1 January 2019	963
New assets originated or purchased	2,458
Completed (repaid) assets	(2,678)
Modifications in allowance	(305)
Allowance at 31 December 2019	438

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Loans to customers (continued)

Promissory notes (continued)

	Stage 1 Collective
Allowance at 1 January 2018	767
New assets originated or purchased	2,588
Completed (repaid) assets	(2,401)
Modifications in allowance	9
Allowance at 31 December 2018	963

Modified loans

The Bank derecognises a financial asset, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financial instrument, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in derecognition, then, based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

The table below includes the Stage 2 and Stage 3 assets modified during the period, with the related modification gain or loss:

	2019	*2018*
Loans to customers modified during the period		
Amortised cost before modification	14,276,828	19,681,307
Net modification gain (loss)	38,115	(778,755)

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions – cash or securities;
- For commercial lending – charges over real estate properties, inventory and trade receivables;
- For retail lending – mortgages over residential properties and vehicles.

The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

As at 31 December 2019, UAH 962,789 thousand of customer deposits are pledged as collateral for loans to customers (31 December 2018: UAH 1,152,540 thousand) (Note 18).

The analysis of collateral value for credit-impaired assets (stage 3) taken in to accounted by the Bank when assessing the impairment of assets is provided in Note 25.

In 2019, the Bank effected the repayment of loans to customers through the pledged property. The value of pledged property used by the Bank for repayment of loans to customers amounted to UAH 596,175 thousand (2018: UAH 258,680 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2019, the Bank has a concentration of loans represented by UAH 41,752,218 thousand due from ten largest borrowers (38.11% of gross loan portfolio) (31 December 2018: UAH 60,937,944 thousand, or 44.41%). The allowance of UAH 26,081,588 thousand has been recognised against these loans (31 December 2018: UAH 11,063,820 thousand).

Loans have been extended to the following types of customers:

	31 December 2019	*31 December 2018*
Legal entities	89,837,204	103,567,422
State entities	17,746,303	31,594,636
Individuals	1,834,507	1,973,096
Municipal and utility entities	129,637	89,582
	109,547,651	137,224,736

Loans are made principally within Ukraine to companies of the following industry sectors:

	31 December 2019	*%*	*31 December 2018*	*%*
Agriculture and food industry	16,840,848	15.4	20,165,323	14.7
Trade	12,366,045	11.3	15,006,412	10.9
Chemical industry	12,258,067	11.3	14,345,801	10.4
Power engineering	12,201,065	11.1	13,118,945	9.6
Real estate	8,963,788	8.2	10,255,613	7.5
Mechanical engineering	8,553,790	7.8	8,570,178	6.2
Metallurgy	7,965,573	7.3	8,632,084	6.3
Transport and communications	4,636,181	4.2	2,957,642	2.1
Extractive industry	4,476,267	4.1	16,678,009	12.2
Production of construction materials	4,469,475	4.1	5,895,931	4.3
Construction	3,640,366	3.3	7,321,231	5.3
Hotels and restaurants	3,477,609	3.2	3,794,473	2.8
Production of rubber and plastic goods	2,673,862	2.4	2,937,244	2.1
Individuals	1,834,507	1.7	1,973,096	1.4
Pulp and paper industry	1,585,170	1.4	1,732,238	1.3
Metal processing	554,774	0.5	560,264	0.4
Professional, scientific and technical activities	553,009	0.5	632,466	0.5
Other processing activities	427,265	0.4	377,151	0.3
Wood processing	392,156	0.4	433,774	0.3
Financial activity	333,477	0.3	377,124	0.3
Light industry	376,550	0.3	498,227	0.4
Other	967,807	0.8	961,510	0.7
Total	109,547,651	100.0	137,224,736	100.0

As at 31 December 2019, "Other" category included debts on loans issued to customers registered in the Republic of Crimea in the amount of UAH 462,828 thousand (31 December 2018: (UAH 450,954 thousand) with UAH 462,828 thousand of allowance for impairment of these loans (31 December 2018: UAH 450,954 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Loans to customers (continued)

Concentration of loans to customers (continued)

Corporate lending portfolio includes finance lease receivables. They may be analysed as follows:

	31 December 2019	*31 December 2018*
Gross investment in finance leases, receivable:		
Within 1 year	855,135	764,468
From 1 to 5 years	2,894,108	3,478,375
	3,749,243	4,242,843
Future investments in finance leases	–	(1,320,336)
Unearned future finance income on finance leases	(1,347,276)	(1,561,610)
Net investment in finance leases	2,401,967	1,360,897

	31 December 2019	*31 December 2018*
Net investment in finance leases, receivable:		
Within 1 year	444,019	377,554
From 1 to 5 years	1,957,948	983,343
Net investment in finance leases	2,401,967	1,360,897

11. Investment securities

Investment securities at fair value through profit or loss

As at 31 December 2019, investment securities at FVPL with the carrying value of UAH 25,731,949 thousand (31 December 2018: UAH 26,653,561 thousand) are represented by Ukrainian state bonds. The conditions of issue of those securities provide for indexation of the nominal value by maturity according to the changes in the average interbank exchange rate of Hryvnia to US Dollar per month prior to the date of issue and per month prior to the maturity date. Coupon yield is not subject to indexation.

Investment securities at fair value through other comprehensive income

	31 December 2019	*31 December 2018*
Ukrainian state bonds	22,254,733	34,371,218
Corporate bonds	361,226	1,401,274
Corporate shares	17,940	16,603
Investment securities at fair value through other comprehensive income	22,633,899	35,789,095

The Bank at its own discretion has designated some of its equity investments as equity investments at FVOCI on the basis that these are not held for trading. Such investments primarily include mandatory shares in exchanges and clearing houses, investments arising when the Bank received equity shares in exchange for debt settlement, and strategic investments in other banks.

(thousands of Ukrainian hryvnia, unless otherwise stated)

11. Investment securities (continued)

Investment securities at fair value through other comprehensive income (continued)

The following tables show the analysis of changes in the gross carrying amount and the corresponding ECL on investment securities at fair value through other comprehensive income:

	Stage 1 Collective	*Stage 3 Individual*	*Total*
Gross carrying amount at 1 January 2019	35,794,632	4,218,021	40,012,653
New originated or purchased assets	12,917,468	–	12,917,468
Completed (repaid) assets	(25,081,500)	–	(25,081,500)
Change in carrying amount	1,615,588	–	1,615,588
Translation differences	(2,589,478)	–	(2,589,478)
Gross carrying amount at 31 December 2019	22,656,710	4,218,021	26,874,731

	Stage 1 Collective	*Stage 3 Individual*	*Total*
Gross carrying amount at 1 January 2018	48,254,711	4,218,021	52,472,732
New originated or purchased assets	31,996,184	–	31,996,184
Completed (repaid) assets	(43,002,320)	–	(43,002,320)
Change in carrying amount	(684,915)	–	(684,915)
Translation differences	(769,028)	–	(769,028)
Gross carrying amount at 31 December 2018	35,794,632	4,218,021	40,012,653

	Stage 1 Collective	*Stage 3 Individual*	*Total*
Allowance at 1 January 2019	5,537	4,218,021	4,223,558
New originated or purchased assets	20,779	–	20,779
Modifications in allowance	(3,505)	–	(3,505)
Allowance at 31 December 2019	22,811	4,218,021	4,240,832

	Stage 1 Collective	*Stage 3 Individual*	*Total*
Allowance at 1 January 2018	7,374	4,218,021	4,225,395
Modifications in allowance	(1,837)	–	(1,837)
Allowance at 31 December 2018	5,537	4,218,021	4,223,558

Investment securities at amortised cost

	31 December 2019		*31 December 2018*	
	Nominal value	*Carrying amount*	*Nominal value*	*Carrying amount*
Ukrainian state bonds	–	–	49,082	49,855
Investment securities at amortised cost		–		49,855

(thousands of Ukrainian hryvnia, unless otherwise stated)

12. Investment property

The movements of investment property are as follows:

	2019	*2018*
Investment property as at 1 January	1,153,243	1,260,398
Net loss from fair value remeasurement	(117,657)	(30,359)
Additions	–	3,081
Disposals	–	(79,877)
Investment property as at 31 December	1,035,586	1,153,243

In 2019, the Bank revalued its investment property. The valuation was performed by independent appraiser having appropriate professional qualifications and years of experience in valuation of properties of similar category and with similar location. The basic valuation approaches applied were the comparative approach and a combination of comparative and income approaches.

The Bank leased out a part of its investment property under operating lease agreements. Future minimum receivables under non-cancellable operating leases comprise the following:

	31 December 2019	*31 December 2018*
Within 1 year	26,072	10,676
From 1 to 5 years	–	8,746
Future minimum receivables under non-cancellable operating lease	26,072	19,422

In 2019, the Bank recognised rental income of UAH 30,124 thousand (2018: UAH 34,068 thousand) included in other income in the consolidated statement of profit and loss (the consolidated income statement).

During 2019, direct operating expenses related to investment property generating rental income amounted to UAH 8,266 thousand. (2018: UAH 8,699 thousand), direct operating expenses related to investment property not generating rental income amounted to UAH 20,593 thousand (2018: UAH 25,385 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

13. Property,plant and equipment

The movements of property and equipment were as follows:

	Buildings	*Right-of-use assets Buildings/ Premises*	*Leasehold improve-ments*	*Computers and equipment*	*Furniture, fittings and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount								
At 31 December 2018	1,442,547	–	5,734	541,777	251,550	20,356	50,251	2,312,215
Effect of application of IFRS 16 at 1 January 2019	–	11,316	–	–	–	–	–	11,316
Additions	–	412	–	31,276	10,260	1,568,123	10,434	1,620,505
Disposals	–	–	(724)	(4,359)	(1,002)	(1,568,123)	(527)	(1,574,735)
Transfers	6,059	–	30	–	–	–	(6,089)	–
At 31 December 2019	1,448,606	11,728	5,040	568,694	260,808	20,356	54,069	2,369,301
Accumulated depreciation								
At 31 December 2018	(27,294)	–	(5,074)	(416,277)	(197,293)	(20,168)	–	(666,106)
Charge for the year	(25,196)	(5,828)	(375)	(48,220)	(13,151)	–	–	(92,770)
Modification	–	(36)	–	–	–	–	–	(36)
Disposals	–	–	711	4,325	1,036	–	–	6,072
At 31 December 2019	(52,490)	(5,864)	(4,738)	(460,172)	(209,408)	(20,168)	–	(752,840)
Net book value								
At 1 January 2019	1,415,253	11,316	660	125,500	54,257	188	50,251	1,657,425
At 31 December 2019	1,396,116	5,864	302	108,522	51,400	188	54,069	1,616,461

	Buildings	*Leasehold improve-ments*	*Computers and equipment*	*Furniture, fittings and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
At 31 December 2017	1,437,871	5,958	481,601	239,853	20,509	55,550	2,241,342
Additions	–	–	76,125	13,231	1,568,122	674	1,658,152
Disposals	(14)	(545)	(15,949)	(1,534)	(1,568,275)	(962)	(1,587,279)
Transfers	4,690	321	–	–	–	(5,011)	–
At 31 December 2018	1,442,547	5,734	541,777	251,550	20,356	50,251	2,312,215
Accumulated depreciation							
At 31 December 2017	(2,172)	(5,176)	(388,821)	(184,167)	(19,992)	–	(600,328)
Charge for the year	(25,136)	(443)	(43,439)	(14,588)	(329)	–	(83,935)
Disposals	14	545	15,983	1,462	153	–	18,157
At 31 December 2017	(27,294)	(5,074)	(416,277)	(197,293)	(20,168)	–	(666,106)
Net book value							
At 31 December 2017	1,435,699	782	92,780	55,686	517	55,550	1,641,014
At 31 December 2018	1,415,253	660	125,500	54,257	188	50,251	1,646,109

The Bank recognised UAH 14,302 thousand of rent expense on short-term leases and leases of low-value assets for the twelve months ended 31 December 2019.

As at 31 December 2019, buildings, leasehold improvements and other items of property and equipment include assets with the cost or revalued amount of UAH 514,512 thousand which are fully depreciated (31 December 2018: UAH 425,166 thousand). These assets are still used by the Bank.

As at 31 December 2019, the Bank had capital commitments for the acquisition of property and equipment of UAH 4,689 thousand (31 December 2018: UAH 3,872 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

13. Property, plant and equipment (continued)

As at 1 March and 1 August of each year, the Bank performs testing of fair value of buildings. On the basis of such testing the deviation between fair value of buildings and their carrying value is calculated. The Bank analyses the calculated deviations for the significance of the impact on its financial statements and carries out a revaluation in case of significant deviation.

The latest valuation was performed in 2017 by independent appraiser and fair value was determined using comparative and income approaches based on market information.

If the buildings were reported at cost as at 31 December 2019, the carrying amount would be as follows:

	31 December 2019 (revalued)	*31 December 2019 (at cost)*	*31 December 2018 (revalued)*	*31 December 2018 (at cost)*
Cost	1,448,606	1,052,124	1,442,547	1,046,065
Accumulated depreciation	(52,490)	(201,402)	(27,294)	(189,444)
Net book value	1,396,116	850,722	1,415,253	856,621

14. Intangible assets

The movements in intangible assets were as follows:

	Computer software and licenses
Cost	
At 31 December 2018	128,831
Additions	23,195
Disposals	(5)
At 31 December 2019	152,021
Accumulated depreciation	
At 31 December 2018	(74,565)
Charge for the year	(18,288)
Disposals	5
At 31 December 2019	(92,848)
Net book value	
At 31 December 2018	54,266
At 31 December 2019	59,173

	Computer software and licenses
Cost	
At 31 December 2017	112,365
Additions	21,345
Disposals	(4,879)
At 31 December 2018	128,831
Accumulated depreciation	
At 31 December 2017	(62,860)
Charge for the year	(16,584)
Disposals	4,879
At 31 December 2018	(74,565)
Net book value	
At 31 December 2017	49,505
At 31 December 2018	54,266

(thousands of Ukrainian hryvnia, unless otherwise stated)

14. Intangible assets(continued)

As at 31 December 2019, intangible assets in the value of UAH 52,362 thousand were fully amortised (31 December 2018: UAH 41,334 thousand). These assets are still used by the Bank.

As at 31 December 2019, the Bank had capital commitments for the acquisition of intangible assets of UAH 24,127 thousand (31 December 2018: UAH 7,740 thousand).

15. Income tax

The income tax charge comprises:

	31 December 2019	*31 December 2018*
Current tax charge	(48)	135
Deferred tax	(569,250)	(105,271)
Income tax expense	(569,298)	(105,136)

As at 31 December 2019, Ukrainian corporate income tax was calculated as taxable income less allowable expenses at the rate of 18% (31 December 2018: 18%).

Income tax assets and liabilities consist of the following:

	31 December 2019	*31 December 2018*
Tax assets	246,882	161,080
Deferred income tax asset	1,463,771	2,033,021
Tax assets	1,710,653	2,194,101

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax charge based on the statutory rate with the actual rate is as follows:

	2019	*2018*
Profit before tax	634,578	909,967
Statutory tax rate	18%	18%
Income tax charge at the statutory rate	(114,224)	(163,794)
Changes in unrecognised deferred tax asset	(471,200)	68,758
Non-deductible expenditures	(3,410)	(10,100)
Changes in deferred tax asset not recognised in the statement of financial position	19,536	–
Income tax expense	(569,298)	(105,136)

(thousands of Ukrainian hryvnia, unless otherwise stated)

15. Income tax (continued)

Deferred tax assets and liabilities include:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*		
	1 January 2018	*Effect of application of IFRS 9*	*In the consolidated statement of profit and loss (consolidated income statement)*	*In the consolidated statement of comprehensive income*	*31 December 2018*	*In the consolidated statement of profit and loss (consolidated income statement)*	*In the consolidated statement of comprehensive income*	*31 December 2019*
Tax effect of deductible temporary differences								
Allowances for impairment of assets and liabilities	3,029,915	374,405	(1,877,800)	–	1,526,520	(1,487,899)	–	38,621
Valuation of financial instruments	71,628		–	195,498	267,126	–	(210,136)	56,990
Unused tax losses carried forward	48,804	–	1,699,771	–	1,748,575	1,389,928	–	3,138,503
Deferred income tax asset	3,150,347	374,405	(178,029)	195,498	3,542,221	(97,971)	(210,136)	3,234,114
Unrecognised deferred tax asset	(1,004,876)	(374,405)	68,758	(195,498)	(1,506,021)	(471,200)	210,136	(1,767,085)
Recognised deferred tax asset	2,145,471	–	(109,271)	–	2,036,200	(569,171)	–	1,467,029
Tax effect of deductible temporary differences								
Property and equipment and intangible assets	(7,179)	–	4,000	–	(3,179)	(79)	–	(3,258)
Deferred tax liabilities	(7,179)	–	4,000	–	(3,179)	(79)	–	(3,258)
Net deferred tax asset	2,138,292	–	(105,271)	–	2,033,021	(569,250)	–	1,463,771

The information on the professional judgements applied by the management for the recognition of deferred tax assets is provided in Note 4.

(thousands of Ukrainian hryvnia, unless otherwise stated)

16. Other assets and liabilities

Other assets comprise:

	31 December 2019	*31 December 2018*
Other financial assets		
Other accrued income	332,949	363,981
Transit accounts on operations with payment cards	182,067	169,002
Accounts receivable on operations with customers	56,664	64,987
Accrued service fee on guarantees issued	15,936	18,804
Other	105	122
	587,721	616,896
Less: allowance for expected credit losses	(388,117)	(389,595)
Other financial assets	199,604	227,301
Other assets		
Other tax assets, except those related to income tax	149,818	463,496
Advance payments	111,311	1,688,710
Precious metals	70,919	83,634
Repossessed pledged property	39,321	–
Inventories	35,597	32,743
Cash, which availability is not confirmed	30,491	34,855
Other	2,067	3,017
	439,524	2,306,455
Less: allowance for impairment	(92,436)	(82,233)
Other assets	347,088	2,224,222
Total other assets	546,692	2,451,523

Other liabilities comprise:

	31 December 2019	*31 December 2018*
Other financial liabilities		
Transit accounts on operations with payment cards	53,121	29,771
Transit accounts on operations with customers	32,873	31,643
Lease commitments	6,006	–
Accrued expenses	5,655	6,481
Liabilities on guarantees issued	4,964	8,756
Other financial liabilities	102,619	76,651
Other liabilities		
Accrued unused vacations	125,469	111,952
Payables to the Individual Deposit Guarantee Fund	63,411	64,542
Accrued salary	60,427	71,727
Payables on taxes and mandatory contributions, except for income tax	35,229	38,040
Deferred income	34,702	27,329
Payables on the Bank’s business activities	11,416	22,627
Accrued pension contributions	2,293	1,800
Other	9,900	9,784
Other liabilities	342,847	347,801
Total other liabilities	445,466	424,452

(thousands of Ukrainian hryvnia, unless otherwise stated)

16. Other assets and liabilities (continued)

The following tables show the analysis of changes in the gross carrying amount and the corresponding ECL on other financial assets (except for transit accounts on operations with payment cards):

	Stage 1 Collective	*Stage 3 Individual*	*Total*
Gross carrying amount at 1 January 2019	144,942	302,952	447,894
New assets originated or purchased	96,003	–	96,003
Completed (repaid) assets	(107,918)	–	(107,918)
Change in carrying amount	(23,664)	–	(23,664)
Written-off assets	(162)	–	(162)
Translation differences	(6,499)	–	(6,499)
Gross carrying amount at 31 December 2019	102,702	302,952	405,654

	Stage 1 Collective	*Stage 3 Individual*	*Total*
Gross carrying amount at 1 January 2018	250,828	302,952	553,780
New assets originated or purchased	88,436	–	88,436
Completed (repaid) assets	(186,865)	–	(186,865)
Change in carrying amount	(5,825)	–	(5,825)
Translation differences	(1,632)	–	(1,632)
Gross carrying amount at 31 December 2018	144,942	302,952	447,894

	Stage 1 Collective	*Stage 3 Individual*	*Total*
Allowance at 1 January 2019	86,643	302,952	389,595
New assets originated or purchased	11,038	–	11,038
Completed (repaid) assets	(14,389)	–	(14,389)
Modifications in allowance	8,476	–	8,476
Written-off assets	(162)	–	(162)
Translation differences	(6,441)	–	(6,441)
Allowance at 31 December 2019	85,165	302,952	388,117

	Stage 1 Collective	*Stage 3 Individual*	*Total*
Allowance at 1 January 2018	207,239	259,103	466,342
New assets originated or purchased	5,710	–	5,710
Completed (repaid) assets	(10,978)	–	(10,978)
Transfer to POCI	(109,304)	–	(109,304)
Modifications in allowance	(2,069)	43,849	41,780
Translation differences	(3,955)	–	(3,955)
Allowance at 31 December 2018	86,643	302,952	389,595

(thousands of Ukrainian hryvnia, unless otherwise stated)

16. Other assets and liabilities (continued)

The following tables show the analysis of impairment losses on other non-financial assets:

Allowance at 1 January 2019	82,233
Charge/(reversal)	14,449
Translation differences	(4,246)
Allowance at 31 December 2019	92,436
Allowance at 1 January 2018	73,005
Charge/(reversal)	7,694
Translation differences	1,534
Allowance at 31 December 2018	82,233

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2019	*31 December 2018*
Loans from international financial organisations	20,943,326	22,475,335
Current accounts	708,317	1,612,142
Loans and deposits from other banks	174,119	318,435
Other amounts due to credit institutions	–	1
Amounts due to credit institutions	21,825,762	24,405,913

As at 31 December 2019, current accounts include UAH 328,152 thousand placed by five Ukrainian banks (31 December 2018: UAH 1,236,727 thousand placed by five Ukrainian banks). The placements have been made under normal banking terms and conditions.

As at 31 December 2019, overall amount due to credit institutions includes UAH 791,560 thousand received from Ukrainian banks (31 December 2018: UAH 1,698,941 thousand).

As at 31 December 2019, loans and deposits received from other banks and loans from international financial organisations include UAH 87,901 thousand under agreement with a foreign creditor for the purpose of funds attraction for guarantee and insurance coverage of export credit agencies received from OECD bank and UAH 696,952 thousand under the trade financing agreements (31 December 2018: UAH 231,162 thousand and UAH 21,369 thousand, respectively). These loans are denominated in euros (31 December 2018: in euros) and bear floating interest rates and are matched in maturity with loans to customers issued by the Bank under the above mentioned financing programmes.

As at 31 December 2019, loans from international financial organisations include loans from the International Bank for Reconstruction and Development (IBRD) within the Second Project of Export Development and Additional Financing for the Second Project of Export Development with a carrying amount of UAH 4,622,119 thousand (31 December 2018: UAH 5,732,611 thousand). The loans are denominated in US dollars, bear interest rates LIBOR(6m)USD + spread EIB, which is reviewed twice a year, with the current interest rate: 2.61% and 2.46% p.a., respectively. Loans mature in 2041 and 2026.

Loans from international financial institutions include the loan from the IBRD under the Project on Energy Efficiency in the amount of UAH 3,721,741 thousand (31 December 2018: UAH 4,543,506 thousand). The loan is denominated in US dollars, bears interest rate LIBOR(6m)USD + spread EIB, which is reviewed twice a year, with the current interest rate: 2.67% p.a. The loan matures in 2040.

Loans from international financial institutions include the loan from the IBRD under the Project on Access to Long Term Finance in the amount of UAH 1,336,258 thousand. (31 December 2018: UAH 876,659 thousand). The total amount of these loans under the loan agreements is USD 150,000 thousand. The loan is denominated in US dollars, bears interest rate LIBOR(6m)USD + spread EIB, which is reviewed twice a year, with the current interest rate: 3.04% p.a. The loan matures in 2052.

(thousands of Ukrainian hryvnia, unless otherwise stated)

17. Amount due to credit institutions (continued)

As at 31 December 2019, loans from international financial institutions include loans from the European Investment Bank ("EIB") under the loan for SMEs and Mid–Caps and loan under the Deep and Comprehensive Free Trade Area (DCFTA) Initiative between EU and Ukraine totalling UAH 3,961,721 thousand (31 December 2018: UAH 5,166,848 thousand) The total amount of these loans under the loan agreements is EUR 360,000 thousand. Loan tranches are denominated in USD and mature in 2023, bear fixed and floating interest rate for each tranche: LIBOR(6m)USD + spread EIB, floating interest rate are reviewed twice a year, with the current interest rate: 5, 027%, 5.45663% and 5.44438% p.a., respectively.

Loans from international financial institutions also include loans from the European Bank of Reconstruction and Development ("EBRD") under the Program of loans to SMEs aimed at supporting the DCFTA with Ukraine. The amount of loan under the Loan Agreement is equivalent to USD 25,000 thousand. The loan is denominated USD, loan tranches are accounted for by the Bank in UAH at the fixed interest rate of 18.1% and 15.8% p.a., and mature 2021 and 2022, respectively.

For the purposes of the consolidated cash flow statement presentation, the Bank allocates funds attracted from credit institutions between operating and financing activities. Funds raised from the Ukrainian banks were included in the funds for operating activities, and funds from other banks were included in the funds for financing activities.

Loan agreements with international financial organisations and come other banks provide for certain covenants.

18. Amounts due to customers

Amounts due to customers comprise:

	31 December 2019	*31 December 2018*
Current accounts:		
- Legal entities	16,809,617	18,106,953
- Budget financed organizations	7,358,773	6,592,570
- Individuals	4,189,134	4,110,000
- Funds under the Bank's management	1	1
	28,357,525	28,809,524
Time deposits:		
- Legal entities	27,122,765	31,235,635
- Individuals	21,645,529	22,117,965
	48,768,294	53,353,600
Amounts due to customers	77,125,819	82,163,124
Held as security against loans to customers (Note 10)	962,789	1,152,540
Held as security against guarantees and avals (Note 22)	689,701	899,741
Held as security against letters of credit (Note 22)	178,683	1,020,095
Held as security against undrawn loan commitments (Note 22)	12,384	12,800
Advance payments received under finance lease	–	564,524

As at 31 December 2019, legal entities current accounts included funds of ten largest customers in the amount of UAH 4,066,924 thousand (24.2% of legal entities current accounts) (31 December 2018: UAH 6,395,321 thousand, or 35.3%).

As at 31 December 2019, individuals' current accounts included funds of ten largest customers in the amount of UAH 167,498 thousand (4.0% of individuals' current accounts) (31 December 2018: UAH 130,176 thousand, or 3.2%).

As at 31 December 2019, term deposits of legal entities included funds attracted from five customers in the amount of UAH 12,560,174 thousand (46.3% of term deposits of legal entities) (31 December 2018: UAH 18,887,938 thousand, or 60.5%).

(thousands of Ukrainian hryvnia, unless otherwise stated)

18. Amount due to customers (continued)

As at 31 December 2019, term deposits of individuals included funds attracted from ten customers in the amount of UAH 1,077,644 thousand (5.0% of term deposits of individuals) (31 December 2018: UAH 1,280,491 thousand, or 5.8%).

As at 31 December 2019, term deposits of legal entities included funds raised in gold, which are measured at fair value through profit or loss in the amount to UAH 13,860 thousand (31 December 2018: UAH 13,682 thousand). As at 31 December 2019, there is no any change in fair value of funds raised in gold due to changes in credit risk (31 December 2018: none).

The return of term deposit on customer's request prior to the date of maturity or occurrence of other events specified in the agreement could be done only cases provided for by the deposit agreement.

An analysis of customer accounts by economic sector is as follows:

	31 December 2019	*%*	*31 December 2018*	*%*
Individuals	25,834,663	33.5	26,227,965	31.9
Agriculture and food industry	14,766,241	19.1	20,326,311	24.7
Budget financed organizations	7,358,773	9.5	6,592,570	8.0
Trade	6,410,385	8.3	5,850,084	7.1
Mechanical engineering	3,454,774	4.5	3,411,351	4.2
Finance	2,971,156	3.9	2,520,362	3.1
Professional, scientific and technical activities	2,697,349	3.5	2,498,456	3.0
Construction	1,913,162	2.5	1,297,347	1.6
Power engineering	1,817,574	2.4	2,198,647	2.7
Transport and communications	1,330,752	1.7	1,594,116	1.9
Metal processing	717,693	0.9	901,708	1.1
Information and telecommunications	658,955	0.9	723,266	0.9
Real estate	610,738	0.8	600,222	0.7
Production of construction materials	566,666	0.7	568,994	0.7
Processing	429,333	0.6	445,426	0.5
Chemical industry	426,020	0.6	354,178	0.4
Extractive industry	420,189	0.5	1,992,093	2.4
Metallurgy	355,225	0.5	298,995	0.4
Personal services	319,979	0.4	293,734	0.4
Education	282,969	0.4	254,173	0.3
Health protection	248,923	0.3	240,137	0.3
Wood processing	191,424	0.2	228,925	0.3
Production of rubber and plastic goods	104,177	0.1	121,919	0.1
Hotels and restaurants	89,613	0.1	74,758	0.1
Light industry	88,527	0.1	94,669	0.1
Pulp and paper industry	48,307	0.1	85,526	0.1
Other	3,012,252	3.9	2,367,192	3.0
Amounts due to customers	77,125,819	100.0	82,163,124	100.0

18. Amount due to customers (continued)

Funds under the Bank's management

The Bank acts as an asset manager in respect of certain funds related to construction financing. Amounts due to funds under the Bank's management are as follows:

	2019	*2018*
At 1 January	1	1
Funds attracted from individuals	60	60
Invested funds	(60)	(60)
At 31 December	1	1

19. Eurobonds issued

	31 December 2019			*31 December 2018*		
	Nominal value ('000)	*Currency*	*Carrying amount*	*Nominal value ('000)*	*Currency*	*Carrying amount*
April 2010 issue	500,000	USD	5,021,247	500,000	USD	14,044,589
October 2010 issue	250,000	USD	2,510,623	250,000	USD	7,022,294
January 2013 issue	500,000	USD	12,304,890	500,000	USD	14,355,526
April 2013 issue	100,000	USD	2,460,978	100,000	USD	2,871,105
March 2018 issue	4,051,000	UAH	4,255,338	4,051,000	UAH	4,248,391
Eurobonds issued			26,553,076			42,541,905

In March 2010, the Bank, through BIZ Finance PLC (structured company registered in the United Kingdom) issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.375% p.a. and maturity in April 2015

In October 2010, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 250,000 thousand (UAH 1,998,250 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.375% p.a. and maturity in April 2015 and were consolidated and form a single series with the notes issued in April 2010.

Issued Eurobonds in the form of loan participation notes with a par value of USD 750,000 thousand and maturity in 2015 were reprofiled on 09 July 2015 on the following conditions:

- The coupon rate of 9.625% p.a.;
- Maturity date was rescheduled for 7 years, i.e. to 27 April 2022 (in equal semi-annual payments).

In January 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.75% p.a. and maturity in April 2018.

In April 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 thousand (UAH 799,300 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.75% p.a. and maturity in April 2018. and were consolidated and form a single series with the notes issued in January 2013.

19. Eurobonds issued (continued)

Issued Eurobonds in the form of loan participation notes with a par value of USD 600,000 thousand and maturity in 2018 were reprofiled on 23 July 2015 on the following conditions:

- The coupon rate of 9.75% p.a.;
- Maturity date was rescheduled for 7 years, i.e. to 22 January 2025 with 50% of the principle amount payable on 22 January 2021 and the remaining part of the principle amount payable in eight equal payments from 22 July 2021 through 22 January 2025.

In March 2018, the Bank, through BIZ Finance PLC issued Eurobonds in the form of loan participation notes with a par value of UAH 4,051,000 thousand. The bonds had a fixed coupon rate of 16.5% p.a. and maturity in March 2021.

20. Subordinated debt

In February 2006, the Bank obtained a loan of USD 95,000 thousand (UAH 2,250,189 thousand) from Credit Suisse International. This loan was funded by 8.4% loan participation notes issued on a limited recourse basis by Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

In November 2006, the Bank obtained a further loan of USD 30,000 thousand (UAH 710,586 thousand) from Credit Suisse International. This loan was funded by 8.4% loan participation notes, which were consolidated and form a single series with the securities issued in February 2006. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. Interest payments are made semi–annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

On 29 May 2015, the Bank as a borrower, the Credit Suisse International as a creditor and Biz Finance Plc as a new creditor signed the second supplementary loan agreement under which Credit Suisse International was replaced with Biz Finance Plc. from the date if its signing.

On 9 July 2015, the Bank and Biz Finance Plc. signed the Agreement on amendments and revisions to the loan agreement (the Agreement on funds borrowing under subordinated debt terms) of USD 125,000 thousand dated 7 February 2006 as amended by the Supplement loan agreement dated 9 November 2006 and the second Supplementary loan agreement dated 29 May 2015, as follows:

- Starting 9 August 2015, the interest rate was changed to 7% p.a. + 6m Libor rate and as at 31 December 2019 comprises 9.04763%;
- Maturity date was rescheduled for 7 years, i.e. to 9 February 2023 with 50% of the principle amount payable on 9 February 2020 and the remaining part of the principle amount payable in six equal semi-annual payments from 9 August 2020 through 9 February 2023.

As at 31 December 2019, the carrying amount of the above mentioned loan was UAH 3,063,230 thousand (31 December 2018: UAH 3,584,690 thousand).

In November 2019, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 thousand with a fixed coupon rate of 9.95% per annum and maturity in November 2029, with the possibility of early repayment in November 2024, solely for the purpose of financing the Bank's subordinated debt. Interest payments are made semi-annually in arrears on 14 May and 14 November of each year, commencing on 14 May 2020. As at 31 December 2019, the carrying amount of the above mentioned loan was UAH 2,366,684 thousand.

21. Equity

As at 31 December 2019, the Bank's authorised issued share capital comprised 26,490,412 (31 December 2018: 26,490,412) ordinary registered shares with a nominal value of UAH 1,462.04 per share (31 December 2018: 1,462.04 per share). As at 31 December 2019, 26,490,412 ordinary registered shares were fully paid and registered (31 December 2018: 26,490,412 shares were fully paid and registered).

(thousands of Ukrainian hryvnia, unless otherwise stated)

21. Equity (continued)

As at 31 December 2019, equity includes the result of transactions with the shareholder in the amount of UAH 635,104 thousand (31 December 2018: UAH 635,104 thousand) as a difference between the nominal and fair value of Ukrainian state bonds with indexed value at the initial recognition as part of the addition issue of shares in 2017.

Movements in revaluation reserves

Movements in revaluation reserves were as follows:

	Property revaluation reserve	*Unrealised gains/ (losses) on investment securities at fair value through other comprehensive income*	*Revaluation reserves*
At 1 January 2018	724,063	(512,280)	211,783
Depreciation of revaluation reserve, net of tax	(13,258)	–	(13,258)
Net loss on investment securities at fair value through other comprehensive income, including:	–	(1,014,931)	(1,014,931)
Reversal of expenses for expected credit losses of investment securities at fair value through other comprehensive income	–	1,837	1,837
Net realised losses on available-for-sale investment securities at fair value through other comprehensive income reclassified to the consolidated statement of profit and loss (consolidated income statement)	–	52,803	52,803
Net unrealised losses on investment securities at fair value through other comprehensive income	–	(1,069,571)	(1,069,571)
Income tax related to components of other comprehensive income	–	–	–
At 31 December 2018	710,805	(1,527,211)	(816,406)
Depreciation of revaluation reserve, net of tax	(13,237)	–	(13,237)
Net gain on investment securities at fair value through other comprehensive income, including:	–	1,167,422	1,167,422
Expenses for expected credit losses of investment securities at fair value through other comprehensive income	–	(17,274)	(17,274)
Net realised losses on available-for-sale investment securities at fair value through other comprehensive income reclassified to the consolidated statement of profit and loss (consolidated income statement)	–	7,780	7,780
Net unrealised gains on investment securities at fair value through other comprehensive income	–	1,176,916	1,176,916
Income tax related to components of other comprehensive income	–	–	–
At 31 December 2019	697,568	(359,789)	337,779

(thousands of Ukrainian hryvnia, unless otherwise stated)

21. Equity (continued)

Nature and purpose of reserves

Property revaluation reserve

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains/(losses) on investment securities at fair value through other comprehensive income

This reserve reflects changes in fair value of investment securities at fair value through other comprehensive income.

Reserves and other funds of the Bank

The Bank's reserve fund is created under the Charter up to reaching 25% of regulatory capital at the beginning of each year. The amount of allocations to the reserve fund is not less than 5% of the annual income of the Bank. The reserve fund is created for unforeseen losses for all assets and off-balance sheet commitments.

The Bank's distributable reserves are determined by the amount of the reserves according to the Bank's accounts. As at 31 December 2019, the amount of non-distributable reserves was UAH 500,705 thousand (31 December 2018: UAH (653,480) thousand). The Bank's non-distributable reserves are represented by revaluation reserves and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

22. Commitments and contingencies

Operating environment

Ukrainian economy is open, low-diversified and deemed to be a market one with some emerging market features, characterized by low liquidity in the capital markets and high sensitivity to external shocks in the global financial and commodity markets. Under such circumstances, heightened risks not typical of mature markets are inherent in banking in Ukraine.

Recovery and growth of the Ukrainian economy depend on foreign market conditions, coordinated policy and decisions of the President, Government, NBU, Verkhovna Rada, Office of the President of Ukraine, continuation of effective cooperation with international financial organizations and the progress in the east of the country. Consolidation of the legislative and executive branches of power as a result of the presidential and early parliamentary elections held in Ukraine is expected to contribute to the continuation of necessary social and economic reforms.

Generally, the impact of price dynamics in global commodity markets for foreign trade in 2019 for Ukraine was neutral. The significant decrease in world prices for metallurgical products (except for iron ore) was compensated by maintenance of prices for agricultural products and descending dynamics in the energy market. Obtaining for the second consecutive year the record harvests of grain and the faster growth of the IT sector contributed to boosting the export of goods and services from Ukraine. While at the same time, a decline in domestic demand and prices led to a decline in energy imports. At that, the continuance of high domestic consumer and investment demand amid the limited supply and aggravation of competition with import products due to the further decline in the competitiveness of domestic products expedited the increase in imports of goods and services.

The growing deficit in foreign trade in goods and services and large amounts of payments on external borrowings were compensated by the faster growth in foreign currency inflows to the financial account, mainly for the acquisition by non-residents of Ukrainian state bonds, as well as by private transfers from abroad, in general, contributed to significant strengthening of the national currency and increasing in amounts of Ukrainian international reserves. According to the NBU, as at 31 December 2019, the official national currency exchange rate was UAH 23.69 per USD 1 (31 December 2018: UAH 27.69), and international reserves increased to a seven–year high of USD 25.3 billion (31 December 2018: USD 20.8 billion) .

22. Commitments and contingencies (continued)

Operating environment (continued)

Expansion of domestic demand supported by continued wage and salary growth, strengthening of the national currency and increase in consumer lending contributed to the growth of the final consumption oriented economic activities. On the other hand, the slowdown in FDI inflows and implementation of capital investment resulted in corresponding decrease in gross main capital formation. The gradual loss of competitive positions by domestic products in the domestic and foreign markets (including due to the strengthening of the REER and NEER) caused the fall in production and sales of industrial products produced in Ukraine and the acceleration of deindustrialisation processes. Under these conditions, economic recovery slowed significantly at the end of the year. According to the State Statistics Service of Ukraine, in 2019, the retail trade turnover in Ukraine increased by 10.5%, the amount of manufactured construction products increased by 20.0%, the turnover of transport companies increased by 2.1%, agricultural products production increased by 1.1%, at the same time, industrial production declined by 1.8%. Overall, according to the NBU and the Ministry of Economic Development, Trade and Agriculture, the economic growth rate in Ukraine remained almost at the level of the previous year and amounted to 3.3% in 2019.

Conservative fiscal policy, a record grain harvest, expansion of supply and falling costs of imports due to strengthening of the national currency have helped to maintain the price stability. According to the State Statistics Service of Ukraine, consumer inflation in Ukraine decreased to 4.1% in 2019 (to the level of December 2018). At that, upon results of 2019, industrial products manufacturers for the first time reduced their selling prices by an average of 7.4% (to the level of December 2018). Such a slowdown in inflation led to a slight easing in monetary pressure, with the NBU reducing its discount rate 5 times, from 18% to 13.5%.

Significant amounts of overdue loans with imperfect protection of creditors' rights and respective high credit risks cause low lending activity of banks in Ukraine. At the same time, the existing liquidity continues to be channelled by banking institutions into low risk financial instruments (mainly the NBU deposit certificates and government securities) and consumer lending.

National currency exchange rate volatility, possible deterioration of foreign trade conditions and the overall macroeconomic situation may have a negative impact on the Bank's financial position and performance. Upon receipt of such information, the Bank promptly revises its estimates of future cash flows and implements necessary measures to sustain the Bank's business.

After the reporting date, the Board of the National Bank of Ukraine adopted decisions to reduce the discount rate from 13.5% per annum established from 13 December 2019 to 11% per annum from 31 January 2020 and 10% per annum from 13 March 2020, respectively. The National Bank continued to soften monetary policy and maintain the Ukrainian economy at a time when the world economy slowed down.

At the same time, the spread of coronavirus (COVID-19) pandemic, which has begun in 2020, is expected to result in a recession in the world economy and a significant slowdown in economic activity in Ukraine. The Government's imposing of a temporary restriction on business and social activities in March 2020 combined with a significant decline in global demand, as well as a reassessment by investors of the risks of emerging countries could adversely impact the economy and foreign trade of Ukraine, complicate the fund raising, adversely impact the country's banking system and result in further devaluation of the national currency against the major currencies. Thus, the official UAH/USD exchange rate established by the National Bank of Ukraine decreased by 14.6% from UAH 23.6862 per USD 1 as at 1 January 2018 to UAH 27.1441 per USD 1 as at 27 April 2020.

Such factors such as declining levels of liquidity and profitability of the corporate sector, including as due to the temporary restriction of business activity and devaluation of the Hryvnia against foreign currencies can adversely impact the quality of servicing of the Bank's credit portfolio. The Bank's management analyses the credit impairment considering the above mentioned risk factors and will record movements in allowances for expected credit risks, if necessary, in subsequent reporting periods. At the same time, when calculating expected credit losses as at 31 December 2019, the Bank applied models containing macroeconomic forecasts available at that date.

Stabilization of the Ukrainian economy in the foreseeable future depends on the rate of advance of pandemic and success of actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions.

(thousands of Ukrainian hryvnia, unless otherwise stated)

22. Commitments and contingencies (continued)

Operating environment (continued)

The Bank's management monitors the developments in the current environment and takes actions, where appropriate, to minimize any negative effects to the extent possible. Negative developments related to an advance of coronavirus (COVID-19) pandemic may further adversely impact the Bank's financial position and performance in a manner not currently determinable.

Legal aspects

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Tax and other regulatory compliance

Ukrainian legislation and regulations regarding taxation continue to evolve. The legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time, there is a risk that the transactions and interpretations not challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time. Assessment of amount and probability of negative consequences of possible unreported claims are unreasonable.

Since 1 September 2013 transfer pricing rules came into force. These rules provide that in the case of transactions with related parties (non-residents) and, in some cases with unrelated parties (controlled transactions) that are not at market value, entities should charge additional tax liabilities.

The Bank enters into controlled transactions solely at market prices. The Bank has implemented the necessary internal controls for compliance with the transfer pricing rules.

Credit-related commitments

Credit-related commitments included:

	31 December 2019	*31 December 2018*
Undrawn loan commitments	8,806,875	5,588,762
Financial guarantees	830,808	918,671
Letters of credit	226,691	1,080,298
Avals on promissory notes	178,269	349,446
	10,042,643	7,937,177
Less: provisions	(49,062)	(71,796)
Credit-related commitments (before deducting cash held as security)	9,993,581	7,865,381
Less: cash held as security against letters of credit, avals, financial guarantees and undrawn loan commitments (Note 18)	(271,420)	(1,107,841)
Credit-related commitments	9,722,161	6,757,540

As at 31 December 2019, credit-related commitments amounted to UAH 8,806,875 thousand, including revocable credit-related commitments of UAH 7,984,227 thousand (31 December 2018: UAH 5,588,762 thousand, including revocable credit-related commitments of UAH 4,915,325 thousand).

As at 31 December 2019, the Bank issued letters of credit of UAH 213,453 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 171,337 thousand (31 December 2018: UAH 1,070,441 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 1,010,237 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

22. Commitments and contingencies (continued)

Credit-related commitments (continued)

As at 31 December 2019, the Bank issued financial guarantees of UAH 608,527 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 13,326 thousand (31 December 2018: UAH 702,296 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 13,326 thousand).

As at 31 December 2019, the Bank's undrawm loan commitments for transactions with plastic cards amounted to UAH 403,598 thousand (31 December 2018: UAH 376,804 thousand).

The following tables show the analysis of changes in credit-related commitments and the corresponding provisions:

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Credit-related commitments at 1 January 2019	5,475,800	–	6,664	100,069	6,229	5,588,762
New liabilities originated or purchased	8,566,781	–	–	–	–	8,566,781
Completed (settled) liabilities	(6,516,225)	–	(20,861)	(23,533)	(6,168)	(6,566,787)
Transfer to Stage 1	15,639	–	(15,639)	–	–	–
Transfer to Stage 2	(484,241)	453,799	30,888	–	(446)	–
Transfer to Stage 3	(5,669)	(518,483)	(1,205)	522,932	2,425	–
Modifications in liabilities	1,516,118	64,684	12,621	28,501	480	1,622,404
Translation differences	(404,175)	–	(110)	–	–	(404,285)
Credit-related commitments at 31 December 2019	8,164,028	–	12,358	627,969	2,520	8,806,875

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Credit-related commitments at 1 January 2018	3,415,214	–	18,805	–	397	3,434,416
New liabilities originated or purchased	9,304,646	–	–	–	–	9,304,646
Completed (settled) liabilities	(5,653,860)	(3,130)	(24,903)	(509)	(40,531)	(5,722,933)
Transfer to Stage 1	83,983	(542)	(83,057)	–	(384)	–
Transfer to Stage 2	(133,707)	21,406	112,679	(377)	(1)	–
Transfer to Stage 3	(59,632)	(9,889)	(6,487)	67,850	8,158	–
Modifications in liabilities	(1,537,917)	(7,845)	(10,299)	33,105	38,590	(1,484,366)
Translation differences	57,073	–	(74)	–	–	56,999
Credit-related commitments at 31 December 2018	5,475,800	–	6,664	100,069	6,229	5,588,762

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Provision of credit-related commitments at 1 January 2019	61,657	–	91	3,981	2,956	68,685
New liabilities originated or purchased	140,039	–	–	–	–	140,039
Completed (settled) liabilities	(74,501)	–	(298)	(1,450)	(2,806)	(79,055)
Transfer to Stage 1	383	–	(383)	–	–	–
Transfer to Stage 2	(8,562)	8,182	655	–	(275)	–
Transfer to Stage 3	(326)	–	(146)	87	385	–
Modifications in allowance	(67,582)	(8,182)	287	(2,618)	386	(77,709)
Translation differences	(3,751)	–	–	–	–	(3,751)
Provision of credit-related commitments at 31 December 2019	47,357	–	206	–	646	48,209

(thousands of Ukrainian hryvnia, unless otherwise stated)

22. Commitments and contingencies (continued)

Credit-related commitments (continued)

	Stage 1 Collective	*Stage 2 Individual*	*Stage 2 Collective*	*Stage 3 Individual*	*Stage 3 Collective*	*Total*
Provision of credit-related commitments at 1 January 2018	44,067	–	408	–	233	44,708
New liabilities originated or purchased	175,820	–	–	–	–	175,820
Completed (settled) liabilities	(117,322)	–	(517)	–	(27,645)	(145,484)
Transfer to Stage 1	299	–	(63)	–	(236)	–
Transfer to Stage 2	(2,743)	2,543	256	(56)	–	–
Transfer to Stage 3	(2,831)	–	(1,323)	2,289	1,865	–
Modifications in allowance	(34,069)	(2,543)	1,330	1,748	28,739	(4,795)
Translation differences	(1,564)	–	–	–	–	(1,564)
Provision of credit-related commitments at 31 December 2018	61,657	–	91	3,981	2,956	68,685

The following tables show the analysis of changes in financial guarantees and corresponding provisions:

	Stage 1 Collective	*Stage 2 Collective*	*Stage 3 Collective*	*Total*
Financial guarantees at 1 January 2019	910,802	7,869	–	918,671
New financial guarantees originated or purchased	799,486	–	–	799,486
Completed (settled) financial guarantees	(526,329)	(3,225)	(12,018)	(541,572)
Transfer to Stage 2	(22,256)	22,256	–	–
Transfer to Stage 3	–	(13,496)	13,496	–
Modifications in financial guarantees	(258,182)	–	–	(258,182)
Translation differences	(85,324)	(793)	(1,478)	(87,595)
Financial guarantees at 31 December 2019	818,197	12,611	–	830,808

	Stage 1 Collective	*Stage 2 Collective*	*Total*
Financial guarantees at 1 January 2018	665,143	2,807	667,950
New financial guarantees originated or purchased	710,155	–	710,155
Completed (settled) financial guarantees	(443,669)	–	(443,669)
Transfer to Stage 1	11,500	(11,500)	–
Transfer to Stage 2	(16,600)	16,600	–
Modifications in financial guarantees	(14,314)	–	(14,314)
Translation differences	(1,413)	(38)	(1,451)
Guarantees at 31 December 2018	910,802	7,869	918,671

(thousands of Ukrainian hryvnia, unless otherwise stated)

22. Commitments and contingencies (continued)

Credit-related commitments (continued)

	Stage 1 Collective	*Stage 2 Collective*	*Stage 3 Collective*	*Total*
Provision for financial guarantees at 1 January 2019	717	4	–	721
New financial guarantees originated or purchased	497	–	–	497
Completed (settled) financial guarantees	(172)	–	(767)	(939)
Transfer to Stage 2	(19)	19	–	–
Transfer to Stage 3	–	(49)	49	–
Modifications in allowance	(683)	29	833	179
Translation differences	(5)	(1)	(115)	(121)
Provision for financial guarantees at 31 January 2019	335	2	–	337

	Stage 1 Collective	*Stage 2 Collective*	*Total*
Provision for financial guarantees at 1 January 2018	188	–	188
New financial guarantees originated or purchased	914	–	914
Completed (settled) financial guarantees	(120)	–	(120)
Transfer to Stage 2	(3)	3	–
Modifications in provisions	(260)	1	(259)
Translation differences	(2)	–	(2)
Provision for financial guarantees at 31 January 2018	717	4	721

The following tables show the analysis of changes in the letters of credit (except for security accounts) and the corresponding provisions:

	Stage 1 Collective
Letters of credit at 1 January 2019	60,204
New letters of credit originated or purchased	38,447
Completed (settled) letters of credit	(19,765)
Modifications in letters of credit	(21,901)
Translation differences	(8,976)
Letters of credit at 31 December 2019	48,009

	Stage 1 Collective
Letters of credit at 1 January 2018	20,349
New letters of credit originated or purchased	74,500
Completed (settled) letters of credit	(19,244)
Modifications in letters of credit	(12,251)
Translation differences	(3,150)
Letters of credit at 31 December 2018	60,204

(thousands of Ukrainian hryvnia, unless otherwise stated)

22. Commitments and contingencies (continued)

Credit-related commitments (continued)

	Stage 1 Collective
Provision for letters of credit at 1 January 2019	2,360
New letters of credit originated or purchased	126
Completed (settled) letters of credit	(64)
Modifications in allowance	(1,674)
Translation differences	(243)
Provision for letters of credit at 31 December 2019	505

	Stage 1 Collective
Provision for letters of credit at 1 January 2018	–
New letters of credit originated or purchased	2,993
Modifications in allowance	(309)
Translation differences	(324)
Provision for letters of credit at 31 December 2018	2,360

The following tables show the analysis of modifications in avals and corresponding provisions:

	Stage 1 Collective
Avals at 1 January 2019	349,446
New avals originated or purchased	1,564,328
Completed (settled) avals	(1,135,761)
Modifications in avals	(599,744)
Avals at 31 December 2019	178,269

	Stage 1 Collective
Avals at 1 January 2018	333,227
New avals originated or purchased	1,566,809
Completed (settled) avals	(1,550,590)
Avals at 31 December 2018	349,446

	Stage 1 Collective
Provision for avals at 1 January 2019	30
New avals originated or purchased	128
Completed (settled) avals	(80)
Modifications in allowance	(67)
Provision for avals at 31 December 2019	11

(thousands of Ukrainian hryvnia, unless otherwise stated)

22. Commitments and contingencies (continued)

Credit-related commitments (continued)

	Stage 1 Collective
Provision for avals at 1 January 2018	27
New avals originated or purchased	117
Completed (settled) avals	(114)
Provision for avals at 31 December 2018	30

Performance guarantees

Performance guarantees are arrangements on the provision of compensation if a counterparty fails to perform contractual obligations. Performance guarantees are not exposed to credit risk. Risk related to a counterparty's possible failure to perform contractual obligations

	31 December 2019	*31 December 2018*
Performance guarantees	2,505,110	3,248,221
Less: provisions	(244)	(829)
Commitments related to performance guarantees (before deducting cash held as security)	2,504,866	3,247,392
Less: cash held as security for performance guarantees (Note 18)	(609,348)	(824,795)
Commitments related to performance guarantees	1,895,518	2,422,597

The provision for performance guarantees is recognised in other liabilities.

Movements in provisions for performance guarantees are provided in the tables below:

Provision at 1 January 2019	829
Charge/(reversal)	(520)
Translation differences	(65)
Allowance at 31 December 2019	244

Provision at 1 January 2018	387
Charge/(reversal)	550
Translation differences	(108)
Provision at 31 December 2018	829

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank (capital adequacy, liquidity, credit risks). The benchmarks for such covenants are specified by the agreements, other documents agreed upon by the parties to the agreements with reference to the international and local regulatory requirements.

These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

(thousands of Ukrainian hryvnia, unless otherwise stated)

23. Commission income and expense

2019	*Corporate banking*	*SMB*	*Retail banking*	*Interbank and investments business*	*Unallocated*	*Total*
Commission income						
Cash and settlement service	362,762	243,069	112,154	62	–	718,047
Transactions with banks	–	–	137,418	24,363	–	161,781
Guarantees and letters of credit	138,261	5,078	–	2,795	–	146,134
Credit servicing commission	10,506	2,548	35	–	–	13,089
Other	659	2,376	38,181	1,787	–	43,003
Total commission income	512,188	253,071	287,788	29,007	–	1,082,054
Commission expense						
Cash and settlement service	(203,900)	(64,817)	(146,489)	(3,097)	(370)	(418,673)
Currency conversion	(364)	(426)	(4,680)	–	–	(5,470)
Guarantees and letters of credit	(1,734)	(65)	(1,689)	–	–	(3,488)
Other	(2)	(17)	(18)	(2,598)	–	(2,635)
Total commission expenses	(206,000)	(65,325)	(152,876)	(5,695)	(370)	(430,266)

2018	*Corporate banking*	*SMB*	*Retail banking*	*Interbank and investments business*	*Unallocated*	*Total*
Commission income						
Cash and settlement service	311,213	242,650	119,847	35	–	673,745
Transactions with banks	–	–	132,419	22,538	–	154,957
Guarantees and letters of credit	109,494	4,748	–	2,458	–	116,700
Credit servicing commission	9,897	2,128	4	–	–	12,029
Other	521	2,223	35,935	1,711	–	40,390
Total commission income	431,125	251,749	288,205	26,742	–	997,821
Commission expense						
Cash and settlement service	(158,209)	(65,356)	(127,090)	(3,590)	(401)	(354,646)
Guarantees and letters of credit	(4,675)	(285)	(2,040)	–	–	(7,000)
Currency conversion	(308)	(416)	(4,707)	–	(6)	(5,437)
Other	(14)	(24)	(5)	(3,222)	–	(3,265)
Total commission expenses	(163,206)	(66,081)	(133,842)	(6,812)	(407)	(370,348)

(thousands of Ukrainian hryvnia, unless otherwise stated)

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2019	*2018*
Salaries and bonuses	1,299,010	1,128,988
Mandatory contributions to the state funds	221,629	205,035
Personnel expenses	1,520,639	1,334,023
Payables to the Individual Deposit Guarantee Fund	255,776	246,968
Repair and maintenance of property and equipment	131,278	127,586
Loss on decrease in fair value of investment property	117,657	30,359
Security	54,973	50,075
Operating taxes	41,264	49,150
Maintenance of premises	38,407	39,899
Electronic and data processing costs	29,741	30,573
Expenses for cash collection	21,356	23,196
Administrative expenses	20,792	21,155
Communication services	16,004	14,299
Losses on impairment of non-financial assets	14,449	7,694
Rent of premises	14,303	22,023
Legal and advisory services	13,575	19,227
Marketing and advertising	8,994	2,522
Business travel and related expenses	7,902	6,312
Charity	7,445	4,538
Representative offices expenses	3,933	4,126
(Gains)/losses on impairment of non-financial assets	(521)	550
Other	69,468	46,307
Other operating expenses	866,796	746,559

Expenses for payment to the non-state pension fund in 2019 amounted to UAH 22,746 thousand (2018: UAH 18,536 thousand).

25. Risk management

Introduction

The risk management system is key to ensuring the Bank’s sustainable operations and provides for a continuous risk analysis in order to make timely and adequate management decisions to mitigate risks and reduce the related expenses.

In 2019, the Bank’s operations were impacted by the same risk factors as those impacted the activities of other banking institutions and the banking system of Ukraine as a whole, in particular, external factors (macro factors, including economic and legislative ones) had a significant impact.

The Bank’s risk management system is comprehensive and built with regard to the Bank’s size, types and scale of operations, as well as the complexity, nature and scope of its transactions, risk profile and systemic importance of the Bank. The Bank and its governing bodies constantly ensure the measures for the sustainable development of a risk management culture and the effective functioning of the Bank’s risk management system.

The Bank’s risk management system covers the following types of risks:

- Credit risk
- Liquidity risk;
- Interest risk in the banking book;
- Market risk;
- Operational risk.

25. Risk management (continued)

Introduction (continued)

Risk management structure

The Bank's risk management system is based on a segregation of responsibilities between all stand-alone structural and separate units of the Bank using the three line protection model. The Supervisory Board is ultimately responsible for establishment and approval of objectives in risk and capital management and approval of the risk management strategy. The new composition of the Bank's Supervisory Board was formed in 2019 in accordance with the new legal requirements for governing bodies of state-owned banks.

The Bank has separate independent units responsible for risk management and monitoring. The following collegiate bodies and structural subdivisions are responsible for the risk management process at the Bank: Risk Committee of the Supervisory Board, Management Board, Assets and Liabilities Committee ("ALCO"), Credit Committee, Retail Business Committee, Distressed Asset Management Committee, Risk-management Divisions, Treasury Division, Securities Division, Internal Audit Division, Assets and Liabilities Division. At that, the risk management is carried out at the Bank's all organizational levels, including by involving every employee of the Bank in the risk management process.

The Bank's risk management system is regulated by a number of the Bank's risk management regulations, including risk management strategy, risk management policies (for various types of risk), credit risk limits, appetite limits, appropriate methodologies, models, rules, procedures, etc., most of which were updated by the Bank in 2019 with due regard to the requirements of Resolution # 64 of the Board of the National Bank of Ukraine of 11 June 2018.

Risk management at the Bank is carried out by identifying, assessing, continuous and qualitative risk analysis, identifying and establishing an acceptable level of risk (including limits for each type of risk), risk prediction, capital amount estimation based on the results of risk assessment and/or forecasting (including stress testing), risks monitoring and control through taking into account their level of acceptability for each type of risk, implementation of measures to mitigate/reduce the level of risks and reporting on risks to the Bank's management, including the Supervisory Board, Risk Committee of the Supervisory Board, Management Board and other collegial bodies of the Bank (on a daily, monthly and quarterly basis).

The Bank ensures constant monitoring of risks, their levels, as well as actual implementation of measures aimed at minimizing risks and their effectiveness. Cases of violation of risk limits/indicators and significant increase in risk (maximum approximation of actual risk levels to the established limits), this is communicated to the authorised collegial bodies of the Bank, including the Management Board and Supervisory Board.

Risk measurement and reporting systems

The Bank's risks are measured using methods, which reflect both the expected loss under normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios reflecting the impact of emergency events with a low probability of occurrence. The Bank carries out back-testing of the models to checks their adequacy.

Risks are monitored and controlled primarily based on limits established by the Bank, which reflect the level of risk that the Bank is willing to accept, including in respect of certain industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

The dedicated committees of the Management Board (Credit Committee, ALCO) and the Management Board, on a monthly basis, and the Supervisory Board, on a quarterly basis, receive a detailed risk report to provide all relevant information to allow relevant collegial and management bodies to assess the Bank's risks, draw appropriate conclusions and, if necessary, make appropriate management decisions.

For all levels of the Bank's management, various risk reports are prepared in order to provide comprehensive, relevant and up-to-date information to all of the Bank's units.

25. Risk management (continued)

Introduction (continued)

Risk concentration

Concentration arises when a number of counterparts are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics, which determine their ability to meet contractual obligations that are equally affected by the changes in economic, political or other environment. Concentration indicates the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

To avoid excessive concentrations of risks, the Bank's internal policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified risks concentration is duly controlled and managed.

Credit risk

The Bank takes on the exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers. Such risks are monitored on a continuous basis and are subject to a regular review.

Credit risk management is primarily aimed at ensuring fulfilment of liabilities by the Bank's customers (counterparties) in the form, amount and within time periods adequate for maintaining liquidity, yield and capital adequacy ratios within the limits acceptable for the Bank.

The credit risk management includes the following:

- ► Setting credit risk critical thresholds and credit risk appetite limits, concerning which, the authority limits are set;
- ► Providing loans or undertaking loan related commitments solely in accordance with the approved Credit Policy and the Bank's internal regulations;
- ► Assessing credit risk within the established credit risk level in accordance with the requirements of the National Bank of Ukraine and determining allowances in accordance with IFRS, creating and maintaining allowances for impairment in amounts not lower than the Bank's best estimates;
- ► Constant monitoring of actual values of the key credit risk exposures at the level of individual loans/commitments, certain credit portfolios and total credit portfolio, including over time with identification of significant changes and their causes.

Individual credit risk

Individual credit risk is a risk which can be attributed to a particular transaction or counterparty.

Individual credit risk is managed through: loan and customer (or counterparty) classification via the system of internal credit ratings determined on the basis of the financial (quantitative) and non-financial (qualitative) data about customer (counterparty) taking into account warning signals and the Parent Company support and also by evaluation and monitoring of collateral value and liquidity; setting credit risk limits and monitoring compliance with the limits; creation of adequate allowance for asset's impairment.

The Bank's credit policy determines the type of collateral required for a particular transaction, industry or customer. The major types of collateral include: guarantees of primary banks, deposits with the Bank, real estate property and pledges of equipment or vehicles. The Bank requires obligatory insurance of collateral to be provided by the customer.

In order to limit individual credit risk, the Bank sets the following limits: maximum volume of credit transactions (loans, securities, receivables) per single counterparty (or group of related counterparties), including off-balance sheet liabilities; maximum volume of credit transactions (loans, securities, receivables) for one related party, including off-balance sheet liabilities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

Portfolio credit risk

Portfolio credit risk is the risk typical for a group of credit transactions (loans, securities, receivables) and group of counterparties with similar credit characteristics.

Portfolio credit risk management is exercised through: classification on the basis of an internal system of ratings, monitoring of the credit portfolio structure (by credit ratings of customers, industries, etc.); establishment of concentration limits and appropriate monitoring and control thereof; diversification of credit portfolio (both by industry and customer category).

The diversification of credit portfolio is provided through establishment of the following limits: by industry; by maximum total volume of "large" loans (which constitute 10% or more of the regulatory capital of the Bank as to each counterparty or group of related counterparties); by maximum total amount of loans issued to customers; The Bank monitors credit portfolio concentration per credit rating of customers; total indebtedness of 5 largest customers; total indebtedness of 10 largest customers; total indebtedness of 50 largest customers.

Credit-related commitment risks

The Bank issues financial guarantees to its customers, under which the Bank may be required to make payments on behalf of the relevant customers. These guarantees expose the Bank to risks similar to credit risks which are mitigated by similar control procedures and principles.

The Bank undertakes to effect payment against presentation of complying documents under letters of credit. Uncovered letters of credit expose the Bank to risks similar to credit risks which are mitigated by similar control procedures and principles.

The maximum exposure to credit risk for the components of the consolidated statement of financial position (consolidated balance sheet) before the effect of mitigation through the use of collateral agreements, is best represented by their carrying amounts.

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

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Impairment of financial assets

Assessment of expected credit losses

The Bank to recorgnises an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as credit-related commitments and financial guarantees ("financial instruments"). Equity instruments are not subject to impairment.

The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis.

Assessment of whether the credit risk has increased significantly by considering the change in the risk of default occurring over the remaining life of the financial instrument, identification of default events and calculation of allowance is made by the Bank at the end of each reporting period (monthly).

25. Risk management (continued)

Impairment of financial assets

The Bank groups its financial instruments, for which ECL is measured, as described below:

Stage 1	When financial instruments are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from other Stages.
Stage 2	When a financial instrument has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 financial instruments also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3	Financial instruments considered credit-impaired. For such financial instruments, the Bank records an allowance for the LTECL.
POCI (POCI)	Purchased or originated credit impaired (POCI) financial assets are assets that are credit impaired on initial recognition. POCI financial assets are recorded at fair value at initial recognition and interest income 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 expected credit losses.

Calculation of expected credit losses

To identify whether the credit risk has increased significantly from the moment of the initial recognition of a financial instrument, the Bank uses the defined lists of the events that have the signs of the increased credit risk. Irrespective of whether or not the events that have the signs of the increased credit risk occur, it is deemed that the performance of financial liabilities delayed for more than 30 days is the evidence that the credit risk has increased significantly from the moment of the initial recognition of a financial instrument.

The Bank considers that the event of default has occurred in relation to a financial instrument and, respectively, allocates such asset to Stage 3 (credit-impaired asset) where the borrower has delayed the performance of its financial liabilities for more than 90 days and where the interest due dates have been restructured (for more than 90 days) or where the borrower has been declared bankrupt. Where the conditions for a credit-impaired asset are revised and the modification does not result in derecognition of financial assets, such assets remain in Stage 3 until the specified below criteria of absence of default are met.

If the borrower's financial position is improved and its solvency is restored, the asset may be excluded from default when the following major criteria are met:

- Repayment of liabilities overdue more than 90 days that resulted in the recognition of a default and the absence of overdue payments more than 7 days during the last 6 consecutive months as at the reporting date;
- Settlement of payments postponed as part of restructuring (with respect to accrued interest payment) or payment of income in the amount more than the amount of income that was restructured;
- Repayment of debt in the amount not less than 50% of debt at the date of restructuring.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

Probability of Default (PD)	The Probability of Default is an estimate of the likelihood of default over a given time horizon.
Exposure at Default (EAD)	The Exposure at Default is an estimate of the exposure at default. In the ECL calculation for the entire lifetime of a financial instrument, its expected changes after the reporting date are considered, including the provision/repayment of the debt principal, accrual and payment of interest.
Loss Given Default (LGD)	The Loss Given Default is an estimate of the loss arising in the case where a default occurs. LGD is based on the difference between the contractual cash flows due and the one that the Bank would expect to receive, including from the realisation of any collateral.

Depending on the qualities of a financial instrument, the Bank calculates ECL either on an individual basis (scenario analysis) or a collective (portfolio) basis.

25. Risk management (continued)

Impairment of financial assets (continued)

The Bank calculates ECLs on an individual basis for all stage 2 or stage 3 assets of the borrowers whose debt to the Bank is significant (equivalent to over UAH 300,000 thousand), of bank borrowers, and the assets, which at the moment of derecognition of an initial instrument and recognition of a new one were classified as POCI. As part of the scenario analysis, the Bank calculates ECL based on the forecast of the cash flows discounted using the effective interest rate with due consideration of the period of cash flow proceeds. During calculation, the likelihood that the scenario will be implemented in an upside case, base and downside cases is considered.

The Bank calculates ECL on a collective (portfolio) basis for all other assets grouped by the respective features, including by the credit risk profile, and uses for calculation the models relevant for the respective group and relies on a broad range of forward looking information as economic inputs.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

For the off-balance sheet financial instruments, the allowance is calculated similar to that for the balance–sheet financial instruments, with due consideration of a conversion rate.

Debt instruments at fair value through other comprehensive income

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remain 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.

Purchased or originated credit impaired financial assets

For purchased or originated credit impaired assets, the Bank recognises as estimated ECL allowance only changes in ECL accumulated from the initial recognition for the entire term.

Internal rating and probability of default assessment process

The Bank applies an approach to assess of probability of default (PD) for corporate borrowers, which involves the calculation of probability of default (PD) and rating class (PD-Rate) ranging from 1 to 17 (17 grades). Rating class 1-14 corresponds to not default, rating class 15-17 corresponds to default (probability of default is 100%).

The following information is used to calculate the borrowers/Group rating:

- Financial statements data;
- Answers to non-financial issues;
- Warning signals in respect of the borrower (high risk factors);
- Information on the level of support from the Group (parent company support level, if any).

The estimated probability of default (PD) and rating class (PD-Rate) are determined on the basis of the quantitative (financial model) and qualitative (non-financial model) factors, the weight of the model factors is 80% and 20%, respectively. The estimated rating is modified (decreased) using the warning signals and taking into account the parent company support (increased or decreased), if any.

The rating system is revised (validation and adjustment, if required) on an annual basis.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Impairment of financial assets (continued)

The Bank uses the following levels of internal credit rating (rating class) to assess the assets of corporate borrowers.

Internal rating class (PD-Rate)	*Probability of default (PD)*	*Internal rating description*
From 1 to 7	Up to 1.80%	High rating
From 8 to 9	From 1.81% to 4.16%	Standard rating
From 10 to 14	From 4.17% to 99.9%	Low rating
From 15 to 17	100%	Credit-impaired assets (default)

In the following table, for the exposures of foreign credit institutions, high rating is equal to or higher than BBB- rating by Fitch, standard rating is below BBB-, but higher than CCC+, substandard rating is equal to or lower than CCC+ by Fitch. The probability of default (PD) for the respective rating levels is calculated as the average of the actual defaults over the past five years according to Standard & Poor’s, an international rating agency, statistics. In case of a zero value of actual defaults for the respective ratings, the nearest non–zero value of the default level is used. The statistics are reviewed on an annual basis.

The Bank uses the following external credit ratings to assess foreign credit institutions

Standard & Poor’s rating	*Probability of default (PD), average level for the last five years*	*Rating description*
From AAA to BBB-	Up to 0.012%	High rating
From BB+ to B-	From 0.0121% to 1.78%	Standard rating
From CCC+ to C	From 1.79% to 99.9%	Low rating
R; SD; D	100%	Credit-impaired assets (default)

Exposure at Default (EAD)

For Stage 1, the exposure at default (EAD) is equal to the gross carrying amount of a financial instrument at the calculation date.

For Stages 2 and 3, EAD is calculated for the entire lifetime of the asset, with the principal, future interest and accumulated depreciation determined on the basis of the repayment schedule.

For credit products having no repayment schedules (such as revolving credit lines, credit cards), the EAD is constant in time and is equal to the current gross carrying amount of the loan.

The EAD for credit related commitments and other financial liabilities is calculated based on a credit conversion factor (CCF).

Loss Given Default (LGD)

Loss given default (LGD) is one of credit risk components on the basis of which the expected credit losses are estimated and shows a share of current loan debt which the bank would lose irrevocably in the event of default of a borrower with regard to the existing collateral for the loan and other characteristics of loan and borrower. The main acceptable repayment sources are as follows: repayment through enforcement of collateral (by types of collateral) and cash repayment (by business lines of the borrowers’ activities), less the coefficient of expenses for work with the Bank’s non-performing portfolio. The coefficients are calculated based on the bank’s own statistics for the period of at least 7 years. The statistics and coefficients are reviewed and updated on an annual basis.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Impairment of financial assets (continued)

Impact of macroeconomic indicators

Under IFRS 9, the Bank takes into account in its estimates of expected credit losses the forecasts of future economic conditions with regard to the link between macroeconomic factors and an integral index of the credit portfolio quality. The actual rate of defaults for the year (by segments) calculated as the ratio of the number of loans that became defaulted during the year to the number of loans that were not defaulted at the beginning of the year, is taken as an integral indicator of the loan portfolio quality. The following indicators and their modifications (change for the year, quarter, time lag) can be taken as macroeconomic factors: Consumer Price Index, GDP growth, export/import growth, etc. The following data serve as the sources of information on the actual and projected macroeconomic indicators: inflation report and other statistical reports of the NBU, the State Statistics Service of Ukraine, IMF and World Bank data, etc. The statistics and macro coefficients are reviewed and updated at least once every six months. Upon the results of review, the macro model coefficients (probability of default adjustment indicators) are determined.

The table below shows the current coefficients of the macro model with regard to segments (business units).

Segment	*2020*	*2021*	*2022 and subsequent years*
Corporate banking	0.50	0.64	0.74
Small and medium-sized business	0.80	0.76	0.67
Retail banking	0.90	0.85	0.77

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Impairment of financial assets (continued)

Credit quality by category of financial assets

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 asset for loan-related lines in the statement of financial position, based on the Bank’s credit rating system.

At 31 December 2019	*Note*	*Stage*	*High rating*	*Standard rating*	*Low rating*	*Credit-impaired*	*Total*
Financial assets							
Cash and cash equivalents (except for cash in hand)	6	1	28,229,546	3,818,382	51,438	–	32,099,366
Amounts due from credit institutions	9	1	212,440	20	48,255	–	260,715
		3	–	–	–	818,147	818,147
Loans to customers	10						
Commercial loans		1	18,600,788	13,701,334	2,274,155	–	34,576,277
		2	68,320	515,974	2,945,950	–	3,530,244
		3	–	–	–	64,076,926	64,076,926
		POCI	–	–	–	4,013,187	4,013,187
Overdrafts		1	417,753	335,222	126,577	–	879,552
		2	512	10,446	–	–	10,958
		3	–	–	–	451	451
Finance lease receivables		1	–	2,340,816	56,369	–	2,397,185
		2			137		137
		3	–	–	–	4,645	4,645
Promissory notes		1	58,089	–	–	–	58,089
Investment securities	11						
- at fair value through other comprehensive income		1	22,656,710	–	–	–	22,656,710
		3	–	–	–	4,218,021	4,218,021
Other financial assets (except for transit accounts on transactions with payment cards)	16	1	–	–	102,702	–	102,702
		3	–	–	–	302,952	302,952
Total financial assets			70,244,158	20,722,194	5,605,583	73,434,329	170,006,264
Financial liabilities	22						
Financial guarantees		1	541,695	262,502	14,000	–	818,197
		2	2,369	10,242	–	–	12,611
Undrawn loan commitments		1	5,332,188	2,654,928	176,912	–	8,164,028
		2	6,225	5,425	708	–	12,358
		3	–	–	–	630,489	630,489
Letters of credit (except for coverage accounts)		1	17,915	30,094	–	–	48,009
Avals on promissory notes		1	50,466	127,803	–	–	178,269
Total financial liabilities			5,950,858	3,090,994	191,620	630,489	9,863,961
Total			76,195,016	23,813,188	5,797,203	74,064,818	179,870,225

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Impairment of financial assets (continued)

At 31 December 2018	*Note*	*Stage*	*High rating*	*Standard rating*	*Low rating*	*Credit-impaired*	*Total*
Financial assets							
Cash and cash equivalents (except for cash in hand)	6	1	17,290,562	78,274	22,947	–	17,391,783
Amounts due from credit institutions	9	1	368,985	136,242	80,294	–	585,521
		3	–	–	–	830,241	830,241
Loans to customers	10						
Commercial loans		1	34,159,501	12,779,454	4,825,625	–	51,764,580
		2	30,529	31,858	2,877,277	–	2,939,664
		3	–	–	–	77,919,032	77,919,032
		POCI	–	–	–	1,707,874	1,707,874
Overdrafts		1	727,853	623,928	32,620	–	1,384,401
		2	10,356	1,551	371	–	12,278
		3	–	–	–	61,293	61,293
Finance lease receivables		1	–	1,331,638	24,614	–	1,356,252
		3	–	–	–	4,645	4,645
Promissory notes		1	74,717	–	–	–	74,717
Investment securities	11						
- at fair value through other comprehensive income		1	35,794,632	–	–	–	35,794,632
		3	–	–	–	4,218,021	4,218,021
- at amortised cost		1	49,855	–	–	–	49,855
Other financial assets (except for transit accounts on transactions with payment cards)	16	1	–	57,239	87,703	–	144,942
		3	–	–	–	302,952	302,952
Total financial assets			88,506,990	15,040,184	7,951,451	85,044,058	196,542,683
Financial liabilities	22						
Financial guarantees		1	357,351	542,451	11,000	–	910,802
		2	2,769	5,100	–	–	7,869
Undrawn loan commitments		1	3,143,809	1,873,087	458,904	–	5,475,800
		2	5,728	260	676	–	6,664
		3	–	–	–	106,298	106,298
Letters of credit (except for coverage accounts)		1	–	60,204	–	–	60,204
Avals on promissory notes		1	169,571	179,875	–	–	349,446
Total financial liabilities			3,679,228	2,660,977	470,580	106,298	6,917,083
Total			92,186,218	17,701,161	8,422,031	85,150,356	203,459,766

The Bank's policy is to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Analysis of collateral

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, real estate, inventories, etc. The Bank's accounting policy for collateral assigned to it through its lending arrangements did not change during the reporting year. Collateral, unless repossessed, is not stated in the Bank's consolidated statement of financial position (consolidated balance sheet). However, the fair value of collateral affects the calculation of ECLs. The fair value of collateral received is valued at inception with subsequent revaluation: real estate, land, vehicles, equipment are revalued at least once every twelve months, other property is revalued not less than once every six months.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Impairment of financial assets (continued)

The Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indexes.

Collateral repossessed

The Bank's accounting policy for repossessed collateral remained the same during the reporting year. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations, obtaining lease payments, or should be sold. Assets determined to be useful for the internal operations are transferred to the property and equipment category, assets determined to be held for obtaining lease payments are transferred to investment property category and are recognised at fair value. Assets for which selling is determined to be a better option are measured at fair value (for financial assets) and fair value less cost to sell (for non-financial assets).

Write-offs

The Bank's accounting policy for write-offs remained the same during the reporting year. In accordance with the Ukrainian law, loans may only be written off with the approval of the Bank's Board. The Bank does not use the partial write-off of assets. Financial assets are written off in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

The table below provides an analysis of the market value of collateral for credit-impaired assets (Stage 3), which is taken into account by the Bank for the purpose of asset impairment assessment at an amount not exceeding the carrying amount of the loan.

		Collateral market value									
At 31 December 2019	*Maximum exposure at risk*	*Cash/ deposits*	*Real estate*	*Land*	*Vehicles*	*Equipment*	*Goods / other movable property*	*Excessive collateral*	*Total collateral*	*Net exposure at risk*	*Relevant ECLs*
Commercial loans	68,090,113	2,118	11,517,620	580,690	54,533	5,377,876	709,995	(4,003,177)	14,239,655	53,850,458	55,594,106
Overdrafts	451	–	–	–	–	–	–	–	–	451	372
Total	68,090,564	2,118	11,517,620	580,690	54,533	5,377,876	709,995	(4,003,177)	14,239,655	53,850,909	55,594,478

		Collateral market value									
31 December 2018	*Maximum exposure at risk*	*Cash/ deposits*	*Real estate*	*Land*	*Vehicles*	*Equipment*	*Goods / other movable property*	*Excessive collateral*	*Total collateral*	*Net exposure at risk*	*Relevant ECLs*
Commercial loans	79,626,906	2,147	14,766,351	660,341	789,873	5,156,885	310,437	(2,784,510)	18,901,524	60,725,382	63,368,810
Overdrafts	61,293	–	27,149	468	130	86,503	6,012	(59,291)	60,971	322	3,066
	79,688,199	2,147	14,793,500	660,809	790,003	5,243,388	316,449	(2,843,801)	18,962,495	60,725,704	63,371,876

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. The Bank considers the loan restructured if the modifications made as a result of existing or expected financial difficulties of the borrower are those that the Bank would not agree in the event of the borrower's financial solvency. Restructuring may include extending repayment terms and agreeing on new loan terms. Once the terms of loan have been renegotiated, the loan is no longer considered overdue. Management continually analyses the renegotiated loans to ensure that all criteria and options for future payments are met.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Geographical concentration

Geographical concentration of the Bank’s financial assets and liabilities is provided below:

	31 December 2019			
	Ukraine	*OECD countries*	*CIS countries and other non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	10,187,595	23,201,459	80,881	33,469,935
Amounts due from credit institutions	43,758	188,822	23,592	256,172
Loans to customers	53,285,804	–	–	53,285,804
Investment securities:				
- at fair value through profit or loss	25,731,949	–	–	25,731,949
- at fair value through other comprehensive income	22,633,899	–	–	22,633,899
Other financial assets	199,083	228	293	199,604
	112,082,088	23,390,509	104,766	135,577,363
Liabilities				
Amounts due to credit institutions	791,560	21,031,227	2,975	21,825,762
Amounts due to customers	76,146,260	268,198	711,361	77,125,819
Eurobonds issued	–	26,553,076	–	26,553,076
Subordinated debt	–	5,429,914	–	5,429,914
Other financial liabilities	99,536	3,083	–	102,619
	77,037,356	53,285,498	714,336	131,037,190
Net position	35,044,732	(29,894,989)	(609,570)	4,540,173
Credit related commitments (Note 22)	9,719,548	2,613	–	9,722,161

	31 December 2018			
	Ukraine	*OECD countries*	*CIS countries and other non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	4,132,482	14,288,606	124,770	18,545,858
Amounts due from credit institutions	182,771	334,641	52,478	569,890
Loans to customers	72,496,358	–	–	72,496,358
Investment securities:				
- at fair value through profit or loss	26,653,561	–	–	26,653,561
- at fair value through other comprehensive income	35,789,095	–	–	35,789,095
- at amortised cost	49,855	–	–	49,855
Other financial assets	226,811	251	239	227,301
	139,530,933	14,623,498	177,487	154,331,918
Liabilities				
Amounts due to credit institutions	1,698,941	22,706,497	475	24,405,913
Amounts due to customers	81,136,411	304,900	721,813	82,163,124
Eurobonds issued	–	42,541,905	–	42,541,905
Subordinated debt	–	3,584,690	–	3,584,690
Other financial liabilities	72,590	4,061	–	76,651
	82,907,942	69,142,053	722,288	152,772,283
Net position	56,622,991	(54,518,555)	(544,801)	1,559,635
Credit related commitments (Note 22)	6,753,705	3,835	–	6,757,540

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Liquidity risk

The liquidity risk is the risk of an inability to finance growth of the Bank's assets and to fulfil its own obligations when they fall due.

The main purpose of liquidity risk management is to ensure the ability of the Bank to fulfil its obligations when they fall due by maintaining acceptable (manageable) liquidity gaps.

Liquidity risk management is performed:

- Either on the long-term basis that is focused on ensuring appropriate liquidity levels in the short and long-term time horizon;
- Or on the short-term basis that is focused on ensuring appropriate level of instant and current liquidity taking into consideration estimated and unpredictable cash flow changes.

Liquidity risk management includes determination of acceptable levels of maturity gaps (by currency) and also:

- Setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key liquidity risk indicators;
- Permanent monitoring of actual key liquidity risk indicators;
- Undertaking adequate corrective actions if actual key liquidity risk indicators approach their critical and/or threshold levels.

In addition, the Bank assesses liquidity based on certain liquidity ratios established by the NBU.

	31 December 2019, %	*31 December 2018, %*
N4 "Instant Liquidity Ratio" (cash in hand, balances on nostro accounts with banks and unpledged deposit certificates of the National Bank of Ukraine, unpledged Ukrainian state bonds / balances on customers' current accounts) (minimum required by the NBU – 30%)	–	77.58
N5 "Current Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on bank with residual maturity of up to 31 days and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU – 40%)	–	127.09
N6 "Short–Term Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on bank with residual maturity of up to 1 year and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU – 60%)	112.5	122.71
LCR "Liquidity coverage ratio" on all currencies (AC) and in foreign currency (FC) (high–quality liquid assets/ net estimated cash outflow within 30 calendar days: difference of aggregate expected cash outflows and aggregate expected cash inflows where aggregate expected inflows are taken at the amount not more than 75% of the total expected outflows using the expected outflow and expected inflow rates established by the National Bank of Ukraine)		
Minimum required by the NBU as at 1 December 2019:		
LCRAC – 100% on all currencies	839.04	584.18
LCRFC – 100% in foreign currency	567.7	234.71

The National Bank of Ukraine cancelled Instant Liquidity Ratio (N4) and Current Liquidity Ratio (N5) starting 2 September 2019.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations. Less than 3 month liabilities are those that are due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous periods.

Assets and liabilities As at 31 December 2019	*Less than 3 months*	*From 3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Amounts due to credit institutions	3,162,265	4,886,496	9,842,270	8,754,982	26,646,013
Amounts due to customers	60,628,429	16,316,811	1,121,471	79,996	78,146,707
Eurobonds issued	1,027,151	4,626,946	24,775,925	930,447	31,360,469
Subordinated debt	1,614,327	564,674	2,403,781	3,618,211	8,200,993
Other liabilities	97,309	2,439	2,360	511	102,619
Including lease commitments	696	2,439	2,360	511	6,006
Credit-related commitments	1,238,653	562,729	257,034	–	2,058,416
Total undiscounted financial liabilities	67,768,134	26,960,095	38,402,841	13,384,147	146,515,217

Financial liabilities As at 31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Amounts due to credit institutions	3,490,331	3,462,914	13,554,745	11,016,920	31,524,910
Amounts due to customers	64,546,324	16,865,964	1,759,024	60,631	83,231,943
Eurobonds issued	1,143,461	14,740,427	32,386,055	3,418,583	51,688,526
Subordinated debt	164,786	165,469	3,916,244	–	4,246,499
Other liabilities	76,651	–	–	–	76,651
Credit-related commitments	1,332,907	1,158,452	496,789	33,703	3,021,851
Total undiscounted financial liabilities	70,754,460	36,393,226	52,112,857	14,529,837	173,790,380

The above table shows the timing of expiry dates of commitments and contingent financial liabilities of the Bank according to the respective agreements. The Bank expects that not all of the contingent liabilities or commitments will be drawn before their expiry. To limit liquidity risk arising from asymmetric prepayment and early repayment of the term assets and liabilities, the Bank incorporates in standard client agreements the conditions that motivate customers not to use the options of prepayment and early repayment.

Market risk

The Bank considers market risk as the aggregate of interest rate risk and currency risk, i.e. inability to secure excess of income (including interest income) over expenses (including interest expenses) by currency in volumes required to fulfil the Bank's obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank.

Interest rate risk

Interest rate risk is considered by the Bank as the inability to secure excess of interest income over interest expenses in volumes required to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the mismatch of interest receipts and interest payments by volumes or dates to be the main source of interest rate risk.

The Bank considers interest rate risk management as an integral part of the Bank's operations including the effect of negative impact by internal and external factors.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Interest rate risk (continued)

Interest rate risk management is aimed at securing the excess of interest income over interest expenses in volumes sufficient to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. Interest rate risk management is performed via:

- Setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) key interest rate risk indicators;
- Permanent monitoring of actual key interest rate risk indicators;
- Taking efficient measures if the actual key interest rate risk indicators approach their critical and/or threshold levels.

The sensitivity of the consolidated statement of profit and loss (consolidated income statement) reflects the effect of the acceptable changes in interest rates on the Bank's net interest income for one year determined based on the floating rate on non–trading financial assets and financial liabilities held at reporting date.

The table below demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's consolidated statement of profit and loss (consolidated income statement).

	31 December 2019				
Currency	*Interest rate basis*	*Increase in basis points*	*Effect on profit before tax*	*Decrease in basis points*	*Effect on profit before tax*
UAH	NBU	+100	–	-100	–
USD	LIBOR	+75	(87,705)	-75	87,705
EUR	LIBOR	+75	–	75	–
EUR	Euribor	+75	6,741	-75	(6,741)
Other	LIBOR	+75	107	-75	(107)
Other	Euribor	+75	–	-75	–
Total			(80,857)		80,857

	31 December 2018				
Currency	*Interest rate basis*	*Increase in basis points*	*Effect on profit before tax*	*Decrease in basis points*	*Effect on profit before tax*
UAH	NBU	+100	–	-100	–
USD	LIBOR	+75	(112,513)	-75	112,513
EUR	LIBOR	+75	–	-75	–
EUR	Euribor	+75	13,474	-75	(13,474)
Other	LIBOR	+75	127	-75	(127)
Other	Euribor	+25	–	-25	–
Total			(98,912)		98,912

To assess the possible effects of the acceptable changes in interest rates, the equity sensitivity on investment securities with fixed rate measured at fair value through other comprehensive income and classified at the 1 and 2 levels of the fair value hierarchy of the asset, the method of modified duration is used with the following assumptions: +/-400 b.p. for corporate bonds, +/-200 b.p. for Ukrainian state bonds denominated in local currency, +/-100 b.p. for Ukrainian state bonds in foreign currencies. As at 31 December 2019, the total effect of changes on the Bank's equity is: UAH (1,057,621) thousand / UAH 1,057,621 thousand (31 December 2018: UAH (1,269,953) thousand / UAH 1,269,953 thousand).

Sensitivity of net gain/(loss) on investment securities designated at fair value through profit or loss is calculated by the revaluation of financial instruments with fixed interest rate, and are revalued through profit/(loss) as at 31 December 2019 in terms of effects of acceptable changes in interest rates using the method of modified duration. The effect of changes in interest rate of +/-100 b.p. for Ukrainian state bonds on the Bank's income is UAH (832,206) thousand / UAH 832,206 thousand (31 December 2018: UAH (965,290) thousand / UAH 965,290 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Currency risk

The Bank considers currency risk as the inability to secure excess of foreign currency cash inflow over foreign currency cash outflow (by currency) in amounts required to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the inconsistency of fluctuations in foreign currency exchange rates to be the main source of currency risk.

Currency risk management is aimed at securing an excess of foreign currency cash inflow over foreign currency cash outflow at the level acceptable for the Bank and necessary for maintaining liquidity and capital adequacy risks within the range acceptable to the Bank, and is performed via:

- Setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) key credit risk indicators;
- Permanent monitoring of actual key currency risk indicators;
- Taking efficient measures if the actual key currency risk indicators approach their critical and/or threshold levels.

The tables below indicate the currencies to which the Bank has significant exposure at 31 December 2019 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against Hryvnia, with all other variables held constant on the consolidated statement of profit and loss (consolidated income statement) (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated statement of profit and loss (consolidated income statement). A negative amount in the table reflects a potential net reduction in consolidated statement of profit and loss (consolidated income statement) or equity, while a positive amount reflects a net potential increase.

	31 December 2019		*31 December 2018*	
Currency	*Change in currency rate, %*	*Effect on profit before tax*	*Change in currency rate, %*	*Effect on profit before tax*
UAH/USD	+9.00%	(1,052,478)	+7.00%	(165,460)
UAH/EUR	+11.00%	20,058	+10.00%	(18,841)
Total		(1,032,420)		(184,301)
UAH/USD	-9.00%	1,970,474	-7.00%	328,399
UAH/EUR	-11.00%	(20,058)	-10.00%	18,841
Total		1,950,416		347,240

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities

Levels of the fair value hierarchy

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as shown below:

	31 December 2019				
	Fair value measurement applied				
	Valuation date	*Quoted market prices (Level 1)*	*Valuation based on assumptions confirmed by observable data (Level 2)*	*Valuation based on assumptions not confirmed by observable data (Level 3)*	*Total*
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31 December 2019	–	15,201	–	15,201
Investment securities at fair value through profit or loss:					
Ukrainian state bonds	31 December 2019	–	25,731,949	–	25,731,949
Investment securities at fair value through other comprehensive income:					
Ukrainian state bonds	31 December 2019	–	22,254,733	–	22,254,733
Corporate bonds	31 December 2019	–	361,226	–	361,226
Corporate shares	31 December 2019	–	–	17,940	17,940
Investment property	31 December 2019	–	–	1,035,586	1,035,586
Buildings	1 December 2017	–	–	1,396,116	1,396,116
Liabilities measured at fair value					
Amounts due to customers in precious metals	31 December 2019	–	53,156	–	53,156
Assets for which fair value is disclosed					
Cash and cash equivalents	31 December 2019	5,132,055	28,337,880	–	33,469,935
Loans and deposits, other amounts due from credit institutions	31 December 2019	–	240,971	–	240,971
Loans to customers	31 December 2019	–	–	52,604,116	52,604,116
Other assets	31 December 2019	–	199,604	–	199,604
Liabilities for which fair value is disclosed					
Amounts due to credit institutions	31 December 2019	–	21,825,762	–	21,825,762
Amounts due to customers	31 December 2019	–	77,060,661	–	77,060,661
Eurobonds issued	31 December 2019	28,166,079	–	–	28,166,079
Subordinated debt	31 December 2019	5,573,947	–	–	5,573,947
Other liabilities	31 December 2019	–	102,619	–	102,619

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Levels of the fair value hierarchy (continued)

	31 December 2018				
	Fair value measurement applied				
	Valuation date	*Quoted market prices (Level 1)*	*Valuation based on assumptions confirmed by observable data (Level 2)*	*Valuation based on assumptions not confirmed by observable data (Level 3)*	*Total*
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31 December 2018	–	131,685	–	131,685
Investment securities at fair value through profit or loss:					
Ukrainian state bonds	31 December 2018	–	26,653,561	–	26,653,561
Investment securities at fair value through other comprehensive income:					
Ukrainian state bonds	31 December 2018	–	34,371,218	–	34,371,218
Corporate bonds	31 December 2018	–	1,401,274	–	1,401,274
Corporate shares	31 December 2018	–	–	16,603	16,603
Investment property	1 December 2018	–	–	1,153,243	1,153,243
Buildings	1 December 2017	–	–	1,415,253	1,415,253
Liabilities measured at fair value					
Amounts due to customers in precious metals	31 December 2018	–	66,045	–	66,045
Assets for which fair value is disclosed					
Cash and cash equivalents	31 December 2018	4,111,694	14,434,164	–	18,545,858
Loans and deposits, other amounts due from credit institutions	31 December 2018	–	438,205	–	438,205
Loans to customers	31 December 2018	–	–	69,630,486	69,630,486
Investment securities at amortised cost	31 December 2018	–	49,104	–	49,104
Other assets	31 December 2018	–	227,301	–	227,301
Liabilities for which fair value is disclosed					
Amounts due to credit institutions	31 December 2018	–	24,405,913	–	24,405,913
Amounts due to customers	31 December 2018	–	82,081,788	–	82,081,788
Eurobonds issued	31 December 2018	41,262,680	–	–	41,262,680
Subordinated debt	31 December 2018	3,448,469	–	–	3,448,469
Other liabilities	31 December 2018	–	76,651	–	76,651

Investment securities at fair value through profit or loss and investment securities at fair value through other comprehensive income

Fair value of investment securities through other comprehensive income (excluding shares) is measured at market prices of similar financial instruments quoted on active market.

Fair value of investment securities at fair value through profit or loss was determined using a valuation model, which inputs are observable data (exchange rate, volatility, interest rates).

Investment securities at fair value through other comprehensive income valued using a valuation technique or pricing models primarily consist of shares. These securities are valued using models which include only non–observable inputs. Non–observable inputs to the models include assumptions regarding the future financial performance of the investee and its risk profile.

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Fair value of financial assets and financial liabilities not carried at fair value

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 consolidated statement of financial position (consolidated balance sheet). The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2019			*31 December 2018*		
	Carrying amount	*Fair value*	*Unrecognised gain/(loss)*	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	33,469,935	33,469,935	–	18,545,858	18,545,858	–
Amounts due from credit institutions	240,971	240,971	–	438,205	438,205	–
Loans to customers	53,285,804	52,604,116	(681,688)	72,496,358	69,630,486	(2,865,872)
Investment securities at amortised cost	–	–	–	49,855	49,104	(751)
Other assets	199,604	199,604	–	227,301	227,301	–
Financial liabilities						
Amounts due to credit institutions	21,825,762	21,825,762	–	24,405,913	24,405,913	–
Amounts due to customers	77,072,663	77,060,661	12,002	82,097,079	82,081,788	15,291
Eurobonds issued	26,553,076	28,166,079	(1,613,003)	42,541,905	41,262,680	1,279,225
Subordinated debt	5,429,914	5,573,947	(144,033)	3,584,690	3,448,469	136,221
Other liabilities	102,619	102,619	–	76,651	76,651	–
Total unrecognised change in unrealised fair value			(2,426,722)			(1,435,886)

The following describes the methodologies and assumptions used to determine fair values for the financial instruments that are not recorded at fair value in the annual consolidated financial statements.

Assets fair value of which approximates carrying value

For the financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that their carrying values approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Movements in level 3 assets measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 assets which are recorded at fair value:

	At 1 January 2019	*Loss recognised in the consolidated statement of profit and loss (consolidated income statement)*	*Gain recognised in the consolidated statement of comprehensive income*	*Purchases*	*Settlements*	*At 31 December 2019*
Investment securities at fair value through other comprehensive income	16,603	394	1,337	–	(394)	17,940
Investment property	1,153,243	(117,657)	–	–	–	1,035,586
Buildings	1,415,253	(25,196)(d)	–	6,059(e)	–	1,396,116
Total assets	2,585,099	(142,459)	1,337	6,059	(394)	2,449,642

	At 1 January 2018	*Loss recognised in the consolidated statement of profit and loss (consolidated income statement)*	*Gain recognised in the consolidated statement of comprehensive income*	*Purchases*	*Settlements*	*At 31 December 2018*
Investment securities at fair value through other comprehensive income	15,097	–	2,066	–	(560)	16,603
Investment property	1,260,398	(6,127)[(a)]	–	3,081[(b)]	(104,109)[(c)]	1,153,243
Buildings	1,435,699	(25,136)[(d)]	–	4,690[(e)]	–	1,415,253
Total assets	2,711,194	(31,263)	2,066	7,771	(104,669)	2,585,099

(a) Loss from revaluation of investment property in the amount of UAH 117,657 thousand included in "Other operating expenses" (2018: loss in the amount of UAH 6,127 thousand comprises: loss from revaluation of investment property in the amount of UAH 30,359 thousand and UAH 27 thousand of write-off of the value of investment property included in "Other operating expenses", and gain on sale of investment property in the amount of UAH 24,259 thousand included in "Other income").

(b) Loss in the amount of UAH 25,196 thousand included in "Depreciation and amortisation" (2018: loss in the amount of UAH 25,136 thousand included in "Depreciation and amortisation").

(c) Purchases in the amount of UAH 4,690 thousand comprise transfers from capital investments to property and equipment.

Gains or losses on level 3 assets at fair value included in the profit or loss for the reporting period comprise:

	2019	
	Unrealised losses	*Total*
Investment property	(117,657)	(117,657)
Buildings	(25,196)	(25,196)
Total	(142,853)	(142,853)

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Movements in level 3 assets measured at fair value (continued)

	2018		
	Realised gains	*Unrealised losses*	*Total*
Investment property	24,259	(30,386)	(6,127)
Buildings	–	(25,136)	(25,136)
Total	24,259	(55,522)	(31,263)

The tables below shows the quantitative information as at 31 December 2019 and 31 December 2018 about significant unobservable inputs used for the fair valuation of assets classified as those of level 3 of the fair value hierarchy:

At 31 December 2019	*Carrying amount*	*Valuation technique*	*Unobservable parameter*	*Range of parameter values*
Investment securities at fair through other comprehensive income	17,940	Discounted cash flows	Expected profitability	19.2-20.4%
Investment property				
- real estate	532,286	Comparative, combination with income approach	sqm	UAH 1 thousand – UAH 43 thousand
- land	503,300	Comparative	are	UAH 2 thousand – UAH 1,800 thousand
Buildings				
- real estate	1,392,776	Comparative, income approach	sqm	UAH 1 thousand – UAH 29 thousand
- land	3,340	Comparative	are	UAH 110 thousand – UAH 286 thousand

At 31 December 2018	*Carrying amount*	*Valuation technique*	*Unobservable parameter*	*Range of parameter values*
Investment securities at fair through other comprehensive income	16,603	Discounted cash flows	Risk factor	Corporate: 0-1.0
Investment property				
- real estate	443,714	Comparative, combination with income method	sqm	UAH 1 thousand – UAH 39 thousand
- land	709,529	Comparative	are	UAH 1 thousand – UAH 2,388 thousand
Buildings				
- real estate	1,411,913	Comparative, income approach	sqm	UAH 1 thousand – UAH 30 thousand
- land	3,340	Comparative	are	UAH 110 thousand – UAH 286 thousand

(thousands of Ukrainian hryvnia, unless otherwise stated)

27. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 25 for the Bank's contractual undiscounted repayment obligations.

	31 December 2019			*31 December 2018*		
	Within 1 year	*More than one year*	*Total*	*Within 1 year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	33,469,935	–	33,469,935	18,545,858	–	18,545,858
Amounts due from credit institutions	20	256,152	256,172	519,294	50,596	569,890
Loans to customers	20,228,694	33,057,110	53,285,804	38,096,596	34,399,762	72,496,358
Investment securities:						
- at fair value through profit or loss	–	25,731,949	25,731,949	–	26,653,561	26,653,561
- at fair value through other comprehensive income	12,784,910	9,848,989	22,633,899	21,306,193	14,482,902	35,789,095
- at amortised cost	–	–	–	49,855	–	49,855
Tax assets	–	246,882	246,882	–	161,080	161,080
Investment property	–	1,035,586	1,035,586	–	1,153,243	1,153,243
Property and equipment	–	1,616,461	1,616,461	–	1,646,109	1,646,109
Intangible assets	–	59,173	59,173	–	54,266	54,266
Deferred income tax asset	–	1,463,771	1,463,771	–	2,033,021	2,033,021
Non-current assets held for sale	–	–	–	39,614	–	39,614
Other assets	546,692	–	546,692	2,451,523	–	2,451,523
Total	67,030,251	73,316,073	140,346,324	81,008,933	80,634,540	161,643,473
Liabilities						
Amounts due to credit institutions	4,603,338	17,222,424	21,825,762	3,059,773	21,346,140	24,405,913
Amounts due to customers	76,422,887	702,932	77,125,819	81,453,871	709,253	82,163,124
Eurobonds issued	979,166	25,573,910	26,553,076	1,252,106	41,289,799	42,541,905
Subordinated debt	162,793	5,267,121	5,429,914	132,730	3,451,960	3,584,690
Provision for credit-related commitments	49,062	–	49,062	71,796	–	71,796
Other liabilities	442,595	2,871	445,466	424,452	–	424,452
Including lease commitments	3,135	2,871	6,006	–	–	–
Total	82,659,841	48,769,258	131,429,099	86,394,728	66,797,152	153,191,880
Net amount	(15,629,590)	24,546,815	8,917,225	(5,385,795)	13,837,388	8,451,593

The maturity analysis does not reflect the historical stability of current accounts. Such accounts are closed during longer period than one specified in the tables above. These balances are included to amounts payable within one year.

Amounts due to customers include term deposits of individuals. In accordance with the Ukrainian law, the Bank is obliged to return term deposit on maturity date specified in the deposit agreement. The return of term deposit on customer's request prior to the date of maturity or occurrence of other events specified in the agreement could be done only cases provided for by the deposit agreement. The Bank expects that customers will not request term deposits early, thus these balances are included in disclosures above in accordance with their contractual maturities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

28. Presentation of financial instruments by measurement category

Assets by measurement categories as at 31 December 2019:

	Assets at fair value through other comprehensive income	*Assets at fair value through profit or loss*	*Assets at amortised cost*	*Total*
Cash and cash equivalents	–	–	33,469,935	33,469,935
Amounts due from credit institutions	–	15,201	240,971	256,172
Loans to customers	–	–	53,285,804	53,285,804
Investment securities:				
- at fair value through profit or loss	–	25,731,949	–	25,731,949
- at fair value through other comprehensive income	22,633,899	–	–	22,633,899
Other financial assets	–	–	199,604	199,604
Total	22,633,899	25,747,150	87,196,314	135,577,363

Assets by measurement categories as at 31 December 2018:

	Assets at fair value through other comprehensive income	*Assets at fair value through profit or loss*	*Assets at amortised cost*	*Total*
Cash and cash equivalents	–	–	18,545,858	18,545,858
Amounts due from credit institutions	–	131,685	438,205	569,890
Loans to customers	–	–	72,496,358	72,496,358
Investment securities:				
- at fair value through profit or loss	–	26,653,561	–	26,653,561
- at fair value through other comprehensive income	35,789,095	–	–	35,789,095
- at amortised cost	–	–	49,855	49,855
Other financial assets	–	–	227,301	227,301
Total	35,789,095	26,785,246	91,757,577	154,331,918

As at 31 December 2019 and 2018, all financial liabilities of the Bank were accounted for at amortised cost, except the attracted gold-denominated deposits accounted for at FVPL.

29. Related party transactions

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if they are under common control, or one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

Related parties may enter into the transactions, which unrelated parties might not. The terms and conditions of such transactions may differ from those between unrelated parties.

Transactions and balances with related parties comprise transactions with entities controlled, directly or indirectly, or significantly influenced by the Ukrainian Government and with the key management personnel.

(thousands of Ukrainian hryvnia, unless otherwise stated)

29. Related party transactions (continued)

The outstanding balances as at 31 December 2019 and 2018 and related income and expense for the years ended 31 December 2019 and 2018, are as follows:

	Key management personnel	
	31 December 2019	*31 December 2018*
Loans to customers, gross	153	429
Less: allowance for impairment	(1)	(14)
Loans to customers, net	152	415
Other assets	5	–
Current accounts	6,434	11,181
Time deposits	19,701	13,160
Amounts due to customers	26,135	24,341
Other liabilities	23	5

	Key management personnel	
	2019	*2018*
Interest income on loans	23	25
Interest expense on customer deposits	(1,008)	(708)
Commission income	14	16
Translation differences	4,007	(187)

In 2019, the aggregate remuneration and other benefits paid to key management personnel amount to UAH 75,682 thousand (UAH 802 thousand of payments to the non-state pension fund) (2018: UAH 49,107 thousand (UAH 424 thousand of payments to the non-state pension fund)).

In the normal course of business, the Bank enters into contractual agreements with the Government of Ukraine and entities controlled, either directly or indirectly, or significantly influenced by the state.

The Bank provides the government-related entities with a full range of banking service including, but not limited to, lending, deposit-taking, issue of guarantees, transactions with securities, cash and settlement transactions.

Balances with government-related entities which are individually significant in terms of the carrying value as at 31 December 2019 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Loans to customers*	*Amounts due to customers*	*Guarantees issued*
Client 1	State entities	–	–	4,041,851	–
Client 2	State entities	–	–	1,049,756	–
Client 3	State entities	–	–	614,338	–
Client 4	Agriculture and food industry	–	–	10,970,272	–
Client 5	Agriculture and food industry	–	720,824	–	–
Client 6	Finance	8,748,919	–	–	–
Client 7	Power engineering	–	4,581,405	–	–
Client 8	Extractive industry	–	4,337,341	–	–
Client 9	Mechanical engineering	–	2,103,673	–	542,352
Client 10	Mechanical engineering	–	–	–	282,719
Client 11	Transport and communications	–	2,308,319	–	–
Client 12	Trade	–	–	1,001,638	609,862
Client 13	Trade	–	–	–	506,954
Client 14	Trade	–	–	–	49,770
Client 15	Professional, scientific and technical activities	–	538,546	–	–
Other	–	–	1,030,327	6,702,779	–

(thousands of Ukrainian hryvnia, unless otherwise stated)

29. Related party transactions (continued)

Balances with government-related entities which are individually significant in terms of the carrying value as at 31 December 2018 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Loans to customers*	*Amounts due to customers*	*Amounts due to credit institutions*	*Guarantees issued*
Client 1	State entities	–	–	3,074,872	–	–
Client 2	State entities	–	–	1,695,382	–	–
Client 4	Agriculture and food industry	–	–	17,149,604	–	–
Client 5	Agriculture and food industry	–	1,452,146	–	–	–
Client 8	Extractive industry	–	14,301,076	790,050	–	–
Client 17	Extractive industry	–	2,162,457	997,126	–	–
Client 7	Power engineering	–	6,886,921	1,524,272	–	–
Client 6	Finance	2,952,279	–	–	–	–
Client 16	Finance	–	–	–	452,367	–
Client 9	Mechanical engineering	–	2,453,169	–	–	469,462
Client 10	Mechanical engineering	–	–	–	–	196,526
Client 12	Trade	–	–	1,452,994	–	777,844
Client 13	Trade	–	–	–	–	714,369
Client 14	Trade	–	–	–	–	84,490
Client 11	Transport and communications	–	1,302,138	564,863	–	–
Other	–	–	864,381	6,635,272	–	–

During the year ended 31 December 2019, the Bank recorded UAH 2,320,402 thousand of interest income under significant transactions with government-controlled entities (2018: UAH 2,986,770 thousand), including interest income of UAH 77,189 thousand under transactions with the NBU deposit certificates with maturity up to 90 days (2018: UAH 37,246 thousand) of interest income and UAH 1,161,189 thousand (2018 UAH 1,418,820 thousand) of interest expense.

As at 31 December 2019 and 2018, the Bank's investments in debt securities issued by the Government or the government-controlled entities were as follows:

	31 December 2019	*31 December 2018*
Investment securities at fair value through profit or loss	25,731,949	26,653,561
Investment securities at fair value through other comprehensive income	22,629,191	35,784,441
Investment securities at amortised cost	–	49,855

Carrying amount of Ukrainian state bonds included into investment securities at fair value through profit or loss and investment securities at fair value through other comprehensive income is disclosed in Note 11.

For the year ended 31 December 2019, the Bank recognised UAH 3,312,464 thousand of interest income on transactions with Ukrainian state bonds (2018: UAH 3,869,019 thousand) and UAH 253,734 thousand of interest income on transactions with other investment securities (2018: UAH 263,582 thousand).

30. Capital adequacy

The Bank manages extensively its exposures to ensure that it maintains an adequate capital level to cover the external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with the externally imposed capital requirements and maintains strong credit ratings and proper capital ratios in order to support its business activities and maximise the value to the shareholder.

The Bank manages its capital structure and adjusts its total assets to provide for observed and expected changes in the business environment and the risk profile of its business activities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

30. Capital adequacy (continued)

NBU capital adequacy ratio

The Bank's regulatory capital adequacy ratio was as follows:

	31 December 2019	*31 December 2018*
Main capital	7,259,391	7,266,802
Additional capital, calculated	6,432,082	3,880,435
Additional capital, included in calculation of total capital (limited to main capital)	6,432,082	3,880,435
Total regulatory capital	13,691,473	11,147,237
Risk weighted assets	67,763,579	87,452,131
Main capital adequacy ratio	10.71%	–
Regulatory capital adequacy ratio	20.20%	12.75%

The NBU introduced a main capital adequacy ratio starting from January 2019. The statutory main capital adequacy ratio should be not less than 7%.

Regulatory capital comprises Tier 1 capital (Main capital) consisting of paid-in registered share capital plus reserves less expected losses, and Tier 2 capital (Additional capital) consisting of asset revaluation reserve, current profit, subordinated debt and retained earnings. For regulatory capital calculation purposes, the qualifying Tier 2 capital amount is limited to 100% of Tier 1 capital.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratios computed in accordance with the Basel Capital Accord 1988 were as follows:

	31 December 2019	*31 December 2018*
Tier 1 capital	7,944,342	8,632,895
Tier 2 capital, calculated	4,945,054	2,587,524
Tier 2 capital, included in calculation of total capital	4,945,054	2,587,524
Total equity	12,889,396	11,220,419
Risk weighted assets	66,009,562	87,646,914
Tier 1 capital adequacy ratio	12.0%	9.8%
Total capital adequacy ratio	19.5%	12.8%