JOINT-STOCK COMPANY WEST FINANCE AND CREDIT BANK

Financial statements

for the year ended 31 December 2019

With the independent auditors' report

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Annual report of the management of JSC «CREDITWEST BANK».

The Bank's business model in the forecast period remains unchanged and the key strategic priorities in the Bank's activities are the following ones:

corporate business: servicing the segment of international companies and large companies of importers and exporters from different sectors of the economy, as well as the Bank plans to expand the range of customers by implementing environmental projects (using alternative energy sources with the support of the EIB), projects in the field of insurance, IT companies.

Strategic goals according to the strategy:

financing of customers' trading transactions by providing loans to companies with acceptable and low credit risk;

increasing the presence on the market without opening branches by signing agreements on the provision of highly qualified CRM services at their sites;

to reduce the burden on the personnel involved in customer service, the bank implemented a number of software complexes; remote maintenance and invests in Fintech project and digitalization;

maintaining efficiency of high-level risk management;

Increase of SME lending to 50% of the total loan portfolio.

CREDITWEST BANK, Ukraine (the 'Bank') is the first Turkish bank in Ukraine. The Bank strives to be the first in all spheres of business, success, ranking, social, personnel, corporate governance, industry, etc.

The most valuable and greatest capital is human capital. The Bank creates working conditions and an atmosphere where every employee who comes to office is responsible and takes care for customer transactions, therefore the Bank must maintain high social standards. Therefore, everything is focused on the development of the Bank and the activities of clients.

The Bank is working on building long-term, reliable, partner relations with clients.

The Bank complies with the law and does its utmost to ensure that it does not violate the law. When there is a choice to violate the law, but to obtain more profit for the bank, the Bank does not perform this transaction or does not serve this client. But the client must always be satisfied.

Accuracy and compliance with law make us a reliable partner. Our strict requirements for borrowers make our bank interesting in terms of reliability, solvency and attractiveness for depositors.

Throughout the time, the Bank quickly and properly adapted to market conditions, including those related to crisis, drastic changes in regulatory requirements. And it shows high results among our competitors.

The world is changing very rapidly today. The pace of IT development is extremely high. We are on the edge of radical global change.

The whole success of the Bank is the result of the following elements:

teamwork,

well-defined roles,

efforts made by each person,

positive and honest approach;

responsibility,

respect each other,

wise management,

discipline and compliance,

healthy lifestyle,

constant development.

The Bank does not conduct risky derivatives transactions. Transactions with assets on demand are held under the spot, forward, option and futures contracts, under which, in accordance with the terms and conditions of the agreement, the bank has the right to refuse to perform the obligation, including by set-off, and an obligation to make prepayment is charged to the counterparty of the bank.

Report on corporate governance of JSC «CREDITWEST BANK»

The main purpose of the creation and operation of the Bank is to provide a full range of banking services in accordance with the banking license issued by the National Bank of Ukraine and the receipt of profits in the interests of shareholders.

The Bank has the right to provide all types of banking and financial services (except for insurance services) permitted for provision by the applicable laws and the Charter.

The Bank independently determines the directions of its activity in accordance with the applicable legislation of Ukraine.

The Bank has the right to conduct banking activities only after obtaining a banking license. Upon obtaining of a banking license, the Bank is required to comply with licensing requirements throughout the entire duration of the banking license, including the requirements related to the amount of regulatory capital. The Bank carries out banking activities in accordance with the procedure established by the Law of Ukraine "On Banks and Banking Activities", normative legal acts of the National Bank of Ukraine and in accordance with the Charter and internal regulations of the Bank drafted pursuant to them.

The Bank, on the basis of a banking license, may provide the following banking services:

attraction of deposits (bank deposits) of funds and bank metals from an unlimited number of legal entities and individuals;

opening and maintenance of current (correspondent) accounts of clients, including those in bank metals, and conditional storage accounts (escrow);

placing of attracted deposits (bank deposits), including on current accounts, funds and bank metals on its own behalf, on its own terms and conditions and at its own risk.

The Bank has the right to provide financial services to its clients (except for banks), in particular by concluding agency agreements with legal entities (commercial agents). The list of financial services that the Bank has the right to provide to its clients (except for banks) by concluding agent agreements is established by the National Bank of Ukraine. The Bank is obliged to inform the National Bank of Ukraine about agency agreements entered into by it. The Bank is entitled to conclude an agency agreement with a legal entity that complies with the requirements established by the National Bank of Ukraine.

The Bank carries out the following credit transactions:

performance of transactions on the securities market on its own behalf;

provision of guarantees and suretyships and other obligations from third parties, which provide for their execution in monetary form;

and other obligations from third parties that provide for their execution in monetary form;

the acquisition of the right of claim to perform the obligations in monetary form for the delivered goods or rendered services, assuming the risk of performance of such claims and acceptance of payments (factoring);

leasing;

In addition to providing financial services, the Bank may also carry out activities related to:

investment;

storage of valuables or provision in property lease (lease) of an individual bank safe;

issue of own securities;

issue, distribution and conduct of lotteries;

collection of funds and transportation of currency valuables;

keeping registers of holders of registered securities (except for own shares);

providing consulting and information services on banking and other financial services.

The Bank, subject to obtaining the general license of the National Bank, may carry out the following transactions with currency valuables:

a) non-trading transactions with currency valuables;

b) transactions with cash foreign currency and checks (purchase, sale, exchange, acceptance for collection), carried out at the cash offices and foreign currency exchange offices of banks;

c) transactions with cash foreign currency (purchase, sale, exchange) carried out at foreign currency exchange offices operating on the basis of agency agreements concluded by banks with resident legal entities;

d) maintenance of accounts of clients (residents and non-residents) in foreign currency and non-resident clients in the monetary unit of Ukraine;

e) maintenance of correspondent accounts of banks (residents and non-residents) in foreign currency;

f) maintenance of correspondent accounts of banks (non-residents) in the monetary unit of Ukraine;

g) opening correspondent accounts with authorized banks of Ukraine in foreign currency and conducting transactions thereon;

h) opening correspondent accounts with banks (non-residents) in foreign currency and conducting transactions for them;

i) attraction and placement of foreign currency in the currency market of Ukraine;

k) trade in foreign currency in international markets;

l) trade in foreign currency in the currency market of Ukraine [with the exception of transactions with cash foreign currency and checks (purchase, sale, exchange) carried out at the cash offices and foreign currency exchange offices of banks and agents];

n) attraction and placement of bank metals in the currency market of Ukraine;

o) attraction and placement of bank metals in international markets;

p) trade in banking metals in the currency market of Ukraine;

r) trade in banking metals in international markets;

s) currency transactions in the currency market of Ukraine and/or international markets that belong to financial services in accordance with the Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets".

The Bank has the right to perform other transactions (other types of activities) in accordance with the legislation of Ukraine and taking into account restrictions established for banks. The Bank cannot carry out activities in the field of material production, trade (except for the realization of commemorative, jubilee and investment coins) and insurance, except for performance of the functions of the insurance intermediary.

The Bank carries out credit transactions, investment activities (in particular, direct investments) and securities transactions, settlement banking operations, performs transactions with persons related to the Bank in accordance with the procedure, under the terms and conditions and subject to restrictions determined by applicable legislation.

In its activities the Bank complies with the requirements for ensuring competition in the banking system, banking secrecy and confidentiality of information, ensuring the client's right to information, prevention and counteraction to the legalization (laundering) of proceeds obtained from crime or terrorist financing, as well as on the reliability of advertising and ensuring the right of the Bank's clients to information.

The Bank forms relations with customers and correspondent banks on the basis of agreements on the provision of banking and other services, which determine mutual obligations and responsibilities of the parties, interest (percentage) rates, commission fees, types of secured repayment of loans, receipt of relevant information from customers, and other conditions.

The Bank's relations with its clients are governed by the applicable legislation, regulatory legal acts of the National Bank of Ukraine and legal transactions (agreements, contracts) between the client and the Bank.

The Bank may conduct securities transactions and professional activity in the securities market. Activities regulated by the regulatory legal acts of the National Securities and Stock Market Commission and for which it is necessary to have its license may be exercised by the Bank only after obtaining the corresponding license issued by the National Securities and Stock Market Commission in accordance with the procedure established by applicable legislation. Subject to obtaining an appropriate license for professional activity in the securities market (in the stock market), the Bank may, in particular, carry out:

brokerage activities;

dealership activities;

underwriting;

securities management activities;

depositary activity of a depositary institution;

asset management activities;

mortgage collateral management activities;

activities on keeping the assets of joint investment institutions;

activities on keeping the assets of pension funds;

clearing activities.

Subject to obtaining the corresponding license, the Bank develops, manufactures, uses, operates, imports, exports cryptosystems and facilities for cryptographic protection of information, provides services in the field of cryptographic protection of information for the Bank and its clients.

In its activities, the Bank may use an electronic digital signature.

Types of activities that require a special permit (license) in accordance with the applicable legislation of Ukraine may be carried out by the Bank upon its receipt of the corresponding permit (license) in accordance with the procedure established by the applicable laws.

The Corporate Secretary fulfilled his responsibilities from March 15 to November 30, 2019, the bank observes the principles of corporate governance.

Owners of substantial shareholdings at JSC«CREDITWEST BANK».

Details of the ultimate beneficial owners in the holding structure of the bank.

No.	Surname, name and patronymic of individual or full title of legal entity	Type of person	Whether the person is an owner of substantial shareholding in bank	Information about person	Shareholding of person in bank, %			Description of interconnection of person with bank
					direct	indirect	Total	
1	2	3	4	5	6	7	8	9
1.	Altınbash İnan	Individual	yes	Citizen of Turkey Republic	0	18,32	18,32	Owns 100% of shares of JSC «Trona ich ve dich tijaret danich-manlyk», which owns 9,96% of shares of JSC «ALTINHAS HOLDİNG ANONİM SİRKETİ» 45% stake in JSC Final Aladzhak Jonetem Dan. Ve Destek Khizm. A.Sh., which holds 0.08% stake in JSC ALTINHAS HOLDING ANONYM SHIRKETI and equity share in the amount of 44,98% in the charter capital of JSC «ALTINHAS HOLDİNG ANONİM SİRKETİ», which in its turn owns the equity share of 33,34% in the charter capital of JSC «ALTINHAS HOLDİNG ANONİM

								SİRKETİ», which owns 100% of shares of the Bank. The controller of JSC «Trona ich ve dich tijaret danich-manlyk», JSC «ALTINHAS HOLDİNG ANONİM SİRKETİ», JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ». He is an associated person (brother) of Altinbash Huseyin, Altinbash Vakkasu, Altinbash Ali, Altinbash Nusretu and Altinbash Sofu.
2	Altınbash Huseyin	Indiv idual	yes	Citizen of Turkey Republic	0	15,00	15,0 0	Owns a 45% stake in JSC Final Aladzhak Jonetem Dan. Ve Destek Khizm. A.S., which holds 0.08% stake in JSC ALTINHAS HOLDING ANONYM SHIRKETIand 44,98% in the charter capital of JSC «ALTINHAS HOLDİNG ANONİM SİRKETİ», which in its turn owns the equity share of 33,34% in the charter capital of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», which owns 100% of shares of the Bank. The controller of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», JSC «ALTINHAS HOLDİNG ANONİM SİRKETİ». He is an associated person (brother) of Altibash

								Inan, Altinbash Vakkas, Altinbash Ali, Altinbash Nusret and Altinbash Sofu.
3.	Altınbash Ali	Individual	yes	Citizen of Turkey Republic	0	16,67	16,67	Owns the equity share in the amount of 16,67% in the charter capital of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», which owns 100% of the shares of the Bank. The controller of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ». He is an associated person (brother) of Altibash Huseyin, Altinbash Vakkas, Altinbash Inan, Altinbash Nusret and Altinbash Sofu.
4.	Altınbash Vakkas	Individual	yes	Citizen of Turkey Republic	0	16,67	16,67	Owns the equity share in the amount of 50% in the charter capital of JSC «ASV HOLDİNG ANONİM SİRKETİ», which in its turn owns 33,34% of the equity share in the charter capital of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», which owns 100% of the shares of the Bank. The controller of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», JSC «ASV HOLDİNG ANONİM SİRKETİ». He is an associated person (brother) of Altibash Huseyin, Altinbash Inan, Altinbash Ali, Altinbash Nusret and Altinbash Sofu.

5.	Altınbash Nusret	Individual	yes	Citizen of Federal Republic of Germany	0	16,67	16,67	Owns the equity share in the amount of 16,67% in the charter capital of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», which owns 100% of the shares of the Bank. The controller of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ». He is an associated person (brother) of Altibash Huseyin, Altinbash Vakkas, Altinbash Ali, Altinbash Inan and Altinbash Sofu.
6.	Altınbash Sofu	Individual	yes	Citizen of Turkey Republic	0	16,67	16,67	Owns the equity share in the amount of 50% in the charter capital of JSC «ASV HOLDİNG ANONİM SİRKETİ», which in its turn owns 33,34% of the equity share in the charter capital of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», which owns 100% of the shares of the Bank. The controller of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», JSC «ASV HOLDİNG ANONİM SİRKETİ». He is an associated person (brother) of Altibash Huseyin, Altinbash Vakkas, Altinbash Ali, Altinbash Nusret and Altinbash Inan.

Details of the owners of substantial shareholdings in the bank

No.	Surname, name and patronymic of individual or full title of legal entity	Type of person	Type of substantial shareholding	Information about person	Description of interconnection of person with bank
1	2	3	4	5	6
1.	Altınbash İnan	Individual	Indirect	Citizen of Turkey Republic	Pursuant to the resolution of the Committee on supervision and regulation of activities of banks, supervision (oversight) of payment systems dated 28 July 2017 No.276, joint acquisition of indirect substantial shareholding in PJSC «CREDITWEST BANK» in the amount of 100% of the charter capital of PJSC «CREDITWEST BANK» has been approved. Together with associated persons he is the owner of indirect substantial shareholding in the amount of 100% of the charter capital of JSC «CREDITWEST BANK» through ownership of: 1) 100% of the shares of JSC «Trona ich ve dich tijaret danich-manlyk», which owns 9,96% of shares of JSC «ALTINHAS HOLDİNG ANONİM SİRKETİ» and 10% stake in JSC Final Aladzhak Jonetem Dan. Ve Destek Khizm. A.Sh., which in turn owns 0.08% stake in JSC ALTINHAS HOLDING ANONYM SHIRKET, 2) 45% stake in JSC Final Alajak Jonetem Dan . Ve Destek Khizm. A.S., which owns 0.08% of the shares of JSC ALTINHAS HOLDING ANONYM SHIRKET 2) ownership of 44,98% in JSC «ALTINHAS HOLDİNG ANONİM SİRKETİ», which is the owner of 33,34% shares of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», which is the owner of 100% of

					shares of JSC «CREDITWEST BANK». Together with associated persons he is the controller of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», JSC «ALTINHAS HOLDİNG ANONİM SİRKETİ».
2.	Altınbash Huseyin	Individual	Indirect	Citizen of Turkey Republic	Pursuant to the resolution of the Committee on supervision and regulation of activities of banks, supervision (oversight) of payment systems dated 28 July 2017 No.276, joint acquisition of indirect substantial shareholding in PJSC «CREDITWEST BANK» in the amount of 100% of the charter capital of PJSC «CREDITWEST BANK» has been approved. Together with associated persons he is the owner of indirect substantial shareholding in the amount of 100% of the charter capital of JSC «CREDITWEST BANK» through ownership of 45% stake in JSC Final Aladzhak Jonetem Dan. Ve Destek Khizm. A.Sh., which holds 0.08% stake in JSC ALTINHAS HOLDING ANONYM SHIRKETI and 44.98% of shares of JSC «ALTINHAS HOLDİNG ANONİM SİRKETİ», which is the owner of 33,34% of shares of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», which is the owner of 100% of shares of JSC «CREDITWEST BANK». Together with associated persons he is the controller of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», JSC «ALTINHAS HOLDİNG ANONİM SİRKETİ».
3.	Altınbash Ali	Individual	Indirect	Citizen of Turkey Republic	Pursuant to the resolution of the Committee on supervision and regulation of activities of banks, supervision (oversight) of payment systems dated 28 July 2017 No.276, joint acquisition of indirect substantial shareholding in PJSC «CREDITWEST BANK» in the amount of 100% of the charter capital of PJSC «CREDITWEST BANK» has been approved. Together with associated persons he is the

					owner of indirect substantial shareholding in the amount of 100% of the charter capital of JSC «CREDITWEST BANK» through ownership of 16,67% shares of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», which is the owner of 100% of shares of JSC «CREDITWEST BANK». Together with associated persons he is the controller of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ».
4.	Altınbash Vakkas	Individual	Indirect	Citizen of Turkey Republic	Pursuant to the resolution of the Committee on supervision and regulation of activities of banks, supervision (oversight) of payment systems dated 28 July 2017 No.276, joint acquisition of indirect substantial shareholding in PJSC «CREDITWEST BANK» in the amount of 100% of the charter capital of PJSC «CREDITWEST BANK» has been approved. Together with associated persons he is the owner of indirect substantial shareholding in the amount of 100% of the charter capital of JSC «CREDITWEST BANK» through ownership of 50% shares of JSC «ASV HOLDİNG ANONİM SİRKETİ», which is the owner of 33,34% shares of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», which is the owner of 100% of shares of JSC «CREDITWEST BANK». Together with associated persons he is the controller of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», JSC «ASV HOLDİNG ANONİM SİRKETİ».
5.	Altınbash Nusret	Individual	Indirect	Citizen of Federal Republic of Germany	Pursuant to the resolution of the Committee on supervision and regulation of activities of banks, supervision (oversight) of payment systems dated 28 July 2017 No.276, joint acquisition of indirect substantial shareholding in PJSC «CREDITWEST BANK» in the amount of 100% of the charter capital of PJSC «CREDITWEST BANK» has been approved. Together with associated persons he is the owner of indirect substantial

					shareholding in the amount of 100% of the charter capital of JSC «CREDITWEST BANK» through ownership of 16,67% shares of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», which is the owner of 100% of shares of JSC «CREDITWEST BANK». Together with associated persons he is the controller of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ».
6.	Altınbash Sofu	Individual	Indirect	Citizen of Turkey Republic	Pursuant to the resolution of the Committee on supervision and regulation of activities of banks, supervision (oversight) of payment systems dated 28 July 2017 No.276, joint acquisition of indirect substantial shareholding in PJSC «CREDITWEST BANK» in the amount of 100% of the charter capital of PJSC «CREDITWEST BANK» has been approved. Together with associated persons he is the owner of indirect substantial shareholding in the amount of 100% of the charter capital of JSC «CREDITWEST BANK» through ownership of 50% shares of JSC «ASV HOLDİNG ANONİM SİRKETİ», which is the owner of 33,34% shares of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», which is the owner of 100% of shares of JSC «CREDITWEST BANK». Together with associated persons he is the controller of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», JSC «ASV HOLDİNG ANONİM SİRKETİ».
7.	«ALTINHAS HOLDİNG ANONİM SİRKETİ» AS.	Legal entity	Indirect	Buyukdere Cd. Özsezen İşmerkezi C Blok K:9 Şişli, İstanbul, Turkey Republic; Identification code 705657	Owns 33,34% shares of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», which owns 100% of shares of the Bank.
8.	«ALTINBAŞ HOLDİNG ANONİM SİRKETİ» AŞ.	Legal entity	Direct	Republic of Turkey, Istanbul, 34110, Eski Buyukdere av.	The sole shareholder of the bank which owns 100% of shares of the Bank. Consent to acquisition of substantial shareholding was

				№1, 7-8 floor, Maslak/Sarıyer; Identification code 394381	provided pursuant to the resolution of the Board of the National Bank of Ukraine №114 dated 27 March 2006.
9.	«ASV HOLDİNG ANONİM SİRKETİ» AS.	Legal entity	Indirect	Republic of Turkey, Esentepe mah., Keskin Kalem str. №39/3 Sisli / İstanbul Identification code 34184-5	Owns 33,34% of shares of JSC «ALTINBAŞ HOLDİNG ANONİM SİRKETİ», which owns 100% shares of the Bank.

General Meeting Information.

In 2019, the Bank held four general meetings: three extraordinary and one annual. General description of the decisions taken at the meeting:

1. To approve the results of the Bank's activities for 2018 and the report on the annual results of the Bank's activities for 2018, submitted for consideration by the Shareholder.

2. To approve the report and conclusions of the external auditor of the Bank of PJSC "KPMG Ukraine" submitted to the Shareholder.

3. Based on the results of consideration of the Bank's Supervisory Board's report for 2018, take into consideration and approve the report of the Bank's Supervisory Board submitted to the Shareholder, and recognize the efficiency of the Bank's Supervisory Board's activity for 2018 - at a high level.

4. Based on the results of consideration of the report of the Board of Directors for 2018, to approve the submitted report of the Shareholder of the Management Board of the Bank, to recognize the effectiveness of the activities of the Management Board of the Bank for 2018 - at a high level.

5. To approve the Remuneration Report for members of the Bank's Supervisory Board.

6. Failure to suspend (revoke) the powers of the Chairman and members of the Bank's Supervisory Board.

7. All net profit of the Bank as a result of the annual report for 2018, namely UAH 60 189 386,93. (sixty million one hundred eighty nine thousand three hundred eighty six hryvnias 93 kopecks), in accordance with the legislation of Ukraine and the Bank's Statute, distribute as follows: part of the profit in the amount of UAH 3 009 469,35. (three million nine thousand four hundred sixty nine UAH 35 cents) to transfer to the Bank's reserve fund; 56 985 850,32 (fifty-six million nine hundred eighty-five thousand eight hundred fifty hryvnias 32 kopecks) to be allocated for the increase of the authorized capital of the Bank, and part of the profit in the amount of UAH 194 067,26. (one hundred ninety four thousand sixty seven hryvnia 26 cents) to be left unallocated.

Accordingly, part of the Bank's profit should not be distributed and paid to the Bank's Shareholder as dividends.

8. Increase the authorized capital of the Bank to 364 409 516,52 UAH. (three hundred sixty four million four hundred nine thousand five hundred sixteen hryvnias 52 kopecks) by raising the nominal value of the Bank's shares by directing to the Bank's authorized capital a portion of the profit of 56 985 850,32 (fifty six million nine hundred eighty five thousand eight hundred fifty hryvnas 32 pennies)

9. Increase the nominal value of the Bank's shares to UAH 2.43. (two hryvnias 43 pennies).

10. Amend and approve the Bank's Articles of Association related to the increase of the Bank's authorized capital by raising the nominal value of shares by redefining the Bank's Articles of Association. Authorize the Chairman of the Board of the Bank Tikhonov Igor Yurievich to sign the Bank's Charter in the new version on behalf of the Shareholder. To instruct the Chairman of the Board of the Bank or his authorized person to carry out all and / or any actions for approval and state registration of changes to the Bank's Statute in the relevant state bodies.

11. To approve the Regulations on the remuneration of the members of the Supervisory Board of the Bank in the new version.

12. Approve KPMG Private Joint Stock Company for providing the Bank's external auditor services for 2018.

13. To terminate the powers of the Member of the Bank's Supervisory Board, Mr. Marcel Gassen, who is an independent member of the Bank's Supervisory Board.

14. To terminate the powers of the Member of the Bank's Supervisory Board, Mr. Adnan Anachali, who is the Shareholder's representative.

15. Agree on the main terms of the agreement and approve the agreement concluded with Mr. Adnan Anachali.

16. To approve in a new version the Regulations on the Board of the Bank and the Regulations on the Supervisory Board of the Bank.

Information about any restrictions on the rights of participation and voting of shareholders (participants) at the General Meeting of the Bank is not provided due to the absence of restrictions.

The procedure for appointment and dismissal of the issuer's officers is determined by the Bank's Charter, the Bank's Supervisory Board Regulations and the Bank's Management Board Regulations.

BANK SUPERVISORY BOARD

The members of the Supervisory Board may be independent members of the Bank's Supervisory Board, members of the Bank and representatives of participants of the Bank.

The number of members of the Supervisory Board may not be less than five persons and must consist of at least one third of the independent directors, the number of which must be at least three.

Independent directors must comply with the requirements established by current Ukrainian legislation on independence on an ongoing basis throughout the term of office of a member of the Supervisory Board. The Bank is obliged to monitor the compliance of independent directors with the requirements regarding their independence, and in case of non-compliance, to ensure the replacement of such independent directors.

The members of the Supervisory Board may not be members of the Management Board, nor hold other positions in the Bank under the terms of an employment contract (contract) or provide services to the Bank in accordance with a civil contract.

The powers of a member of the Supervisory Board are valid from the moment of his election by the decision of the General Meeting of Shareholders.

The term of office of a member of the Supervisory Board is determined by his election and may not exceed 3 years.

The same person may be elected to the Supervisory Board on more than one occasion.

If the number of members of the Supervisory Board is less than half of its number, the Bank must convene an extraordinary General Meeting within three months to elect the entire membership of the Supervisory Board. If the number of members of the Supervisory Board, whose powers are valid, is half or less than half of its elected by the General Meeting of the quantitative composition, the Supervisory Board may not make decisions except for the decisions on calling an extraordinary General Meeting to elect the entire composition of the Supervisory Board.

In case the Chairman of the Supervisory Board is unable to fulfill his / her powers, one of the members of the Supervisory Board shall exercise his / her authority upon his / her decision.

The election of the members of the Supervisory Board of the Bank shall be by cumulative voting only.

The Bank's shareholders have the right to nominate candidates for election to the Supervisory Board of the Bank in accordance with the procedure established by the current legislation of Ukraine, the Bank's Statute, the General Shareholders' Meeting Regulation and this Regulation (subject to the restrictions provided for in Section 5.11. Section 5 of this Regulation).

Each shareholder has the right to submit proposals for new candidates to the Bank's Supervisory Board, the number of which may not exceed the quantitative composition of the Supervisory Board.

The shareholder's proposal for the nomination of candidates for election to the Supervisory Board shall be in compliance with the requirements and shall be submitted in accordance with the procedure established by the Regulations on the General Meeting of Shareholders.

The candidates selected are members of the Supervisory Board the largest number of votes among those who received more than 50 (fifty) percent of the votes of the shareholders who registered for the General Meeting and are the owners of the voting shares.

The full composition of the Supervisory Board must be selected for one

General Meeting. If at least 3 (three) nominations for election of members of the Supervisory Board were submitted by the shareholders in due course, or 3 (three) members of the Supervisory Board were not elected by the results of voting on the election of members of the Supervisory Board, The Supervisory Board shall be deemed not to have been elected.

In such a case, the term of office of the members of the previous members of the Supervisory Board shall automatically be extended until the General Meeting decides on the election of the new members of the Supervisory Board in full composition in accordance with the Bank's Articles of Association, the Regulations on the General Meeting of Shareholders and this Regulation. In this case, the Bank shall convene an extraordinary General Meeting of Shareholders for the election of new members of the Supervisory Board, which shall be held within 3 (three) months from the date of the respective General Meeting of Shareholders during which the full composition of the Supervisory Board was not elected.

The General Meeting is entitled to decide on early termination the powers of the members of the Supervisory Board and the simultaneous election of new members.

Without a decision of the General Meeting of Powers of a member of the Supervisory Board of the simultaneous termination of the contract shall terminate:

- at his request, subject to two weeks' written notice to the Bank;

- in case it is impossible to fulfill the duties of a member of the Supervisory Board for health reasons;

- in the case of the entry into force of a sentence or decision of a court sentenced to punishment, which excludes the possibility of performing the duties of a member of the Supervisory Board;

- in the case of death, recognition of him as incapacitated, limited to incapacitated, missing, deceased;

- in the event of circumstances which, in accordance with the current legislation of Ukraine, impede the performance of the duties of a member of the Supervisory Board.

Upon termination of the powers of a member of the Supervisory Board, the contract (contract) concluded with him / her is terminated simultaneously.

THE BANK'S BOARD

The number of Board members must be at least 3 (three) people. The Board includes the Chairman of the Board, Deputy Chairmen of the Board (if any) and two members of the Board (who may be elected as Vice-Chairmen of the Board). The members of the Management Board are appointed by the Supervisory Board on the recommendation of the Chairman of the Management Board.

The Chairman and the members of the Management Board of the Bank may be persons who have a working relationship with the Bank. The Chairman and the members of the Management Board may not simultaneously be the Chairman, members of the Supervisory Board.

Approval of candidates for members of the Board of Directors for a position, establishment of compliance of a member of the Board of Directors with the established legislative requirements, procedure of notification of the National Bank on non-compliance of a member of the Management Board with established legislative requirements, upgrading of a member of the Management Board, informing the Supervisory Board of violations of Ukrainian legislation in the activity of the Bank Of the Bank and the deterioration of the Bank's financial condition or the threat of such deterioration, the level of risks arising from to the Bank's activities, informing the Supervisory Board about the untimely or improper fulfillment of the Bank's related obligations to the Bank, succession planning in the Board shall be carried out in accordance with the procedure established by internal documents of the Bank, taking into account the requirements.

Nominations of the Chairman of the Management Board and the members of the Management Board of the Bank shall be approved by the National Bank of Ukraine in accordance with the requirements and within the terms established by the current legislation and the National Bank of Ukraine. The Chairman of the Board (or Acting Officer) takes office upon the written consent of the National Bank Commission (the National Bank's Commission on Territorial Governance). Information regarding changes in the composition of the Management Board shall be submitted by the Bank to the National Bank of Ukraine in accordance with the requirements and within the terms established by the current legislation and the National Bank of Ukraine.

The members of the Management Board may not be persons who are prohibited from holding positions in the governing bodies of the Bank under the current legislation of Ukraine.

The Management Board is appointed by the Bank's Supervisory Board. The term of office of the Chairman of the Board / members of the Board may be determined at their appointment.

Upon appointment, an employment contract / contract is concluded with the Chairman of the Board and the members of the Board. On behalf of the Bank, the employment contract / contract with the Chairman of the Management Board is signed by the Chairman of the Supervisory Board or another person authorized by the General Meeting.

Members of the Bank's Management Board, including the Chairman of the Management Board, may at any time be removed from their duties by the Bank's Supervisory Board. The powers of the Chairman and members of the Management Board may be terminated early by the decision of the Bank's Supervisory Board.

The Chairman and members of the Management Board may be reappointed an unlimited number of times.

In the event of termination of the employment contract between the Bank and the Chairman of the Management Board or the removal of the Chairman of the Management Board of the Bank from his / her duties, the Supervisory Board of the Bank may appoint a temporary acting Chairman of the Management Board. The Supervisory Board may suspend the term of office of the Chairman of the Management Board with the simultaneous decision on the appointment of a new Chairman of the Management Board or a person temporarily exercising his / her authority.

In the event of termination of the employment contract between the Bank and the Chairman of the Board, failure of the Chairman of the Board to become a National Bank of Ukraine, or removal of the Chairman of the Board from the performance of his duties, the Supervisory Board may appoint a temporary acting Chairman of the Board. In this way, a person appointed as acting Chairman of the Board of Directors shall act within the powers of the Chairman of the Board of Directors of the Bank without a power of attorney and other special powers when representing the Bank and performing transactions (entering into contracts, contracts, agreements).

The committees in the Supervisory Board have not been established.

The composition of the Supervisory Board as of 01 January 2019:

Zafer Őzcan - Chairman of the Bank's Supervisory Board:

- Omer Akgul, who is a representative of ALTINBASH HOLDING ANONYM SHIRKETI Joint Stock Company

- Adnan Anachali, who is a representative of ALTINBASH HOLDING ANONYM SHIRKETI Joint Stock Company

- Rami Chaim, who is an independent member of the Bank's Supervisory Board

- Talip Selchuk Shaldyrak, is an independent member of the Bank's Supervisory Board

- Marcel Gassen, who is an independent member of the Bank's Supervisory Board

09.08.19 The termination of the powers of Marcel Gassen. .

15.08.19 The authority of Adnan Anachali is terminated.

The executive body of JSC «CREDITWEST BANK» (Management Board of the Bank) is composed of four members, namely:

Chairman of the Management Board of the Bank – Tykhonov Ihor Yuriiovych

Deputy Chairman of the Management Board of the Bank – Yildirim Yunus Emre

Deputy Chairman of the Management Board of the Bank – Rudenko Svitlana Mykolaiivna

Member of the Management Board of the Bank – Tkachenko Rostyslav Ivanovych

Throughout the year of 2019 facts of violation by the members of the Supervisory Board and the Management Board of JSC «CREDITWEST BANK» of internal rules resulting in damage caused to the Bank or consumers of financial services are absent.

Throughout the year of 2019 enforcement actions applied during the year by state authorities to JSC «CREDITWEST BANK», including those applied to the members of the Supervisory Board and Management Board of the Bank, are absent.

The amount of remuneration of the members of the Supervisory Board and Management Board of JSC «CREDITWEST BANK» for 2019 constitutes UAH 14 157 thousand.

The Bank continues to work within the framework of the strategy and the business plan. It recognizes, identifies and controls financial risks. The Bank's financial risks include: Credit risk (Individual risk, Portfolio risk, Country risk, Transfer risk), Liquidity risk (Market Liquidity risk, Financing Liquidity risk, Excess Liquidity risk, Liabilities Concentration risk), Interest Rate risk (Risk of Resources' Cost Changes, Risk of Change in Yield Curve, Basic risk, Risk of Right of Choice), Currency risk (Transaction risk, Translation risk, Economic currency risk), Price risk.

The main risks and uncertainties for the Bank's operations are typical for all banking institutions of Ukraine and are standard risks of banking activities. The Bank performs risk management in the course of a continuous process of determination, assessment and monitoring, as well as by establishing risk limits and other measures of internal control. Credit risk is a risk that threatens the Bank's income and capital due to possible failure of the counterparty or a group of counterparties to perform liabilities owed to the Bank. In order to manage credit risk, a financial and economic analysis of counteragents, an analysis of credit and investment projects, the establishment of limits and restrictions for conducting active operations, portfolio risk management, stress testing etc., are carried out.

Main macroeconomic risks:

1. Termination of cooperation with the IMF will create risks for financial stability.

2. Suspending cooperation with other international financial organizations and governments of states: often the programs of different IFOs are interconnected and require Ukraine to fulfill similar or identical conditions;

3. The deterioration of investors' ratings of the government's financial position and, consequently, an increase of the risk premium for Ukrainian sovereign debt. This could lead to a significant increase in yields during the placement of new issues of sovereign bonds or de facto complete closure of capital markets for Ukraine, if the situation on world markets worsens.

4. Actual closure of access to foreign capital markets of quasi-sovereign issuers - state-owned banks and enterprises;

5. The decline in the interest of foreign investors to invest in the private sector, as a consequence - a reduction in the inflow of private debt capital and foreign direct investment.

The slow progress in the implementation of structural reforms can have the following adverse effect on the development of the banking sector of the state, namely:

- limiting the demand for credit resources and, as a result, the development of lending to enterprises in the real economy sector, while continuing the tendency towards relatively high rate of inflow of deposits in national currency into the banking system;

- reduction of the financial result due to reduction of interest income, increase in the value of the resource base and a negative revaluation of the currency component of the balance, etc.;

- devaluation of the course of the national currency, which may have a negative impact on the ability of debtors to serve foreign currency debt obligations.

Slow structural changes in the economy and the weakness of the legal system remain significant barriers to the development of the banking sector. These factors reduce the efficiency of redistribution of financial resources and hinder the renewal of lending.

High growth rate of retail lending can become a source of increased credit risk both for the Bank and for the banking system and have unfavorable macroeconomic effects.

Inadequacy of collateral collection procedures, as well as the existence of a moratorium on the realization of property for certain types of loan transactions, in case of non-fulfillment by the debtor of obligations under a loan, is a significant risk of possible losses.

In order to minimize credit risks, the Bank provides for the calculation and formation of reserves for the reimbursement of possible losses under active transactions in accordance with the requirements of the international financial reporting standards.

In addition, approaches to evaluation of the level of credit risk according to national standards are constantly being improved. From 03 January 2017, the Bank evaluates credit risk (prudential reserves) taking into account the new requirements of the National Bank of Ukraine for determining the credit exposure in active banking operations, approved by the resolution of the Board of the NBU dated 30 June 2016 No. 351.

The Bank's risk management system is based on the requirements of the banking legislation of Ukraine, international standards in the field of risk management, fully integrated into the activities of the bank and is being improved along with the development of banking business processes.

The procedures implemented within the framework of the risk management system envisage the identification and assessment of risks, including on the basis of an analysis of the condition of the environment, including the preparation and implementation of risk mitigation measures, the development of proposals for the establishment of the system of limits. Credit risk is the most significant type of risk for a bank, therefore special attention is given to its management, as well as control of the quality of loan portfolio. The Bank manages credit risk by:

establishing a unified methodology for identifying and assessing credit risk;

organization of an adequate system of crediting legal entities, individual entrepreneurs, individuals corresponding to the interests of the bank, the system of establishing limits on transactions that are prone to credit risk;

implementation of qualitative and timely analysis of the condition and dynamics of the loan portfolio, norms of safe functioning characterizing the level of credit risk;

organization of stress testing and identifying the causes and factors that affect the change in the level of credit risk;

creation of a system of regular and timely information of the credit committee, the Management Board, the Supervisory Board on the level of credit risk.

The Bank introduced a system of internal ratings of corporate clients, which provides a differentiated assessment of the probability of default by debtors of their obligations on the basis of the analysis of quantitative and qualitative factors of credit risk, the degree of their impact on the ability of the debtor to serve and repay the incurred obligations.

The system of internal ratings is actively used in the process of organizing credit work with clients, in particular, in developing new credit products, determining price conditions for conducting active operations.

In 2019 IFRS 16 “Rent” was introduced.

In order to manage liquidity, the bank uses a combined method that includes management of liquid assets (accumulation of own liquid assets to cover their expected need), management of liabilities (provision of liquidity due to prior conclusion of agreements on the attraction of monetary funds in the interbank market), as well as elements of the method of balancing active and passive operations by terms (control of the gaps between assets and liabilities by maturity).

In order to comprehensively evaluate the liquidity risk, the bank uses the following methods: coefficient analysis of the liquidity of the balance sheet (financing limit), liquidity gaps evaluation, cash flow analysis and stress testing. Within the framework of the development of liquidity risk management, the bank calculates and monitors the liquidity ratios provided by Basel III.

To manage market risk, the bank uses periodic evaluation of potential losses that may be incurred as a result of adverse market conditions and establishes adequate limits on the amount of allowable losses. Except for currency positions, the Bank does not have significant market risk concentrations. Valuation of currency risk is carried out using the Value-at-Risk method. The current system of currency risk limits, which includes position limits and loss limits, allows the bank to provide an acceptable level of risk.

Interest risk management and control are based on risk assessment using methods of GAP-analysis, modified duration and stress testing that determine the effect of interest rate changes on net interest income and bank capital.

The system of interest rate risk analysis of the Bank includes: analysis of changes in the present value of assets and liabilities, analysis of changes in the value of net interest income, and analysis of gaps of assets and liability sensitive to changes in interest rates. Limits of maximum and minimum interest rates are established, both for active and passive transactions.

The bank has established and maintains a comprehensive centralized operational risk management system - Committee of operational risk management (“CORM”), which provides for assessment, monitoring and risk control in accordance with regulatory acts of the bank.

Functions of operational risk management are fixed at all levels: bank’s governing bodies, collegial working bodies, structural divisions and responsible persons.

In order to manage the operational risk, the Bank operates a database of incidents of operational risk. Based on database analysis, recommendations are made to optimize business processes.

The Bank has continued work on improving the technological component of the risk management system. In order to automate the processes of assessment and stress-testing of liquidity risk, interest and currency risks.

The existing system of internal audit (control) of the bank includes legally regulated measures to control the management of risks, the segregation of duties and powers, control over access to resources and accounts, control over the reliability of performed operations, verification of processes and operations before and after their execution, reconciliation of accounting data with actual data and measures of permanent monitoring of activities of the bank to determine and adjust deviations in the internal control system. The organization of the system of internal control and its separate components in the system of the bank ensures its effective functioning.

Data are indicated in the notes to the financial statements.

Notes:

6. Cash and cash equivalents as at 31 December 2019 are as follows: As of 31 December 2019, cash on accounts with the NBU includes the minimum reserve balance that the Bank required to maintain. As at 31 December 2019, the statutory amount of the mandatory reserve was UAH 34 714 thousand (2018 рік: 45 203 UAH).

The Bank considers the mandatory reserve on accounts with the NBU as a component of cash and cash equivalents. As at 31 December 2019, the two largest balances on current accounts placed with other banks comprised UAH 125 258 thousand or 98.48% of total balances on current accounts with other banks (2018: UAH 130 398 thousand or 92.5%)

7. Investment securities are represented by the NBU certificates of deposit. NBU certificates of deposit bear the interest rates within the range of 11.5-13.5% and mature in January 2020. Certificates of deposit of the National Bank of Ukraine were neither impaired nor past due as at 31 December 2019 and 31 December 2018.

8. As at 31 December 2019, due from banks are represented by guarantee secured deposit with maturity exceeding three months placed in one bank having rating “B- to B+” assigned by Standard and Poor’s (S&P) or equivalent ratings (2018: one bank, “B- to B+”). Certificates of deposit of the National Bank of Ukraine were neither impaired nor past due as at 31 December 2019 and 2018.

9. As at 31 December 2019, loans and advances to the ten largest borrowers total UAH 616 924 thousand or 49.1% of the total net loans and advances to customers (2018: UAH 623,073 thousand or 48.8%). The Bank lending activities are conducted in Ukraine. The ability of the borrowers to repay their debt is dependent on a number of factors including the overall financial health of the individual borrowers and the continued development of the Ukrainian economy.

Although collateral can be an important mitigation of credit risk, it is the Bank’s policy to lend on the basis of the customer’s capacity to repay, rather than rely primarily on the value of collateral offered. Depending on the customer’s standing and the type of product, loans may be provided without collateral.

10. Loss from revaluation of investment properties comprised UAH 304 thousand in 2019 and were recognized within administrative and other operating expenses.

Fair value of investment property as at 31 December – UAH 1 622 thousand.

11. Property, plant and equipment and intangible assets/ The Bank does not have property, plant and equipment for which there are statutory restrictions on ownership, use and disposal, property, plant and equipment and intangible assets pledged as collateral, property, plant and equipment temporarily unused and property, plant and equipment withdrawn from use. There are no intangible assets for which there are restrictions on the right of ownership, as well as intangible assets that were internally created.

12. Other assets as at 31 December are as follows

Net book value as at 31 December 2019 – UAH 37 977 thousand

13. Rent. The amount of rights to use as of December 31, 2019 is UAH 11 352 thousand.

14. As at 31 December 2019, deposits from two banks total UAH 135 078 thousand or 100% of total due to banks (31 December 2018: deposits from three banks total UAH 160 111 thousand or 100% of total due to bank).

15. As at 31 December 2019, balances on current accounts of the five largest customers total UAH 149 815 thousand or 51% of total balances on current accounts (31 December 2018: UAH 141,204 thousand or 48%).

As at 31 December 2019, deposits from the five largest customers total UAH 105 846 thousand or 24% of total deposits (31 December 2018: UAH 216,925 thousand or 37%).

As at 31 December 2019, Total - UAH 750 667 thousand.

16. Other assets as at 31 December are as follows

As at 31 December 2019, Total - UAH 3 583 thousand.

17. As at 31 December 2019, the funds of international financial organizations are represented by loans denominated in Euro two organizations – 337 130 thousand.

18. In accordance with the decision made by the shareholders, Bank returned the subordinated debt 1 525 thousand USD in October 2019.

19. As at 31 December 2019, the share capital of the Bank includes 149,962,764 ordinary registered shares with a nominal value of UAH 2.43 per share (31 December 2018: 149 962 764 ordinary shares with a nominal value of UAH 2.05 per share). All shares have equal voting rights. As at 31 December 2019, all shares were fully paid and registered.

No dividends were declared and paid in 2019 and 2018.

21. Interest income and expense for the year are as follows.

Net interest income – UAH 114 256 thousand (2018: UAH 109 494 thousand).

22. Commission income and expenses for the year ended 31 December is as follows

Net fee and commission income – UAH 21 587 thousand (2018: UAH 24 876 thousand).

23. Other operating income for the year ended 31 December is as follows

Total other operating income – 2 026 thousand (2018: UAH 4 256 thousand).

24. Administrative and other operating expenses for the year ended 31 December are as follows

As at 31 December 2019, Total - UAH 37 586 thousand (2018: UAH 30 917 thousand).

25. The following is a schedule of movements in provision for impairment for the year ended 31 December

Balance as at 31 December 2019 – 3 127 thousand.

26. The corporate income tax expense comprises

The statutory income tax rate in 2019 was 18% (2018: 18%).

Total income tax expense – 6 196 thousand.

According to the Ukrainian legislation, reserves are distributed within the amount of retained earnings, which is determined in accordance with legal and regulatory requirements. In May 2019, by the decision of the Bank's shareholder, the authorized capital of the Bank was increased by UAH 56,986 thousand by directing to the authorized capital of the Bank part of the profit received in 2018 by increasing the nominal value of the Bank's shares from UAH 2.05 per share to UAH 2.43 per share

During the year of 2019 the assets of the Bank (excluding current reserves) were decreased by UAH 10 999 thousand or by 0,66% and amounted to UAH 1665873 thousand (during the year of 2018 year - UAH 1676872 thousand). In the structure of assets the largest share belongs to the article "Loans and advances to customers", which constitutes 74% as of 31 December 2019 (as of 31 December 2018 -74%), "Cash and cash equivalents" -12% (as of 31 December 2018 year -11%), "Property, equipment and intangible assets, other assets" -3% (as of 31 December 2018 -4%), " Due from banks" -0.1% (as of 31 December 2018 – 0.2%). Client assets were decreased by 1.5% to the amount of UAH 1240370 thousand (excluding of current provision).

During the year of 2019 there were such changes in the structure of the Bank's loan portfolio, in particular: the share of loans granted to legal entities from 99.98% as of the end of 2018 to 99.98% as of the end of 2019; the share of loans granted to individuals from 0.02% to 0.02%.

During the year of 2019 the current provision for the Bank's lending operations have increased by UAH 855 thousand and reached UAH 15577 thousand. The total liabilities of the Bank during 2019 decreased by UAH 39225 thousand (or by 3%) and constitutes UAH 1238902 thousand as of 31 December 2019. The decrease in liabilities took place mainly due to the repayment of the subordinated loan.

Within the structure of liabilities, the share of funds attracted from clients constitutes 65% (as of 31 December 2018 – 69%), including: attracted to individuals' accounts – 37% (as of 31 December 2018 – 30%), legal entities and individuals-entrepreneurs – 63% (as of 31 December 2018 – 70%). The share of loans received from other banks and term deposits (deposits) of other banks constitutes 11% (as of 31 December 2018 – 13%), the share of funds of subordinated debt – 0% (as of 31 December 2018 – 3%).

The authorized and paid share capital of the Bank as of 31 December 2019 amounted to UAH 364410 thousand. The share capital is divided into 149 962 764 ordinary registered shares with a nominal value of UAH 2.43 each. The majority shareholder of the Bank holds a share in the amount of 100.00% of the Bank's shares. The Bank's management does not possess the Bank's shares. The decision of the Bank's supreme body regarding the reduction of the charter capital was not taken.

Changes of shareholders, which own 10% or more of the voting shares, did not occur. There was no redemption of own shares.

During the year of 2019, the Bank complied with the prudential regulations of the National Bank of Ukraine, which, as of 31 December 2019, had the following values:

regulatory capital ratio (H1) – 388 907 472,39 regulatory capital adequacy ratio (H2) – 31,37

short-term liquidity ratio (H6) – 140,87.

According to the results of 2019 the Bank received net profit in the amount of UAH 28225 thousand, against net profit for 2018 - UAH 60189 thousand.

Key items that influenced the financial results for the year of 2019 (information is provided in comparison with 2018):

net interest income – UAH 114256 thousand against UAH 109 494 thousand;

net commission income – UAH 21857 thousand against UAH 24,876 thousand;

income from trade in foreign currency – UAH 4418 thousand against UAH 11,270 thousand;

other operating income – UAH 2026 thousand against UAH 4256 thousand;

administrative and other operating expenses – UAH 37586 thousand against UAH 30917 thousand;

formation of provision – UAH 15577 thousand against the result of dismantling of reserves in 2018 for the amount of UAH 14,692 thousand.

The share of commission income as of 31 December 2019 and as of 31 December 2018 is almost the same. At the same time, there was an decrease in the share of other operating incomes by almost 2 times.

In the year of 2019, as compared to the previous year, the expenses of the Bank increased by 4% and, as of 31 December 2019, they amounted to UAH 207684 thousand. Interest expenses amount to UAH 88 081 thousand, and their share constitutes 43% of all expenses (31 December 2018: 46%)

In the Bank there are no facts of alienation of assets in 2019 that exceeds the amount established in the charter.

In the Bank there are no facts of valuation of assets in the event of their sale in 2019, which exceeds the amount established in the charter.

In the course of its ordinary activities, the Bank provides loans and advances, attracts deposits and carries out other transactions with related parties. The parties are deemed to be related in cases where one party has the ability to control the other party or has a significant influence on the other party in making financial and operating decisions. Terms and conditions of transactions with related parties are established at the moment of performance of the transactions. Related parties are jointly controlled commercial entities, members of the Supervisory Board, key management personnel and their close relatives, as well as companies controlled by shareholders, or on which shareholders, key management personnel or their close relatives exercise significant influence.

As of 31 December 2019, the actual controlling party of the Bank is ALTINBAŞ HOLDİNG ANONİM SİRKETİ, which is actually controlled by the Altinbas family.

Transaction balances and transactions with related parties as of 31 December are presented as follows:

	2019 **thousand UAH**
Transaction balances and transactions with Holding company	
Statement of financial position (as of 31 December):	
Subordinated debt	-
Statement of cumulative income:	
Interest expenses	2 374
Transaction balances and transactions with key management personnel	
Statement of financial position (as of 31 December):	
Loans and debts of clients	36
Funds of clients	1 114
Statement of cumulative income:	
Interest income	11
Interest expenses	133
Wages and related accruals	14 157
Transaction balances with other related parties	
Statement of financial position (as of 31 December):	
Funds of clients	56
Statement of cumulative income:	
Interest expenses	-

The recommendations of the authorities that carry out the state regulation of financial services markets regarding the auditor's report were not provided to the bank.

During 2019 there was no appointment of an external auditor of the bank's supervisory Board.

Activities of the external auditor LLC "Baker Tilly":

the total length of the audit activity of LLC "Baker Tilly" – 19 years (state registration of the audit company in 1999);

the number of years during which it provides audit services to the bank – 1 years;

During 2019, PJSC KPMG Audit provided assessment of bank stability services for 2018;

there are no cases of conflicts of interest and/or combination of performance of the functions of the internal auditor.

Rotation of auditors in the bank during the last five years - in 2017 the bank changed its auditor, in 2019 the bank changed its auditor.

The charges applied to the auditor by the Audit Chamber of Ukraine during the year, and the facts of the submission of the bank's false statements, confirmed by the auditor's report, revealed by the authorities that carry out the state regulation of financial services markets, are absent.

Protection by the bank of rights of the consumers of financial services:

the mechanism of consideration of complaints of the consumers of financial services is carried out in accordance with the procedure established by the Law of Ukraine "On Protection of Consumer Rights";

the bank did not assign an employee authorized to consider complaints about financial services;

the bank has no complaints regarding the provision of financial services in 2019;

the bank has no lawsuits regarding the provision of financial services in 2019.

Corporate Secretary fulfilled his duties from March 15 to November 30 not elected to the Bank in 2019, corporate governance in the bank, the submission of which is provided for by the laws on the regulation of specific financial services markets, is carried out in accordance with the regulations of the authorities that carry out the state regulation of financial services markets.

Confirmation on annual financial statements of JSC «CREDITWEST BANK»

The annual financial statements of JSC "CREDITWEST BANK" are prepared in accordance with International Accounting Standard 1 "Presentation of Financial Statements" (IAS 1), in accordance with the Law of Ukraine "On Accounting and Financial Reporting", contain a reliable and objective presentation of information about the condition of assets, liabilities, financial condition, profits and losses of the bank. The annual report of management includes reliable and objective presentation of information in accordance with part four of Article 40-1 of the Law of Ukraine "On Securities and the Stock Market".

Management believes that the annual financial statements reflect all adjustments necessary for a reliable presentation of the Bank's financial position, the results of its operations, the statement of changes in its own capital and the statement of cash flows for the interim reporting period, its financial results and cash flows for the twelve months that ended on the specified date in accordance with International Financial Reporting Standards (taking into account regulatory acts of the National Bank of Ukraine that regulate the accounting and financial reporting of banks), the Law of Ukraine "On Accounting and Financial Reporting in Ukraine ".

Management personnel is responsible for the execution and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards (taking into account regulatory acts of the National Bank of Ukraine that regulate the accounting and financial reporting of banks), the Law of Ukraine "On Accounting and Financial Reporting in Ukraine".

Mr. Igor Tykhonov Chairman of the Board

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Supervisory Board of Joint Stock Company "WEST FINANCE AND CREDIT BANK"
To the National Bank of Ukraine

Report on the financial audit

Opinion

We have audited the financial statements of Joint Stock Company "WEST FINANCE AND CREDIT BANK" (the Bank), which comprise:

- statement of financial position as of the end of December 31, 2019;
- statement of profit and loss and other comprehensive income for 2019;
- statement of cash flow for 2019 (direct method);
- statement of equity for 2019;
- notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), and meets the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine".

Basis for opinion

We conducted an audit in accordance with International Standards on Auditing ("ISA"). Our responsibility under these standards is described in *"Auditor's Responsibilities for the Audit of Financial Statements"* section of our report. We are independent in relation to the Bank in accordance with the *Code of Ethics of Professional Accountants* of International Ethics Standards Board for Accountants *(IESBA Code*) and ethical requirements applicable in Ukraine to our audit of financial statements, and also performed other ethical obligations in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter paragraph

We draw attention to Note 32 of the financial statements, regarding the potential impact of the COVID-19 pandemic on business, which is not quantifiable at this stage with respect to the implications for the operations and profitability of the Bank and the economy as a whole. It cannot be ruled out that this could have an impact on the economic slowdown with potential consequences, in particular, having a negative impact on the Bank's performance and financial position, the nature and consequences of the present cannot be determined. Our opinion on this issue was not modified.

Key audit matters including the most significant estimated risks of material misstatement, in particular, estimated risks of material misstatement due to fraud

Key audit matters are those matters that, in our professional judgment, were of the most significance during our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole and were taken into account in forming an opinion thereon. Upon that, we do not provide a separate opinion on these matters. We identified that matters described below are the key audit matters to be reflected in our report.

Key Audit Matter	How the key audit matter was addressed in the audit
Provisions for covering losses due to loans impairment, debtors, loans granted to other banks amount to UAH 15 577 thousand.	
See Notes 9, 4 and 5	
We have an increased focus on this area as a key audit matter due to the balance materiality on clients' loans and debtors, bank loans and debts, and the subjective nature of judgments used in impairment calculation. Provisions for covering losses due to impairment reflect assessment of the management of expected loss on portfolios of loans and debtors as of the reporting date. Assessment of the expected loan losses on financial tool is carried out in a way that reflects: the objective and probable amount determined by means of estimating a certain range of possible results, time value of money, reasonable and verifiable information about past events, current conditions and forecasts of future economic conditions, taking into account all reasonable and verifiable information, including the forecast one. Detection of a significant increase in credit risk, impairment and determination of the expected reimbursement amount includes certain assumptions and analysis of various factors, including the financial position of the borrower, expected future cash flows, market prices, available for observation, fair collateral value. The use of different models and assumptions may lead to different estimates of the provision for loans and debtors' impairment.	Our procedures included, but were not limited to the following: - Testing of the internal control system introduced by the management in terms of calculation of provisions for covering losses due to loans impairment and debtors on both individual and collective basis. - We also independently evaluated the appropriateness of management opinion regarding the used methodology of calculation and inputs for past events, current conditions and forecast information for calculating default probability factors, as well as collateral reimbursement and value. - Regarding provisions for loans impairment with identified individual depreciation marks, we have tested the assumptions underlying the impairment identification and its quantification, including analysis of the borrowers' financial position, forecasts for future cash flows and collateral valuation. Regarding provisions for loans impairment without identified individual depreciation marks, calculated on a collective basis, we tested the models used and the input data used in these models and their mathematical accuracy. We did not find any significant discrepancy based on the results of these tests.

Other matters

The audit of the Bank's financial statements for the year ended December 31, 2018 was conducted by another auditor, whose report dated April 26, 2019 contained an unqualified opinion.

Other information

The management staff is responsible for the other information. The other information comprises the Management Report for 2019, which includes a Corporate Management Report as a separate section (but is not financial statements and our auditors' report thereon) which we obtained prior to the date of this auditors' report, and the Annual information on the issuer of securities for 2019 (containing a Corporate Management Report), which we expect to receive after this date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information mentioned above and, upon that, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained at the audit, or whether this other information seems to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We found no facts to be included in the report.

When we learn the Annual Information of the Issuer of Securities for 2019, if we come to the conclusion that it contains a material misstatement, we will need to inform on this matter those who have the highest authorities.

Responsibility of the management staff and those who have the highest authorities for financial reporting

The management staff is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", and for such internal control system, as the management staff determines as necessary to enable preparation of financial statements free from material misstatement due to fraud or error.

In preparing the financial statements, the management staff 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 the management staff either intends to liquidate the Bank or to cease operations, or have no realistic alternatives but to do so.

Those who have the highest authorities are responsible for the supervision over the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole are free from material misstatement due to fraud or error, and to issue an auditors' 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or collectively, they could reasonably be expected to influence the users' economic decisions taken on the basis of these financial statements.

Performing an audit in accordance with ISA, we use professional judgment and professional skepticism throughout the audit task. Besides we:

- identify and assess the risks of material misstatement of the financial statements due to fraud or error, develop and perform audit procedures responsive to those risks, as well as obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than due to error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or neglecting of internal control measures;

- obtain understanding of internal control measures relevant to the audit in order to develop audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control system;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures of information made by the management staff;

- conclude on the appropriateness of the going concern basis of accounting use by the management staff 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 there is a material uncertainty, we are required to draw attention in our auditors' report to the related disclosures of information in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained prior to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures of information, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those who have the highest authorities on information, among other matters, about the planned scope and timing of the audit and significant audit findings, including any material deficiencies in internal control measures which we've identified during the audit.

We also provide those who have the highest authorities with statements that we have complied with relevant ethical requirements regarding independence, and communicate with them on all relationships and other matters that may reasonably be considered to be such as to affect our independence, and where applicable, on related safeguards.

From the matters communicated with those who have the highest authorities, we've determined those of the most significance in the audit of the financial statements of the current period, that is matters being the key audit matters. We describe these matters in our auditors' report, unless legislative or regulatory act precludes public disclosure of the matter, or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report as the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Other information required by Article 14 of the Law of Ukraine "On Financial Audit and Auditing Activities"

In accordance with the requirements of Article 14 of the Law of Ukraine "On Financial Audit and Auditing Activities", in our independent auditors' report we present the following information required in addition to the International Standards on Auditing:

Purpose and duration of the audit task

We were appointed as auditors by the decision of the Supervisory Board of the Bank on October 22, 2018 to perform the statutory audit of the Bank's financial statements for the year ended on December 31, 2018. Total duration of the audit task on the statutory audit of the Bank's financial statements performing by us, without interruptions, taking into account the continuation of the powers obtained and reappointments, is 6 years.

Provision of non-audit services and independence

We confirm that as far as we know and convinced, we did not provide the Bank or its controlled business entities with non-audit services prohibited by law, as specified in part four of Article 6 of the Law of Ukraine "On Financial Audit and Auditing Activities". We, including the key audit partner, were independent in relation to the Bank in conducting our audit.

We have provided the Bank or the entities controlled by it with the following services, except for statutory audit services not disclosed in the financial statements or in the Management Report: assessment of the Bank's assets quality and eligibility of collateral for loans as of January 1, 2018, within the framework of fulfilling the requirements of the Terms of Reference for the assessment of stability of banks and banking system of Ukraine, approved by the decision of the Board of the National Bank of Ukraine No. 848 dated December 28, 2017.

Consistency with an additional report for the audit committee

We confirm that our audit opinion on financial statements set out in this independent auditors' report is in accordance with the additional report for the Supervisory Board of the Bank.

Consistency of management report with financial statements

Based on results of the work carried out in the course of audit, taking into account knowledge and understanding of the Bank's activities and conditions of its work formed in the course of audit, in all material aspects:

- the Management Report which includes a Corporate Management Report of JSC «CREDITWEST BANK» for 2019, has been prepared in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", "Instructions on the Procedure for Preparation and Publication of Financial Statements of Banks of Ukraine", approved by the NBU Resolution No. 373 dated October 24, 2011, and other applicable legislative and regulatory acts, and the information provided therein is consistent with the financial statements;

- we found no material misstatement of information in the Management Report.

Explanations on the audit effectiveness in terms of identifying violations, in particular those related to fraud

The objectives of our audit regarding fraud are to identify and assess the risks of financial statements material misstatement due to fraud, to obtain sufficient reasonable audit evidence about the assessed risks of material misstatement due to fraud by means of appropriate audit procedures performing in response to these risks, as well as to take necessary measures regarding actual or suspected fraud cases detected in the course of the audit. However, the primary responsibility for fraud preventing and detecting is borne by those who have the highest authorities and the management staff of the Bank.

Identification and assessment of potential risks related to violations	Actions in response to assessed risks

In identifying and assessing material misstatement risks in terms of detecting violations, in particular those related to fraud and non-compliance with legislative and regulatory requirements, our procedures included, among others, the following:
- requests for management staff and for those who have the highest authorities, including receipt and revision of the supporting documentation on the Bank's policy and procedures regarding:
  - identification, assessment and compliance with legislative and regulatory requirements, as well as availability of information about any cases of violation thereof;
  - detection and response to fraud risks and availability of information about any actual, suspected or anticipated fraud; and
  - internal controls implemented to reduce risks related to fraud or non-compliance with legislative and regulatory requirements.
- discussion by audit task team members of the circumstances under which and at what stage the Bank's financial statements may be exposed to material misstatement due to fraud, including fraud way. Within this discussion, we identified the potential for fraud in the following areas: revenue recognition, neglecting of control measures by the management staff; and
- understanding of the legislative and regulatory acts applicable to the Bank and forming the legal and
	As a result of the performed procedures for risks identification assessment, any matters associated with the potential risk of fraud or non-compliance with legislative and regulatory requirements were not identified as key audit matters by us.
	Our procedures in response to other identified risks, among others, were as follows:
	- review of financial statements disclosures and supporting documentation testing in order to assess compliance with the requirements of the relevant laws and regulations considered in this section;
	- management staff request to those who have the highest authorities and to internal lawyers on existing and potential court actions and claims;
	- analytical procedures performing in order to identify any unusual or unexpected relationships that may indicate the risks of material misstatement due to fraud;
	- familiarization with the minutes of meetings of those who have the highest authorities and review of internal audit reports;
	- testing the compliance of information reflected in the financial accounting and adjustments; assessment of whether judgments and decisions made by the management staff at accounting estimates determination mean the existence of bias; evaluating the economic feasibility regarding significant operations which are unusual or beyond the normal course of business.

Identification and assessment of potential risks related to violations	Actions in response to assessed risks
regulatory basis for its activities. Upon that we paid special attention to those laws and regulations that influenced directly the financial statements or which had a fundamental impact on the Bank's activities. Key laws and regulations we discussed in this context included the Law of Ukraine "On Banks and Banking" and regulatory acts of the National Bank of Ukraine in the area of licensing and prudential supervision, the Law of Ukraine "On Securities and Stock Market" and applicable regulatory acts of the National Securities and Stock Market Commission, the Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets".	We also informed all audit task team members on the relevant identified laws and regulations, potential risks of fraud, and were watchful throughout the audit regarding any signs of fraud or failure to comply with laws and regulatory acts.

Other matters

Based on results of the work carried out in the course of audit, taking into account knowledge and understanding of the Bank's activities and conditions of its work formed in the course of audit, in all material aspects:

- information contained in the Corporate Management Report as a part of Management Report of the Bank for 2019, in accordance with the requirements of clauses 1–4, part three of Article 40^1 of the Law of Ukraine "On Securities and Stock Market", was prepared in accordance with the requirements of the Law of Ukraine "On Securities and Stock Market" and other applicable legislative and regulatory requirements, and is consistent with the financial statements;

- in our opinion the Corporate Management Report as a part of the Management Report of the Bank for 2019, responsibility for which is borne by the management staff of the Bank, contains all the information required in clauses 5–9, part three of Article 40^1 of the Law of Ukraine "On Securities and Stock Market".

Other legislative and regulatory requirements

Reporting required by the Law of Ukraine "On Banks and Banking Activity" and the "Regulations on the procedure for the auditors' report on the financial statements annual audit filing to the National Bank of Ukraine by the Bank", approved by the Resolution of the National Bank of Ukraine (hereinafter referred to as NBU) No. 90 dated February 08, 2018

In accordance with the requirements of the Law of Ukraine "On Banks and Banking Activity" and the "Regulations on the procedure for the auditors' report on the financial statements annual audit filing to the National Bank of Ukraine by the Bank", approved by the Resolution of the National Bank of Ukraine (hereinafter referred to as NBU) No. 90 dated February 08, 2018, the auditors' report should also contain information (assessment) concerning:

1) compliance (accuracy of reflection) of data on bank assets and liabilities distribution by maturity periods in a file with indicators of statistical reporting A7X "Data on the structure of assets and liabilities by periods" prepared by the Bank for submission to the National Bank, as of January 1 of the year following the reporting one;

2) the bank's compliance with the requirements established by laws and regulations of the National Bank on:

- internal control;
- internal audit;
- credit exposure on active banking transactions;
- recognition of persons associated with the bank and carrying out transactions with them;
- bank's capital adequacy, which should be determined taking into account the bank's assets quality;
- accounting record-keeping.

The purpose of the audit was to express an opinion on whether the Bank's annual financial statements for 2019 accurately reflect the financial position of the Bank in accordance with International Financial Reporting Standards in all material respects.

The information contained in this report is the result of performing the procedures by us within the audit of the Bank's annual financial statements for 2019. The mentioned information is obtained on the basis of selective testing and in the volumes required for audit procedures planning and conducting in accordance with the requirements of International Standards on Auditing.

This report is intended for information and use by the management of the Bank and the National Bank of Ukraine, and cannot be used by any other party. When familiarizing with this report, the limited nature, as described above, of the procedures for evaluating matters related to the Bank's activities, organization of the accounting and internal control system should be taken into account.

Besides, it should be taken into account that the criteria of our assessing the matters related to the Bank's activities, organization of accounting and internal control system may differ from the criteria applied by the National Bank of Ukraine.

According to the results of performing the audit procedures by us within the audit of the annual financial statements, we provide information (assessments) regarding the above issues:

As a result of our audit procedures within the annual financial statements audit, we have found no evidence of non-compliance by the Bank with the requirements of the National Bank of Ukraine on the compliance (accuracy of reflection) of data on bank's assets and liabilities distribution by maturity periods in a file with indicators of statistical reporting A7X "Data on the structure of assets and liabilities by periods" prepared by the Bank for submission to the National Bank, as of January 1 of the year following the reporting one, namely as of January 01, 2020.

Regarding the compliance of the bank with the requirements established by laws and regulations of the National Bank on issues of:

internal control

As a result of our audit procedures within the annual financial statements audit, we have found no evidence that the Bank's structure and internal control measures do not meet the requirements of laws and regulations of NBU, in particular, the Resolution of the National Bank of Ukraine No. 88 dated July 29, 2019 "On Approval of the Regulation on organization of internal control in the banks of Ukraine and banking group".

internal audit

In our opinion, at the time of the audit, the Bank's internal regulatory documents, which regulate internal audit procedures, are in compliance with the requirements of laws and regulations of NBU, in particular, of the Resolution of the National Bank of Ukraine No. 311 dated May 10, 2016, "On Approval of the Regulations on the Internal Audit Organization in the Banks of Ukraine". Internal audit procedures are carried out in compliance with the requirements of the Bank's internal regulatory documents.

credit exposure on active banking transactions

Credit risk amount as of the reporting date is calculated by the Bank in accordance with the requirements of laws and regulations of the National Bank, including the Regulation on the determination by banks of Ukraine of the credit exposure on active banking transactions, approved by NBU Board Resolution No. 351 dated June 30, 2016 (hereinafter referred to as NBU Resolution No. 351).

As a result of our audit procedures within the annual financial statements audit, we have found no material deviations from the credit risk calculation made by the Bank as of December 31, 2019.

recognition of persons associated with the bank and carrying out transactions with them

As a result of our audit procedures within the annual financial statements audit, we have found no evidence of the Bank's risk management system mismatch in the course of transactions with related persons, procedures for identifying the persons associated with the Bank and transactions with them with the requirements of laws and regulations of NBU. In course of the audit, we have found no violations of regulatory requirements in terms of carrying out transactions with related parties.

bank capital adequacy, which should be determined taking into account the bank's assets quality

The authorized capital of the Bank as of December 31, 2019 is sufficient and amounts to UAH 364,410 according to the Bank. As it is noted in Note 19 "Authorized Capital", in May 2019 by the decision of the Bank's shareholder, the authorized capital of the Bank was increased by UAH 56 986 thousand by directing prior years profits to the share capital of the Bank.

As of December 31, 2019, the regulatory capital of the Bank amounts to UAH 388,907, that corresponds to the requirements of laws and regulations of NBU (see Note 29 "Capital Management").

accounting record-keeping

The Bank's accounting system meets the requirements of NBU laws and regulations, as well as accounting policy of the Bank.

Key audit partner

Partner of the audit task, the result of which is this independent auditors' report, is Nersesyan Gagik Serhiiovych.

Director General

BAKER TILLY UKRAINE LLC — Olexander Pochkun

Registration number of the auditor in the Register of auditors and audit entities: No. 100810.

Partner

BAKER TILLY UKRAINE LLC — Gagik Nersesyan

Registration number of the auditor in the Register of auditors and audit entities: No. 100799.

April 23, 2020

Kyiv, Ukraine

(in thousands of Ukrainian hryvnias)

	Notes	2019	2018
Assets			
Cash and cash equivalents	6	164 228	187,882
NBU certificates of deposit	7	195 304	156,225
Due from banks	8	3 198	3,129
Loans and advances to customers	9	1 240 370	1,260,813
Investment property	10	1 622	1,926
Assets on the right of use	13	11 352	-
Property, equipment and intangible assets	11	11 411	14,354
Deferred tax asset	26	411	318
Other assets	12	37 977	52,225
Total assets		**1 665 873**	**1,676,872**
Liabilities			
Due to banks	14	135 078	160,111
Customer accounts	15	750 667	881,545
Due to international financial institutions	17	337 130	191,375
Income tax payable		1 375	3,243
Lease commitments	13	11 069	
Other liabilities	16	3 583	3,379
Subordinated debt	18	-	38,474
Total liabilities		**1 238 902**	**1,278,127**
Equity			
Share capital	19	364 410	307,424
Unregistered share capital		4 086	4,086
Share premium		2 902	2,902
Additional paid-in capital		-	(6,400)
Retained earnings		55 573	90,733
Total equity		**426 971**	**398,745**
Total liabilities and equity		**1 665 873**	**1,676,872**

Signed and authorized for issuance

Mr. Igor Tykhonov — Chairman of the Board

Mr. Igor Kuzmenko — Chief Accountant

23 April 2020

The notes set out on pages 47 – 94 form an integral part of these financial statements.

(in thousands of Ukrainian hryvnias)

	Notes	2019	2018
Interest income	21	202 337	203 118
Interest expense	21	(88 081)	(93,624)
Net interest income	21	**114 256**	**109,494**
Fee and commission income	22	26 515	29,930
Fee and commission expense	22	(4 658)	(5,054)
Gains less losses arising from change in or derecognition of financial assets or liabilities		(4 647)	(4,959)
Gains less losses arising from dealing in foreign currencies		4 418	11,270
Gains less losses arising from foreign currency translation		148	1,139
Allocated to provision for impairment of loans and due from banks	25	(3 127)	9,591
Allocated to provision for impairment of other assets	25	(26)	(320)
Other operating income	23	2 026	4,256
Salary and employee benefits		(51 439)	(46,336)
Depreciation and amortization	11	(3 891)	(3,819)
Depreciation assets on the right of use	13	(6 487)	-
Interest expense of lease commitments	13	(1 081)	-
Administrative and other operating expenses	24	(37 586)	(30,917)
Profit before tax		**34 421**	**74,275**
Income tax expense	26	(6 196)	(14,086)
Net profit and total comprehensive income		**28 225**	**60,189**

Signed and authorized for issuance

Mr. Igor Tykhonov — Chairman of the Board

Mr. Igor Kuzmenko — Chief Accountant

23 April 2020

The notes set out on pages 47 – 94 form an integral part of these financial statements.

(in thousands of Ukrainian hryvnias)

	Notes	2019	2018
Operating activities			
Interest received		176 925	197 615
Interest paid		(75 957)	(88 644)
Fees and commissions received		26 221	29 930
Fees and commissions paid		(4 472)	(5 054)
Net receipts from dealing in foreign currencies		3 125	6 528
Other operating income received		1 980	4 384
Administrative and other operating expenses		(96 593)	(82 313)
Income tax paid		(7 223)	(9 744)
Cash flows from operating activities before change in operating assets and liabilities		**24 006**	**52 702**
Changes in operating assets and liabilities			
Change in due from banks		259	(644)
Change in loans and advances		25 270	(194 792)
Change in other assets		(39 000)	(44 356)
Securities measured at amortized cost		10 748	133 999
Change in due to banks		(24 189)	20 016
Change in due to customers		(31 647)	(16 695)
Change in other liabilities		193	492
Cash flows from / (used in) operating activities		**(34 360)**	**(49 278)**
Investing activities			
Purchase of property, equipment and intangible assets		(959)	(9 103)
Proceeds from sale of investment properties		1 355	650
Cash flows used in investing activities		**396**	**(8 453)**
Financing activities			
Proceeds from international financial institutions		48 898	31 728
Proceeds from increase of share capital			-
Repayment of subordinated debt		(36 901)	-
Cash flows from financing activities		**11 997**	**31 728**
Effect of exchange rate fluctuations on cash and cash equivalents		(1 687)	(2 084)
Net increase / (decrease) in cash and cash equivalents		(21 967)	(26 003)
Cash and cash equivalents as at 1 January		**187 882**	**215 969**
Cash and cash equivalents as at 31 December	6	**164 228**	**187 882**

Signed and authorized for issuance

Mr. Igor Tykhonov — Chairman of the board

Mr. Igor Kuzmenko — Chief Accountant

23 April 2020

(in thousands of Ukrainian hryvnias)

	Share capital	Unregistered share capital	Share premium	Additional paid-in capital	Retained earnings	Total
Balance at 1 January 2017	**204,933**	**69,086**	**2,902**	**(6,400)**	**68, 036**	**338,557**
Share capital registration	65,000	(65,000)	-	-	-	-
Share capital increase	37,491	-	-	-	(37,491)	-
Total comprehensive income for the year	-	-	-	-	60,189	**60,189**
Balance as at 31 December 2018	**307,424**	**4,086**	**2,902**	**(6,400)**	**90,734**	**398,746**
Share capital registration	56 986	-	-	-	(56 986)	-
Share capital increase (Note 18)		-	-	6 400	(6 400)	-
Total comprehensive income for the year	-	-	-	-	28 225	**28 225**
Balance as at 31 December 2019	**364 410**	**4 086**	**2 902**	**-**	**55 573**	**426 971**

Signed and authorized for issuance

Mr. Igor Tykhonov — Chairman of the Board

Mr. Igor Kuzmenko — Chief Accountant

23 April 2020

1. Background

Organisation and operations

JOINNT STOCK COMPANY “WEST FINANCE AND CREDIT BANK” (the Bank) was established as the closed joint stock company according to Ukrainian legislation and registered by the National Bank of Ukraine (the NBU) on 4 October 2006. In January 2009, the Bank was reorganised into open joint-stock company. In January 2011, the Bank was re-registered in the form of a public joint stock company. In November 2018, the Bank was re-registered in the form of a joint stock company.

The principal activities of the Bank are lending, deposits taking, cash and settlement operations, operations with foreign exchange, as well as other services. The Bank’s activities are regulated by the National Bank of Ukraine.

The head office is located at A A1, 4, Leontovicha Str., Kyiv, Ukraine.

As at 31 December 2019, the Bank had 91 employees (31 December 2018: 87 employees).

The ultimate controlling party of the Bank is ALTINBAS HOLDING ANONIM SIRKETI that owns 100% of the Bank’s shares as at 31 December 2019 (31 December 2018: 100%) and is ultimately controlled by the Altinbas family.

As at 31 December 2019, the Bank’s share capital is fully paid in solely via cash contributions in the equivalent of UAH 364 410 thousand. During 2019, there were a reinvestment of the previous year's profits amounted to UAH 56 986 thousand and the part of the subordinated debt were contributed to the share capital in amount of to UAH 65,000 thousand.

The latest issue was conducted in 2017 in the amount of:

- UAH 65,000,001.60 (securities sale-purchase contract #3 dated 6 November 2017 – for 36,111,112 shares, payment order #1 dated 22 December 2017).

The contributions to the share capital of the Bank were used for the activities envisaged by the Bank’s Charter.

There were no other financial statements prepared in accordance with the Laws of Ukraine except for annual financial statements and interim quarterly financial statements prepared in accordance with International Financial Reporting Standards.

2. Economic environment of the Bank

The Bank’s operations are primarily located in Ukraine. The political and economic situation in Ukraine in recent years is unstable, with the specifics of the emerging market. Consequently, operations in the country involve risks that do not typically exist in other markets.

An armed conflict in certain parts of Lugansk and Donetsk regions, which started in spring 2014, has not been resolved and part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory. Various events in March 2014 led to the accession of the Republic of Crimea to the Russian Federation, which was not recognized by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation.

In November 2018, following an incident between the Russian and Ukrainian military around a waterway connecting the Azov Sea and the Black Sea, the Ukrainian authorities introduced martial law for a 30-days period in 10 regions located along the Russian and Moldavian border, the Azov Sea and the Black Sea coast. The martial law was terminated at the end of December 2018, on the elapse of 30 days.

Ukraine’s economic situation deteriorated significantly in 2014-2019 as a result of the fall in trade with the Russian Federation and military tensions in Eastern Ukraine. Although instability continued throughout 2017-2019, Ukrainian economy showed first signs of recovery with inflation rate slowing down, lower depreciation of hryvnia against major foreign currencies, growing international reserves of the National Bank of Ukraine and general revival in business activity.

In 2016-2019, the NBU made certain steps to provide a relief to the currency control restrictions introduced in 2014–2015. In particular, the share of foreign currency proceeds subject to mandatory sale in the interbank market was gradually reduced, and the settlements period for export-import operations in foreign currency was increased. Also, the NBU allowed Ukrainian companies to pay dividends abroad with a certain monthly limitation. In February 2019, a new law on currency and currency transactions came into force. The new law abolishes a number of restrictions, defines new principles of currency operations, currency regulation and supervision, and results in significant liberalization of foreign currency transactions and capital movements. The banking system remains fragile due to low level of capital and weak asset quality and the Ukrainian companies and banks continue to suffer from the lack of funding from domestic and international financial markets.

The International Monetary Fund has continued to support the Ukrainian government under the four-year IMF Extended Financing Program approved in March 2015. In October 2018 the government of Ukraine reached an agreement with the IMF on a new fourteen-month Stand-By program, which will replace the existing EFF program. Other international financial institutions have also provided significant technical support in recent years to help Ukraine restructure its external debt and launch various reforms (including anticorruption, corporate law, and gradual liberalization of the energy sector).

In November 2019, Moody's confirmed Ukraine's credit rating on Caa1, with a stable outlook, reflecting the reaching of an agreement on further cooperation with the IMF, positive expectations regarding certain reforms and improved foreign affairs. Further stabilization of economic and political environment depends on the continued implementation of structural reforms and other factors.

Whilst management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Bank's results and financial position in a manner not currently determinable.

These financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

3. Basis of preparation

Background

These financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter 'IFRSs'), requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation, and the effective regulations on submission of annual reports by issuers.

During the year ended 31 December 2019, the Bank has consistently applied the accounting policies as set out below. The financial statements are prepared on the historical cost basis except for derivative financial instruments presented in other assets, and investment properties, which are stated at fair value.

Functional and presentation currency

Transactions are accounted for in the transaction currency. Items of assets and liabilities, income and expenses arising from dealing in foreign currencies are recognized in the financial statements in UAH equivalent at the official NBU foreign exchange rates ruling at the transaction dates. The financial statements are presented in thousands of Ukrainian hryvnias, unless otherwise indicated.

4. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the presentation of the amount of assets and liabilities in the financial statements, as well as the present value of assets and liabilities for the following fiscal year. Assessments and professional judgments are continually analyzed on the basis of management experience and other factors, including expectations for future events that, in the opinion of management, are justified in the light of current circumstances. In the process of applying accounting policies, the management of the Bank also uses professional judgments. Professional judgments that have the most significant impact on the amounts are reflected in the financial statements, and estimates that may result in significant adjustments to the present value of assets and liabilities during the next fiscal year include the following:

Applied in 2018-2019

Management personnel estimates the impairment by assessing the probability of repayment of loans and customer due diligence on the basis of the analysis of individual borrowers for individual significant loans, as well as in aggregate for loans with similar terms and risk characteristics. Factors taken into account when assessing individual loans include the maturity, the borrower's current financial condition, repayment timeliness and pledge, if any. To determine the amount of impairment, management personnel assesses the amounts and timing of future payments from repayment of principal and interest and proceeds from the sale of the collateral, if any. After that, these cash flows are discounted using the initial effective interest rate on the loan. The actual repayment of principal and interest depends on the borrower's ability to generate cash flows from operations or to obtain alternative financing and may differ from those of management personnel.

Factors taken into consideration when estimating impairment of loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions.

Applied in 2019

- classification of financial assets: valuation of a business model that holds financial assets and an assessment of whether contractual terms of a financial asset are foreseen for the payment of exclusively principal and interest on the outstanding balance of principal.
- expected credit losses (impairment) of financial instruments: an assessment of whether there has been a significant increase in the credit risk of an asset since its initial recognition and the inclusion of forecast information in the estimation of expected credit losses.

The Bank recognizes loss allowances for expected credit losses (‘ECL’) on the following financial instruments that are not measured at fair value through profit or loss:

- financial assets that are debt instruments;
- accounts receivable;
- financial guarantees issued;
- loan commitments issued.

The Bank recognizes loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognized will be 12-month ECLs:

- debt investment securities that have low credit risk at the reporting date;
- other financial instruments on which credit risk has not increased significantly since initial recognition.

(in thousands of Ukrainian hryvnias)

5. Significant accounting policies

(a) Foreign currency translation

The Bank's functional currency is Ukrainian hryvnia, as the currency of the Bank's core business environment. Transactions denominated in other currencies are considered foreign currency transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the NBU exchange rate ruling at that date. Foreign currency differences arising on the translation are recognized in profit or loss as gain/loss from foreign currency translation. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

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

Exchange rates applied to the translation of assets and liabilities denominated in foreign currencies. The Ukrainian hryvnia is not a convertible currency outside Ukraine. Accordingly, any conversion of UAH amounts to USD should not be construed as a representation that UAH amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate.

In preparation of these financial statements, management applied the NBU official rate for the retranslation of the operations and balances in foreign currencies. The NBU official exchange rates are derived from officially published source. Management believes that application of these rates substantially serves comparability purposes.

Introduction of new or revised standards and interpretations

The Bank adopted IFRS 9 Financial Instruments ("the Standard") (2014) effective 1 January 2018. The Standard replaced IAS 39 Financial Instruments: Recognition and Measurement. In connection with the transitional methods chosen by the Bank in applying IFRS 9, comparative information in these financial statements as a whole was not recalculated in accordance with its requirements.

The effect of the initial application of this standard is primarily due to an increase in impairment losses recognized by financial assets (see below).

The Bank began applying IFRS 15 "Revenue from Customer Contracts" from January 1, 2018. The application of IFRS 15 did not materially affect the financial statements and did not affect the recognition periods or the amount of commission income under customer contracts and the value of the respective assets and liabilities recognized by the Bank.

(b) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of transition to IFRS 9, the Bank also applied accompanying amendments to IFRS 1 "Presentation of Financial Statements" requiring separate disclosure of interest income calculated using the effective interest method in the profit and loss account and other comprehensive income and separate income representation (loss) arising from the cessation of recognition of financial assets at amortised cost. Previously, the Bank disclosed this amount in the notes to the financial statements.

In addition, the Bank has adopted accompanying amendments to IFRS 7 "Financial Instruments: Disclosures" that apply to disclosure in 2019 but are not generally applicable to comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below.

(i) Classification

Upon initial recognition, the Bank classifies financial instruments and determines their model for further measurement. The Bank classifies financial assets based on the business model in which assets are managed and their cash flow characteristics under the host contract.

Financial assets are classified into the following categories:

- financial assets carried at amortized cost (AC);
- financial assets at fair value through other comprehensive income (FVOCI);
- financial assets at fair value through profit or loss (FVTPL).

A financial asset is measured at amortized cost only if it meets both of the following conditions and is not designated as asset at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI criterion") on the principal amount outstanding.

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments);
- upon initial recognition, designated as at fair value through profit or loss.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI criterion") on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI, i.e. designate such instruments as at FVOCI. This election is made on an instrument-by-instrument basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

(ii) Recognition

A financial instrument represents any contract causing origination (increase) of a financial asset for one counterparty and financial liability or equity instrument for the other counterparty.

The Bank recognizes financial assets and liabilities in accounting records, when the Bank becomes a party to the contractual provisions of the instrument. On initial recognition, a financial asset is classified as measured at either amortized cost, fair value through other comprehensive income or fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition, except as in the period after the Bank changes its business model for managing financial assets. The Bank may reclassify financial assets only if it changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Bank's senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. Accordingly, a change in the Bank's business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when the Bank has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Modified financial assets

The terms of the loan provided by the agreement can be modified for a number of reasons, including changes in market conditions, customer retention and other factors that are not related to the current or potential deterioration of the client's creditworthiness. Recognition of an existing loan, the terms of which have been modified, may be discontinued and recognition of a new loan with modified terms at fair value is recognized in accordance with the accounting policies described in Note 5 (b) (iv).

If the conditions of a financial asset are modified and the modification does not lead to a cessation of recognition, determining whether there has been a significant increase in credit risk on an asset is made by comparison:

• Likelihood of default for the remaining balance as of the reporting date based on modified contractual terms; and

• probability of default for the remaining term as of the date of initial recognition on the basis of the original terms of the contract.

When a modification leads to a cessation of recognition, a new loan related to Stage 1 (based on the assumption that it is not a loan-depleted one) is recognized.

(iii) Business model assessment

The Bank will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Major types of business models in which a financial asset is managed are as follows:

- a business model whose objective is to hold assets to collect contractual cash flows;
- a business model whose objective is achieved by collecting contractual cash flows and selling financial assets;
- other business models, including: trading, management on a fair value basis, and maximization of cash flows through sales.

In assessing whether the contractual cash flows are solely payments of principal and interest (the SPPI criterion), the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that could change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic revision of interest rates.

A financial asset is measured at amortized cost only if it meets both of the following conditions and is not designated as asset at fair value through profit or loss:

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

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

All financial assets not classified as measured at amortized cost or at FVOCI as described above are measured at FVTPL.

The Bank's financial liabilities include credit related commitments, guarantees, letters of credit, bills of acceptance and avals issued to banks, and assets receivable. The Bank classifies and measures financial liabilities:

- at amortized cost;
- at fair value through profit or loss.

Bank assesses the business model in which its financial assets are managed on a regular basis for the purposes of generating cash flows. As at the date of business model assessment, the Bank considers all objective evidence/factors observable at that date.

Transaction costs that are directly attributable to the recognition of a financial instrument, including commissions paid to agents, advisors, brokers, dealers, duties to regulators, stock exchanges, etc., are added to the amount of the discount (premium) for underlying financial instrument. The Bank amortizes the amount of the discount/premium during the period of life of a financial instrument (excluding financial instruments at fair value through profit or loss) using the effective interest method on at least monthly basis. The amount of the discount/premium must be fully amortized by the financial instrument maturity date.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for de-recognition, are measured at amortized cost.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is credited or charged to profit or loss or to equity (if financial assets or financial liabilities resulted from transactions with shareholders acting as shareholders) as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortization of the gains/losses on origination and the related income/expense is recorded in profit or loss using the effective interest method.

(iv) Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects the effect of its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

An estimates of whether the cash flows provided for by the agreement are exclusively due to the payment of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of a financial asset at its initial recognition. "Interest" is defined as consideration for the value of money in time, for a credit risk for a principal outstanding for a certain period of time, and for other basic risks and costs associated with lending (for example, liquidity risk and administrative costs); as well as profit margins.

In assessing whether the contractual cash flows are exclusively due to principal and interest on an outstanding portion of the principal ("SPPI" criterion), the Bank analyzes the contractual terms of a financial instrument, namely whether a financial asset contains a contractual clause that may change the timing or amount of cash flows provided for by the agreement so that the financial asset will not meet the requirement. In conducting the assessment, the Bank analyzes:

• Contingencies that may change the timing or amount of cash flows;

• conditions that have leverage effect on cash flows;

• conditions for early repayment and prolongation of validity;

• conditions that limit the Bank’s cash flows from contingent assets - for example, non-recourse financial assets;

• Conditions that cause changes in the reimbursement of the temporary value of money - for example, periodic revision of interest rates.

The prepayment condition meets the SPPI criterion in the event that the amount paid at prepayment is essentially an outstanding portion of the principal and interest on the outstanding portion and may include reasonable additional compensation for early termination of the contract.

In addition, the prepayment clause is considered to be in compliance with this criterion in the event that a financial asset is acquired or created with a premium or a discount on the nominal amount specified in the contract; the amount payable at early repayment is, in essence, the nominal amount specified in the contract plus the accrued (but not paid) interest stipulated by the contract (and may also include reasonable additional compensation for early termination of the contract); and when the initial recognition of a financial asset is a fair value, its terms of early repayment are insignificant.

Reclassification of financial assets is carried out prospectively only in case of changing the business model within which they are held.

Financial liabilities and equity instruments, as well as financial assets that were at the discretion of the Bank are classified as at fair value through profit or loss, are not subject to reclassification

Initial recognition of financial instruments

Financial instruments at fair value through profit or loss on initial recognition are carried at fair value. The costs of acquiring such financial instruments are recorded on expense accounts at the date they are incurred.

All other financial instruments at initial recognition are measured at fair value plus transaction costs added / deducted. The transaction costs and other payments directly related to the recognition of a financial instrument are shown on the discount account (premium) for this financial instrument.

The transaction costs include fees paid to agents, consultants, brokers and dealers, regulatory bodies, stock exchanges, taxes and state taxes, etc.

The transaction costs and commission income, which are an integral part of the financial instrument’s return (excluding financial instruments at fair value through profit or loss) are recognized in the initial value of the financial instrument and are accounted for when calculating the effective interest rates on such a financial instrument.

Termination of recognition of financial instruments

Financial assets

Termination of recognition of financial assets occurs if:

• the validity period of the rights to cash flows determined by the terms of a financial asset agreement expires;

• the transfer of a financial asset meets the criteria for termination;

• write-off of a financial asset at the expense of the reserve.

The transfer of a financial asset occurs if one of the following conditions is met:

• transferred the rights to receive cash flows from a financial asset, which are stipulated by the agreement;

• the rights to receive cash flows from a financial asset that are stipulated by the transfer agreement are retained, but there is an obligation to pay cash flows to one or more recipients under an agreement that meets the following conditions:

- there is no obligation to pay amounts to final buyers until the date of receipt of equivalent amounts from the original asset;

- the terms of the agreement prohibit the Bank from selling or pledging an original financial asset, except for its transfer to the final beneficiaries as a provision for the obligation to pay cash flows;

- there is an obligation to transfer any cash flows received on behalf of the final recipients without significant delay. Interest on such investments is passed on to final recipients.

When transferring a financial asset, the limits are estimated, in which all risks and rewards of ownership of an asset are kept, taking into account the following:

• if, basically, all risks and rewards of ownership of the financial asset are transferred, then the recognition of the financial asset is discontinued and the rights and obligations created or retained during the transfer, separately as an asset or liability, are recognized;

• if, basically, all risks and rewards of ownership of the financial asset are preserved, then the recognition of the financial asset continues;

• if, basically, all risks and rewards of ownership of the financial asset are not preserved or transferred, then it is determined whether the control over the financial asset is retained.

The control of the transferred asset is not available if the party to whom the asset is transferred has the real ability to sell it to an unrelated third party and may sell this sale unilaterally without the need to impose additional restrictions on such transfer.

If the control over a financial asset is not retained, the recognition of such an asset is terminated, otherwise, if the control over the financial asset is retained, its recognition continues to be recognized within the further participation therein.

When a financial asset is derecognised, the difference between the carrying amount of the asset (or the carrying amount attributed to the part of the asset that was derecognised) and the amount (i) of the consideration received (including all new assets received, minus all new liabilities accepted), and (ii) any accumulated gain or loss that has been recognized in other comprehensive income is recognized in profit or loss.

From 1 January 2018, any accumulated amount of profit / loss recognized in other comprehensive income on equity investment securities classified at the discretion of the Bank in the category of fair value through other comprehensive income is not subject to reclassification into net profit or loss on termination of recognition of such securities. Any portion of participation in the transferred financial assets that are subject to the recognition requirements established or retained by the Bank is recognized as a separate asset or liability.

In operations in which the Bank does not retain and does not transfer virtually all risks and rewards of ownership of a financial asset and retains control over an asset, the Bank continues to recognize the asset subject to the continuing involvement of the Bank in the management of this asset, determined by the extent to which it is vulnerable to changes in the value of the transferred asset.

(v) Loss allowance for expected credit losses

The Bank recognizes loss allowance for expected credit losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- financial assets measured at amortized cost;
- financial assets at fair value through other comprehensive income;
- outstanding credit related commitments and financial guarantees;
- financial receivables.

No allowance is recognized for equity instruments. Loss allowance should be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as ‘Stage 1’ financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into measurement of ECLs.

(vi) Measurement of ECLs

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

(vii) Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk stages are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk stages 1 and 2 is smaller than the difference between credit risk stages 2 and 3.

Each exposure is allocated to a credit risk stage on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk stage.

For financial assets that have become credit-impaired (recognized as at Stage 3) subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Significant increase in credit risk

When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank’s historical experience, expert credit assessment and forward-looking information.

The Bank primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime probability of default (PD) as at the reporting date with the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

Determining whether credit risk has increased significantly

The Bank is in the process of developing a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Bank's internal credit risk management process. The criteria for determining whether credit risk has increased significantly vary by portfolio and include a backstop based on delinquency.

In certain instances, using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Bank presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Bad debt is recognized and written off against the provision at the decision of the Management Board. Once the bad debt is written off against the provision, it is carried on the off-balance sheet accounts during the period specified by Ukrainian law

In particular, the Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining the allowance amount include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected revenues, feasibility of other financial support, the realizable value of collateral, and the timing of the expected cash flows.

Definition of default

The financial asset is classified by the Bank as financial assets for which the default event occurred, in the following cases:

- it is unlikely that the borrower's loan commitments to the Bank will be fully settled without the Bank's application of such actions as the implementation of the security (if any);
- the borrower's debt on any of the Bank's material liabilties exceeds 90 days (for default balances in other banks the default event occurs if the financial asset is past due for 30 days). Overdrafts are considered as arrears the next day when the client violated the recommended limit or he was recommended a limit lower than the amount of current outstanding debt.
- changing lending conditions associated with financial difficulties of the debtor.
- initiation of litigation, liquidation or bankruptcy proceedings of the borrower.

In assessing the occurrence of a default event on the obligations of the borrower, the Bank takes into account the following indicators:

- qualitative: for example, violations of the contractual terms of the contract (covenant);
- quantitative: for example, the status of overdue debts and non-payment under another obligation of the same issuer;
- on the basis of data obtained from external sources;

- The beginning of the liquidation or the bankruptcy proceedings of the borrower.

Input data when assessing the occurrence of a default event on a financial instrument and its significance may change over time in order to reflect changes in circumstances.

(viii) Gains and losses on subsequent measurement

The main inputs for the estimation of expected credit losses is the time structure of these variables:

- Default probability (PD);
- loss in default case (LGD);
- The risk of default in the event of default (EAD).

ECL for positions exposed to credit risk at Stage 1 are calculated by multiplying the PD by 12 months for LGD and EAD. ECL for the entire life of a financial instrument is calculated by multiplying PD for the entire duration of the financial instrument on LGD and EAD.

The Bank evaluates LGDs based on information on returns on claims against counterparty defaulters. LGDs provide for the structure, provision, seniority requirements, counterparty industry, and reimbursement of any collateral that is included in the financial asset. For loans secured by real estate individuals, the ratio between the loan amount and the value of the collateral (LTV) will be the main parameter for determining the magnitude of the loss in the event of default. Estimates of the magnitude of the loss in the event of default are calibrated taking into account different economic scenarios, and for lending real estate transactions - taking into account the possible changes in real estate prices. They are calculated on the basis of discounting cash flows using an effective interest rate as a discount factor.

The risk-of-default amount (EAD) is the expected value of a position exposed to credit risk at the date of default. This indicator is calculated by the Bank on the basis of the current value of the exposed position and its possible changes in the contract, including depreciation. For an financial asset, the value of EAD will be its gross carrying value at the time of default. For loan commitments, the EAD is the future amount that can be obtained under a contract, measured on the basis of historical observations and forecast information. For financial guarantee contracts.

As described above, subject to the maximum probability of a 12-month default probability for financial assets in Stage 1, the Bank estimates expected credit losses, taking into account the risk of default within the maximum contractual period (including any borrower's options for prolongation) during which it is exposed for credit risk, even if for the purposes of risk management, the Bank considers a longer period. The maximum period under the agreement extends until the date when the Bank has the right to demand repayment of the granted loan or has the right to cancel the loan or guarantee obligation.

(d) Property, equipment and intangible assets

Property, equipment and intangible assets are carried at cost less accumulated depreciation and amortization and impairment losses. Depreciation and amortization is computed by the straight-line method over the estimated useful lives of the assets. Depreciation commences from the date when property and equipment are ready to use. The estimated useful lives are as follows:

Plant and equipment	5 years;
Motor vehicles	5 years;
Intangible assets	3 years

Expenditures for leasehold improvements are recognized as assets and expensed on a straight-line basis over the shorter of their economic life or the period of the applicable lease.

(e) Investment property

Investment property is property held either to earn rental income or for capital appreciation, or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. The fair value of the Bank's investment property is determined based on reports of the internal appraiser with relevant professional qualification and experience in valuation of property of similar location and category.

(f) Lease

IFRS 16 replaces the current lease accounting requirements in IAS 17 Leases, IFRIC 4 Determine whether a lease agreement is in place, PKT-15 Operational Lease-Promotion and PTC-27, "Estimation of the essence of transactions that are legal the form of the lease agreement ".
This Standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted.
IFRS 16 introduces a single model for leasing leaseholders' accounting, which provides for their presentation on the lessee's balance sheet. In accordance with this model, the lessee must recognize the asset in the form of the right of use, which is the right to use the underlying asset, and the lease obligation, which is the obligation to make lease payments. Optional exemptions from the standard for short-term lease and rental of low-value wearables. The accounting rules for landlords remain similar to existing, that is, lessors will continue to classify the lease as a finance lease or operating lease.
As a tenant, the Bank may apply a standard using:

- retrospective approach; or
- a modified retrospective approach with the optional exemption from the requirements of a standard of a practical nature.

The lessee applies the chosen option consistently to all lease agreements in which he acts as a tenant.
The Bank has applied IFRS IFRS 16 as of January 1, 2019, using a modified retrospective approach using the option to recognize an asset for use in an amount equal to a lease, adjusted for the amount of any advance paid or leased charges related with this lease, recognized in the statement of financial position just before the date of the first application. This approach allows the presentation of financial statements without the transfer of comparative information for the previous period.
The Bank is not obliged to make any adjustments under the lease agreements in which the Bank acts as a lessor, except for cases when the Bank is an intermediate lessor under a sublease agreement.
The Bank has completed the initial assessment of the possible impact of the application of IFRS 16 on its financial statements, as well as completed a detailed assessment. The actual impact of the application of IFRS 16 on the financial statements in the first application period depended on future economic conditions, the composition of the lease contract portfolio, the Bank's assessment of whether it intends to exercise its rights to extend the lease, and which of the available simplifications in the standard of a practical nature and the Bank decides to apply exemptions.
The Bank will recognize new assets and liabilities under operating leases of office premises. In addition, the nature of the costs recognized in respect of these leases will change as, in accordance with IFRS 16, instead of operating lease expenses recognized on a straight-line basis over the term of the relevant contract, the Bank will have to reflect depreciation costs in the form of the right of use and interest expense relating to lease liabilities.
Previously, the Bank recognized the operating lease costs on a straight-line basis over the entire lease term and recognized assets and liabilities only to the extent that there was a difference between the actual payouts for the lease and the recognized expense.
The Bank has estimated that as of January 1, 2019, lease obligations are amounted to UAH 17,839 thousand. As of January 1, 2019, the Bank recognized the right to use an asset in the amount of UAH 17,839 thousand, which is equal to the lease obligation adjusted for the amount paid in advance or

assessed lease payments related to this lease recognized in the statement of financial position right before the date of first application.

(g) Recognition of income and expense

Interest and similar income and income expense and similar charges are recognized in profit or loss on an accrual basis, taking into account the effective yield/rate of the asset/liability or an applicable floating rate. Interest and similar income and income expense and similar expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Commission income and expense is recognized on an accrual basis. Other fees, commission and other income are recognized when the corresponding services are provided/received.

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

(h) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the statement of financial position date plus and any adjustments to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(i) Employee benefits

Pensions are provided by the State. Mandatory contributions are made by the Bank and employees based on each individual employee’s earnings. The cost for these contributions is recognized in profit or loss when contributions are due and is included in salaries and employee benefits as part of administrative and other operating expenses.

(j) Cash and cash equivalents

Cash and cash equivalents include cash, balances with the National Bank of Ukraine and balances due from banks with contractual maturity within three months.

(k) Offsetting

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

(l) Calculation of interest income and expenses

Interest income on financial assets measured at amortized cost is recognized at the effective interest rate to gross book value, except:

• purchased or created depreciated financial assets. For such financial assets, the effective interest rate adjusted for credit risk is applied to the amortized cost of the financial asset from the date of initial recognition. The calculation of interest income on such assets is not carried out based on the gross carrying amount, even if the credit risk on them will decrease further. ;

• financial assets that are not acquired or created by impaired financial assets, but which subsequently became depreciated financial assets. In the case of such financial assets, the Bank shall apply the effective interest rate to the amortized cost of the financial asset in subsequent years after the date of recognition in the impaired reporting periods. If the financial asset is no longer loan-denominated, then the calculation of interest income is again based on gross book value.

The effective interest rate is revised as a result of the periodic revaluation of cash flows for interest bearing instruments in order to reflect changes in market interest rates.

Submitting of information

Interest income calculated using the effective interest method presented in the statement of income and other comprehensive income includes interest income calculated using the effective interest method for financial assets measured at amortized cost.

Interest expense presented in the statement of income and other comprehensive income includes financial liabilities measured at amortized cost.

(m) Segment reporting

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

For management reporting purposes, the Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy. There are no customers from which revenues exceed 10% of total external revenue.

(n) New accounting pronouncements

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2019, and are not applied in preparing these financial statements. The Bank intends to adopt these standards, if necessary, when they become effective.

The following standards are expected to have a material impact on the Bank’s financial statements in the period of initial application.

Impact of initial application of IFRS 16 Leases

In the current year, the Bank has applied IFRS 16 that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 5 (f) Significant accounting policies. The impact of the adoption of IFRS 16 on the Bank's financial statements is described in the note 13..

Adoption of amendments to IFRS Standards and Interpretations that has not had any material impact on financial statements of the Bank

In the current year, the Bank has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- Amendments to IFRS 9 Financial Instruments– Prepayment Features with Negative Compensation.
- Amendments to IAS 28 Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures.
- Annual Improvements to IFRS Standards 2015–2017 – Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.
- Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement.
- IFRIC 23 Uncertainty over Income Tax Treatments.

Other standards

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 17 – Insurance Contracts (effective for annual reporting periods beginning on or after 1 January 2021).
- IFRS 10 and IAS 28 (amendments) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (The effective date of the amendments has yet to be set by the IASB).
- Amendments to IFRS 3 – Definition of a business (applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020).
- Amendments to IAS 1 and IAS 8 – Definition of material (applied prospectively for annual periods beginning on or after 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7 – IBOR Reform (effective for annual period beginning on or after 1 January 2020).
- Conceptual Framework Amendments to References to the Conceptual Framework in IFRS Standards (amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020).

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods

(in thousands of Ukrainian hryvnias)

6. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2019 are as follows:

	2019	**2018**
Cash on hand	19 065	15,863
Balances with the NBU	17 972	31,086
Current accounts placed with other banks	127 191	140,933
Total	**164 228**	**187 882**

Effective 25 December 2017, the NBU amended the requirements regarding the mandatory reserve on the correspondent account with the NBU. In accordance with Resolution No. 752-рш of the Management Board of the National Bank of Ukraine dated 23 December 2017 “On creation and maintenance of mandatory reserves”, the control over the balance of the mandatory reserve on the correspondent account with the National Bank of Ukraine on a daily basis was cancelled. As at 31 December 2019, the statutory amount of the mandatory reserve was UAH 34 714 thousand.

The following table represents an analysis of current amounts due from banks by rating agency designation based on Standard and Poor’s ratings (S&P) or their equivalents as at 31 December:

	2019	**2018**
Current accounts placed with other banks:		
BBB- to A+	121 664	130,398
BB- to BB+	5 439	10,328
CC- to CC+	88	207
	127 191	**140 933**

As at 31 December 2019, the two largest balances on current accounts placed with other banks comprised UAH 125 258 thousand or 98.48% of total balances on current accounts with other banks (2018: UAH 130 398 thousand or 92.5%).

7. NBU certificates of deposit

Investment securities are represented by the NBU certificates of deposit. NBU certificates of deposit bear the interest rates within the range of 11.5-13.5% and mature in January 2020. Certificates of deposit of the National Bank of Ukraine were neither impaired nor past due as at 31 December 2019 and 31 December 2018.

8. Due from banks

As at 31 December 2019, due from banks are represented by guarantee secured deposit with maturity exceeding three months placed in one bank having rating “B- to B+” assigned by Standard and Poor’s (S&P) or equivalent ratings (2018: one bank, “B- to B+”). Due from banks were neither impaired nor past due as at 31 December 2019 and 2018.

	2019	**2018**
Deposits	3 198	3 129
Total	**3 198**	**3 219**

(in thousands of Ukrainian hryvnias)

9. Loans and advances to customers

Loans and advances to customers as at 31 December are as follows:

	2019	2018
Corporate	1 253 926	1 274 616
Individuals	2 020	889
Total loans, gross	**1 255 947**	**1 275 505**
Provision for impairment of loans and advances to customers (Note 25)	(15 577)	(14,692)
Total	**1 240 370**	**1,260,813**

Provision for losses on loans to customers at amortized cost

The changes in the provision for expected credit losses on loans to customers at amortized cost during 2019 are presented as follows:

	Level 1	Level 2	Level 3	Purchased or originated credit-impaired assets	Total
ECL as at 31 December 2018	**780**	**58**	**12 572**	**1 283**	**14 692**
Accrued/(disposed) for the year	(42)	157	(1 580)	2 349	885
ECL as at 31 December 2019	738	215	10 992	3 632	15 577

The changes in the provision for expected credit losses on loans to customers at amortized cost during 2018 are presented as follows:

	Level 1	Level 2	Level 3	Purchased or originated credit-impaired assets	Total
ECL as at 31 December 2017	650	370	2 965	1 685	5 670
Changes arising from adoption of IFRS 9	(382)	(252)	15 127	4 121	18 614
ECL as at 1 January 2018	**268**	**118**	**18 092**	**5 806**	**24 284**
Accrued/(disposed) for the year	512	60	5 520	(4 524)	9 592
ECL as at 31 December 2018	**780**	**58**	**12 572**	**1 282**	**14,692**

Significant credit risk concentration

As at 31 December 2019, loans and advances to the ten largest borrowers total UAH 616 924 thousand or 49.1% of the total net loans and advances to customers (2018: UAH 623,073 thousand or 48.8%).

(a) Loan impairment

At 31 December 2019, loans impairment was as follows:

(in thousands of Ukrainian hryvnias)

		Standard	***Under observation***	***Impairmented***	***Total***
Loans to customers at amortized cost					
Loans to legal entities	Stage 1	1 067 494	-	-	**1 067 494**
	Stage 2	-	98 255	-	**98 255**
	Stage 3	-	-	58 914	**58 914**
	POCI assets	-	-	29 263	**29 263**
	Total	**1 067 494**	**98 255**	**88 178**	**1 253 927**
Loans to individuals	Stage 1	2 020	-	-	**2 020**
	Stage 2	-	-	-	**-**
	Stage 3	-	-	-	**-**
	Total	**2 020**	**-**	**-**	**2 020**
Total		**1 069 514**	**98 255**	**88 178**	**1 255 947**

At 31 December 2018, loans impairment was as follows:

		Standard	***Under observation***	***Impairmented***	***Total***
Loans to customers at amortized cost					
Loans to legal entities	Stage 1	1 023 063	-	-	**1 023 063**
	Stage 2	-	168 379	-	**168 379**
	Stage 3	-	-	59 382	**59 382**
	POCI assets	-	-	23 792	**23 792**
	Total	**1 023 063**	**168 379**	**83 174**	**1 274 616**
Loans to individuals	Stage 1	250	-	-	**250**
	Stage 2	-	30	-	**30**
	Stage 3	-	-	609	**609**
	Total	**250**	**30**	**609**	**889**
Total		**1 023 313**	**168 409**	**83 783**	**1 275 505**

(b) Collateral

The following table provides information on collateral as at 31 December, by type of collateral. The table shows the amounts of secured loans rather than the fair value of collateral.

	2019	**2018**
Real estate	922 650	762,982
Motor vehicles	114 535	136,048
Equipment	129 700	291,144
Deposits	80 194	77,469
Unsecured	1 796	6,973
Total	**1 248 876**	**1,274,616**

The Bank lending activities are conducted in Ukraine. The ability of the borrowers to repay their debt is dependent on a number of factors including the overall financial health of the individual borrowers and the continued development of the Ukrainian economy.

(in thousands of Ukrainian hryvnias)

Although collateral can be an important mitigation of credit risk, it is the Bank's policy to lend on the basis of the customer's capacity to repay, rather than rely primarily on the value of collateral offered. Depending on the customer's standing and the type of product, loans may be provided without collateral.

(c) Quality of loans

At 31 December 2019, loans impairment was as follows:

	Gross loans	Impairment	Net loans	Impairment to gross loans
Loans and advances to customers - corporate	1 125 632	938	1 124 694	-0,08%
Not past due	130 315	14 615	115 701	-11,21%
Past due	**1 255 947**	**15 553**	**1 240 395**	**-1,31%**
Total loans and advances to customers - corporate				
Loans and advances to customers - individuals				
Not past due	1 994	16	1 978	-0,80%
Past due	26	9	18	-32,27%
Total loans and advances to customers - individuals	**2 020**	**24**	**1 996**	**-1,21%**

Quality of loans and advances to customers as at 31 December 2018 is presented as follows:

	Gross loans	Impairment	Net loans	Impairment to gross loans
Loans and advances to customers - corporate				
Not past due	1,194,344	(853)	1,193,491	0.07%
Past due	80,272	(13,192)	67,080	16.43%
Total loans and advances to customers - corporate	**1,274,616**	**(14,045)**	**1,260,571**	**1.10%**
Loans and advances to customers - individuals				
Not past due	250	(8)	242	3.35%
Past due	639	(639)	-	100%
Total loans and advances to customers - individuals	**889**	**(647)**	**242**	**72.78%**

(in thousands of Ukrainian hryvnias)

(d) Corporate loans by industry

Corporate loans by industry as at 31 December are as follows:

	2019	2018
Trade	337 784	214,399
Agriculture	184 840	349,955
Manufacturing	516 934	425,252
Financial intermediaries	109 637	147,180
Real estate	0	60,194
Construction	3 926	877
Car rent	20 342	29,375
Other	80 463	47,384
Total	**1 253 926**	**1,274,616**

10. Investment property

Movement in investment property during the year ended 31 December is as follows:

	2019	2018
Fair value as at 1 January	1 926	1,347
Sales	-	(650)
Purchase	-	1,200
Revaluation	(304)	29
Fair value as at 31 December	**1 622**	**1,926**

Loss from revaluation of investment properties comprised UAH 304 thousand in 2019 and were recognized within administrative and other operating expenses (Note 24). Gains from revaluation of investment properties comprised UAH 29 thousand in 2018 and were recognized within other operating income (Note 23).

11. Property, equipment and intangible assets

Movement of property, equipment and intangible assets for the year ended 31 December 2019 is as follows:

	Repaired leased premises	Furniture and equipment	Motor vehicles	Intangible assets	Total
Cost					
1 January 2019	5 568	12 641	3 226	8 736	30 171
Additions	-	717	-	241	958
Disposals	-	(122)	(677)	(81)	(880)
31 December 2019	**5 568**	**13 236**	**2 549**	**8 896**	**30 249**
Accumulated depreciation and amortization					
1 January 2019	2 718	8 858	909	3 332	15 817
Depreciation and amortization	795	1 881	510	705	3 891
Disposals	-	(112)	(677)	(81)	(870)
31 December 2019	**3 513**	**10 627**	**742**	**3 956**	**18 838**
Net book value as at 31 December 2019	**2 055**	**2 609**	**1 807**	**4 940**	**11 411**

(in thousands of Ukrainian hryvnias)

Movement of property, equipment and intangible assets for the year ended 31 December 2018 is as follows:

	Repaired leased premises	**Furniture and equipment**	**Motor vehicles**	**Intangible assets**	**Total**
Cost					
1 January 2018	5,650	11,827	1,946	8,073	27,496
Additions	-	869	2,551	663	4,083
Disposals	(82)	(55)	(1,271)	-	(1,408)
Transfers	-	-	-	-	-
31 December 2018	**5,568**	**12,641**	**3,226**	**8,736**	**30,171**
Accumulated depreciation and amortization					
1 January 2018	2,005	7,121	1,644	2,462	13,232
Depreciation and amortization	795	1,792	362	870	3,819
Disposals	(82)	(55)	(1,097)	-	(1,234)
31 December 2018	**2,718**	**8,858**	**909**	**3,332**	**15,817**
Net book value as at 31 December 2018	**2,850**	**3,783**	**2,317**	**5,404**	**14,354**

12. Other assets

Other assets as at 31 December are as follows:

	2019	**2018**
Real estate foreclosed by the Bank	35 611	49 393
Prepayments	2 197	2 043
Supplies and consumables	5	5
Other	518	1 112
Provision for impairment losses (Note 25)	(354)	(328)
Total	**37 977**	**52 225**

13. Lease

Bank reflects the accounting and submit financial reporting of lease transactions IFRS 16 and recognizes the assets and liabilities for each rental agreement that meets the definition of lease.

The Bank, in accordance with IFRS 16, uses a modified retrospective approach to leases in calculating value.

In accordance with IFRS 16, a new asset category “asset for use” is emerging in the bank - an asset that represents the lessee's right to use the underlying asset for the lease term, for which a separate account is included as a non-current asset to account for the underlying leased asset, and also to account for the depreciation of these assets.

The right to use assets from the date the Bank assesses recognition at cost.
It consists of the following elements:

- Initial assessment of lease obligations (+)

(in thousands of Ukrainian hryvnias)

- Lease payments paid at the beginning of the lease term (they are not discountable, unlike their liabilities) (+)
- Incentive payments on the lease which have been received (the original valuation of the lease payments deducts the payments received from the lessor in connection with the acquisition by the bank of the lease) (-)
- Any initial direct costs incurred by the bank in connection with the acquisition of the lease (+)
- Estimated future expenses of the bank (during the dismantling and moving of the underlying asset; restoration of the site on which it is located; recovery of the underlying asset to a condition required by the lease terms) (+)

The valuation of an asset at the date of the financial statements is carried at cost less accumulated depreciation. The valuation of an asset at cost should be adjusted by the bank for the revaluation of the lease obligation related to the modification of the lease agreement or to reflect substantially fixed lease payments.

The Bank uses the valuation of the asset in the form of a right of use form.

The initial assessment of lease obligations consists of the following elements:

- Fixed lease payments (+)
- incentive rental payments that have been paid (from the original estimate of the lease liability, deduct payments paid to the lessor in connection with the acquisition of the lease right)(-)
- Variable rental payments that depend on the index or rate (+)
- The amounts to be paid by the bank the suspicion residual value guarantees (+)
- Payment of fines for termination of lease if its term is a potential exercise by the bank of an option to terminate the lease (+)
- The exercise price of the purchase option if there is reasonable assurance that the bank will exercise this option (+).

Usage Asset	Building (premises)	
	31.12.2019	01.01.2019
Assets	17 839	17 839
Depreciation	(6 487)	-
Together	11 352	17 839

	Building (premises)	
	31.12.2019	01.01.2019
Interest expense	1 081	-
Short-term rental costs	347	-

Lease commitments (more than 2 years and not more than 3 years)	Building (premises)
The obligation as of 01.01.2019	17 839
payments	7 851
Interest expense	1 081
The obligation as of 31.12.2019	11 069

(in thousands of Ukrainian hryvnias)

14. Due to banks

Balances due to banks as at 31 December are as follows:

	2019	**2018**
Deposits and balances due to banks:		
OECD countries	44 918	140,071
Domestic	90 160	20,040
Total	**135 078**	**160,111**

As at 31 December 2019, deposits from two banks total UAH 135 078 thousand or 100% of total due to banks (31 December 2018: deposits from three banks total UAH 160,111 thousand or 100% of total due to bank).

As at 31 December 2019, the Bank was in compliance with all conditions of credit agreements.

15. Due to customers

Due to customers as at 31 December 2019 are as follows:

	2019	**2018**
Current accounts:		
Corporate customers	285 725	272,395
Individuals	21 331	25,404
Total current accounts	**307 056**	**297,799**
Deposits:		
Corporate customers	188 381	343,533
Individuals	255 320	240,213
Total deposits	**443 611**	**583,746**
Total	**750 667**	**881,545**

As at 31 December 2019, balances on current accounts of the five largest customers total UAH 149 815 thousand or 51% of total balances on current accounts (31 December 2018: UAH 141,204 thousand or 48%).

As at 31 December 2019, deposits from the five largest customers total UAH 105 846 thousand or 24% of total deposits (31 December 2018: UAH 216 076 thousand or 37%).

16. Other liabilities

Other assets as at 31 December are as follows:

	2019	**2018**
Provision for unused vacations	2 288	1,781
Accounts payable	3	121
Taxes payable, other than income tax	861	825
Expenses accrued	188	134
Other	243	518
Total	**3 583**	**3,379**

(in thousands of Ukrainian hryvnias)

17. Due to international and other financial institutions

As at 31 December 2019, the funds of international financial organizations are represented by loans denominated:

	Amount	Interest rate type	Effective interest rate as at 31.12.2019	Maturity
European Fund for South-Eastern Europe	39 800	Floating rate	5.50%	15.11.2020
BLACK SEA TRADE AND DEVELOPMENT BANK	119 721	Floating rate	6,95538%	29.10.2020
Ministry of Finance of Ukraine	77 077	Fixed rate	2,591%	30.11.2022
German-Ukrainian Fund	20 445	Floating rate	13,437%	15.10.2021
German-Ukrainian Fund	80 087	Fixed rate	4.25%	20.04.2020
Total	**337 130**			

As at 31 December 2018, the funds of international financial organizations are represented by loans denominated:

	Amount	Interest rate type	Effective interest rate as at 31.12.2018	Maturity
European Fund for South-Eastern Europe	95 329	Floating rate	5,50%	15.11.2020
German-Ukrainian Fund	96 046	Fixed rate	4,25%	20.04.2020
Total	**191 375**			

18. Subordinated debt

In 2008, the Bank received from the shareholder, JSC “ALTINBAŞ HOLDİNG ANONİM ŞIRKETİ”, a subordinated loan denominated in US dollars amounting to USD 5,000 thousand with a nominal interest rate of 5.5%. The principal amount of this loan was initially repayable in August 2013. In 2011, the maturity of the loan was extended until July 2017. In 2014, the maturity of the loan was extended until July 2020. In 2016, the maturity of the loan was extended until July 2022. In December 2016, a part of the subordinated debt (USD 1,075 thousand) was transferred to the investment account of the Bank shareholders. In accordance with the decision made by the shareholders, the currency was sold to increase the Bank to comply with the decision of the National Bank of Ukraine. In December 2017, a part of the subordinated debt (USD 2,400 thousand) was transferred to the investment account of the Bank shareholders. In accordance with the decision made by the shareholders, the currency was sold to increase the Bank to comply with the decision of the National Bank of Ukraine. In October 2019, the subordinated debt (USD 1,525 thousand) was repaid to the shareholders in accordance with the shareholders' decision on early repayment of the subordinated debt.

The loans were initially recognized at fair value determined by management as the present value of future payments under the loan discounted using a market rate of interest for similar instruments. As a result of early repayment in October 2019, an adjustment was made to the unamortized discount and its change was reflected in the Bank's expenses.

(in thousands of Ukrainian hryvnias)

19. Share capital

As at 31 December 2019, the share capital of the Bank includes 149,962,764 ordinary registered shares with a nominal value of UAH 2.43 per share (31 December 2018: 149,962,764 ordinary shares with a nominal value of UAH 2.05 per share). All shares have equal voting rights. As at 31 December 2019, all shares were fully paid and registered.

No dividends were declared and paid in 2019 and 2018.

In accordance with Ukrainian legislation, the allocation of the reserves is limited to the balance of retained earnings determined in accordance with legislative and regulatory requirements.

In May 2019, based on the decision taken by the shareholder of the Bank, the share capital of the Bank was increased by UAH 56 986 thousand by forwarding cash received from the last year earnings to the share capital of the Bank.

In February 2018, based on the decision taken by the shareholder of the Bank, the share capital of the Bank was increased by UAH 65,000 thousand by forwarding cash received from the shareholder to the share capital of the Bank.

In May 2018, based on the decision taken by the shareholder of the Bank, the share capital of the Bank was increased by UAH 37,491 thousand by forwarding cash received from the last year earnings to the share capital of the Bank.

In compliance with a resolution of the Bank's shareholders dated 24 April 2017, in May 2017, the Bank's share capital was increased by UAH 28,463 thousand at the expense of transfer of a portion of the profit for 2016, by way of increase of the Bank's shares nominal value from UAH 1.55 per share to UAH 1.80 per share.
In compliance with a resolution of the Bank's shareholders taken in December 2017, a portion of the subordinated debt was prepaid by the Bank and used by the shareholders to increase the share capital of the Bank. The above act resulted in the adjustment of the unamortised discount recognised per the subordinated debt, and its respective reduction by UAH 7,755 thousand was recognised in equity under transactions with shareholders caption, and as at 31 December 2017 a negative additional paid capital arose equal to UAH 6,400 thousand.

20. Commitments and contingencies

(a) Operating lease commitments

The Bank leases operational premises in the normal course of business. Future payments on non-cancellable leases as at 31 December are as follows:

	2019	**2018**
Less than one year	1 249	1,378

(b) Guarantees and other loan commitments

The Bank has outstanding commitments to extend credit. Those commitments are the approved loans and loan facilities. The total outstanding loan commitments do not necessarily represent future needs in cash, as those commitments may expire or be terminated without being funded. As at 31 December 2019, the irrevocable loan commitments amount to UAH 7 067 thousand (2018: UAH 6,994 thousand).

Loan commitments were as follows:

(in thousands of Ukrainian hryvnias)

As at 31 December 2019

	Stage 1	Stage 2	Stage 3	Total
Irrevocable credit lines	**5757**	1310	-	**7067**
Provision for expected credit losses	(92)	(60)	-	**(152)**
Financial guarantees	7428	-	-	**7428**
Provision for expected credit losses	(15)	-	-	**(15)**

As at 31 December 2018

	Stage 1	Stage 2	Stage 3	Total
Irrevocable credit lines	**6 994**	**-**	**-**	**6,994**
Provision for expected credit losses	(154)	-	-	**(154)**
Financial guarantees	**8 540**	**-**	**-**	**8,540**
Provision for expected credit losses	17	-	-	**17**

(c) Insurance

The insurance industry in Ukraine is in a developing stage and many forms of insurance protection common in other countries are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of damage arising from accidents on Bank property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the operations and financial position.

(d) Taxation contingencies

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

Management believes the Bank has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessments has been made in these financial statements.

(e) Litigations

The Bank is involved in various legal proceedings in the ordinary course of business. According to the management, the result of the litigations will not have a significant impact on the financial position of the Bank.

(in thousands of Ukrainian hryvnias)

21. Interest income and expense

Interest income and expense for the year are as follows:

	2019	2018
Loans and advances to customers	192 066	187,143
Deposit certificates of the National Bank of Ukraine	8 285	12,219
Due from banks	1 986	3,756
Total interest income	**202 337**	**203,118**
Deposits	(49 668)	(51,507)
Current accounts	(15 313)	(19,406)
Due to banks	(10 318)	(10,487)
Due to international financial institutions	(10 408)	(8,981)
Subordinated debt	(2 374)	(3,243)
Total interest expense	**(88 081)**	**(93,624)**
Net interest income	**114 256**	**109,494**

22. Commission income and expense

Commission income and expenses for the year ended 31 December is as follows:

	2019	2018
Commission income:		
Currency exchange	7174	9 308
Cash payments and withdrawals	9 485	11 193
Credit service	9 346	8 718
Other	510	711
Total fee and commission income	**26 515**	**29 930**
Commission expense:		
Cash payments and withdrawals	(2 681)	(2 911)
Credit service	(1 281)	(1 289)
Other	(696)	(854)
Total fee and commission expense	**(4 658)**	**(5 054)**

23. Other operating income

	2019	2018
Proceeds from previously written-off loans	-	-
Penalties and fines	1 417	3,162
Proceeds from investment property revaluation of (Note 10)	-	29
Income from other assets revaluation	-	16
Proceeds from property and equipment sale	496	837
Other	113	212
Total other operating income	**2 026**	**4,256**

(in thousands of Ukrainian hryvnias)

24. Administrative and other operating expenses

Administrative and other operating expenses for the year ended 31 December are as follows:

	2019	2018
Rent and maintenance of premises	3 374	11,502
Communication and information	3 032	3,222
Legal and consulting services	2 691	1,885
Repairs and maintenance of property and equipment	3 729	2,950
Taxes other than on income and other charges	2 316	2,054
Audit	1 014	2 022
Travel expenses	1 644	1,456
Stationary and office consumables	1 231	1,262
Security	1 677	418
Advertising and marketing	134	85
Transportation costs	26	40
Losses from investment property revaluation of (Note 10)	304	-
Losses from other property revaluation	13 104	-
Other operating expenses	3 310	4 021
Total	**37 586**	**30,917**

25. Provision for impairment losses

The following is a schedule of movements in provision for impairment for the year ended 31 December:

	Loans and advances to customers	Other assets
Balance as at 1 January 2017	**(24,284)**	**(8)**
Net change in provision for impairment	9,592	(320)
Balance as at 31 December 2018	**(14,692)**	**(328)**
Change in provision for impairment	2 242	-
Net change in provision for impairment	(3 127)	(26)
Balance as at 31 December 2019	**(15 577)**	**(354)**

26. Income tax expense

The corporate income tax expense comprises:

	2019	2018
Current tax expense	6 289	14,179
Deferred tax benefit	(93)	(93)
Total income tax expense	**6 196**	**14,086**

The statutory income tax rate in 2019 was 18% (2018: 18%). Below is the reconciliation of theoretical tax expenses against the actual ones:

	2019	2018
Profit before income tax	**34 421**	**74,275**
Computed expected income tax expense at statutory rate of 18%.	6 196	13,370
Non-deductible expenses	-	716
Effective income tax expense	**6 196**	**14,086**

(in thousands of Ukrainian hryvnias)

(a) Movements in recognized temporary differences during the year

Deferred tax assets and liabilities as at 31 December 2019 are attributable to the items detailed as follows:

	1 January 2019	**Recognized through profit or loss**	**31 December 2019**
	Asset (liability)	***Benefit (charge)***	***Asset (liability)***
Loans and advances to customers	-	-	-
Property and equipment	318	93	411
Other liabilities	-	-	-
Total	**318**	**93**	**411**

Deferred tax assets and liabilities as at 31 December 2018 are attributable to the items detailed as follows:

	1 January 2018	**Recognized through profit or loss**	**31 December 2018**
	Asset (liability)	***Benefit (charge)***	***Asset (liability)***
Loans and advances to customers	-	-	-
Property and equipment	225	93	318
Other liabilities	-	-	-
Total	**225**	**93**	**318**

27. Derivative financial instruments at fair value through profit or loss

Derivative financial instruments are represented mainly by forward foreign currency exchange contracts and interbank swaps.

Management believes that these transactions are in substance foreign exchange swaps and accounts for these transactions in accordance with the Bank's accounting policy in respect of derivative financial instruments.

The table below sets out gross amounts of receivable and payable upon settlement of amounts of forward foreign currency exchange derivative contracts and of loans due from and deposits due to banks. Because these contracts are short-term, the net amount of receivable or payable upon settlement also approximates the positive (net receivable) or negative (net payable) fair value of the financial instruments:

	2019	**2018**
	Forward currency exchange contracts	**Forward currency exchange contracts**
UAH receivable	-	27,533
USD receivable	-	-
USD payable	-	(27,688)
EUR payable	-	-
Fair value of assets	**-**	**-**
Fair value of liabilities	**-**	**(155)**
Maximum exposure to credit risk (gross amount receivable)	**-**	**27,533**

28. Financial risk management

Management of risk is fundamental to the business of banking and is an essential element of operations. The major risks faced by the Bank are those related to credit exposures, market risk (which includes risk of movements in foreign exchange rates and in interest rates) and liquidity risk.

(a) Risk management structure

The risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls and to continuously monitor risk levels and adherence to limits.

The risks are managed in an integrated manner and are evaluated in terms of the policy of the Bank, which is reviewed and approved by the Supervisory Board on an annual basis. Risk limits are established for credit, market and liquidity risks and the level of exposure is then maintained within these limits.

(b) Credit risk

Credit risk is the risk of a financial loss for the Bank if a customer or counterparty fails to meet its contractual obligations. Credit risk arises principally from loans and advances made and investment securities. The maximum credit risk exposure is generally net carrying amounts of instruments as at end of the reporting period.

Management monitors concentration of credit risk. For the analysis of concentration of credit risk in respect of loans and advances refer to note 9.

The Bank has to comply with varying NBU regulations that limit exposure to companies, groups of companies and related parties. To manage credit risk, the Bank deals with counterparties of good credit standing and when appropriate obtains collateral.

Corporate Lending

In making its lending decisions, the Bank evaluates potential borrowers on the basis of their financial condition as reflected in their financial statements, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower, using a rating scale. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan, provided the Bank receives sufficient information to assess the borrower’s business and financial condition. However, when the Bank lends to a borrower with no credit history, it sets conditions such as a requirement to transfer a certain part of the customer’s banking operations to the Bank for a certain period and charging a higher interest rate, or requiring additional collateral or guarantees from such borrower.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower’s business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, likely return on the loan, the liquidity of the proposed collateral and whether it is sufficient in view of the credit risk. The Bank also considers the weighted average credit risk associated with the industry in which the borrower operates.

Retail Lending

The Bank provides loans to individuals only in exceptional cases and focuses on the collection of existing loans issued to individuals.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on an analysis of the customer earnings overdue payments and other information obtained by the Bank. In light of this information the borrower’s internal credit rating may be revised.

Analysis of impairment

Until January 1, 2018, the Bank determined whether there was any objective evidence of impairment of financial assets or groups of financial assets at each reporting date. It was considered that a decline in the usefulness of a financial asset or a group of financial assets occurs when and only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("occurrence of losses"), and such or the occurrence of losses had an impact on the expected future cash flows of a financial asset or a group of financial assets that could be reliably determined. Objective evidence of impairment should have included indications that the borrower or group of borrowers suffered material financial difficulties, violated the obligation to pay interest or principal, the probability of their bankruptcy or other financial reorganization, and based on observable market information as to modest reduction of expected future cash flows, for example, changes in the level of overdue payments or in economic conditions that correlate with asset losses.

Provision for impairment losses on individually valued loans

The Bank has determined the amount of the allowance for impairment losses separately for each material loan on an individual basis. Issues considered in determining the amount of the reserve include the possibility of implementing the business plan of the counterparty, its ability to increase labor productivity in the event of financial difficulties, cash receipts and expected dividend payments in the event of bankruptcy, the availability of other financial support and the possible cost of collateral, and also the timeframe for expected cash flows. Impairment losses were valued at each reporting date if any unforeseen circumstances did not require more attention.

Provision for impairment losses on loans that are valued on a collective basis

The Bank has determined the amount of the impairment loss that is not individually significant, provided to customers, as well as certain significant loans for which there were no objective evidence that they were individually impaired. The Bank has analyzed provisions for impairment losses for each reporting date, with each loan portfolio being separately audited.

In the analysis of the provision for impairment losses on a collective basis, the Bank took into account the impairment that might have occurred in the portfolio, even if there were no objective signs of impairment of individual loans. Impairment losses were determined on the basis of the following information: historical loss in the portfolio, current economic conditions, the appropriate time interval between the moment of possible impairment loss and the moment when the impairment loss was recognized as requiring the creation of a provision for the analysis of impairment of individual assets , as well as expected revenues and reimbursements in case of impairment. Management personnel were responsible for deciding on the length of such a period, which should not have exceeded one year. Subsequently, the allowance for impairment losses was audited by the management personnel responsible for lending operations to ensure compliance with the Bank's overall policy.

Starting from January 1, 2018, the Bank calculates OCPs based on several scenarios that include a weighted loan loss probability estimate for expected non-cash cash flows discounted at an approximate effective interest rate. Lack of cash is the difference between the cash flows owned by the entity in accordance with the contract and the cash flows that the entity expects to receive. Below is the mechanics of calculations OKZ, the key elements of which are:

- Default probability (PD) The probability of default is the estimate of the probability of default on this time horizon.

A default event may occur only at a certain point during the analyzed period if, at that time, the Bank will not terminate recognition of the loan, and the loan will remain in the portfolio.

- Exposure at default (EAD) The Exposure at default is the estimate of the amount of the loan for the future default date, taking into account expected changes in the loan amount after the reporting date, including repayment of principal and interest, and the expected sample of borrowers under the loan obligation Amounts, as well as accrued interest on missed payments.

- Loss given default (LGD) The Loss given default is an estimate of the loss incurred in the event of a default at a specified time. It is calculated on the basis of the difference between the amount of payments to be received under the contract and the amount expected to be received by the creditor, including the funds from the sale of any collateral. Usually it is presented as a percentage of risk in default (EAD).

Provision for expected loan losses is calculated on the basis of credit losses that are projected to be incurred during the life of the asset (expected credit losses for the entire period of the instrument), except for cases of significant increase in credit risk after the conclusion of the relevant agreement (in such cases, the provision is calculated on basis of expected credit losses for 12 months). Expected credit losses for 12 months is part of the expected credit loss for the entire period of the instrument incurred within 12 months after the reporting date as a result of the default events under the financial instrument contract. Both the expected credit losses for the entire duration of the instrument and the expected credit losses for 12 months are calculated either individually or for asset groups, depending on the characteristics of the relevant portfolio of financial instruments.

The Bank has adopted a policy that provides for an assessment at the end of each reporting period to identify possible significant increases in credit risk after initial recognition by analyzing the changes in the level of default risk occurring throughout the remaining period of the financial instrument. As a result of the process described above, the Bank divides its loans into risk groups ("stages"), referred to as "Stage 1", "Stage 2", "Stage 3" and "Acquired or Created Depreciated Financial Assets" (POCI Assets) :

Stage 1 At the moment of initial recognition of loans, the Bank recognizes a provision for losses on the basis of the amount of expected loan losses for 12 months. In addition, Phase 1 includes loans that are characterized by a reduction in credit risk, resulting in a corresponding loan being transferred to Stage 1 of Stage 2.

Stage 2 If the level of credit risk on a loan increases significantly after the loan agreement is signed, the Bank recognizes the provision for expected loan losses for the entire duration of the instrument. In addition, Stage 2 includes loans that are characterized by a reduction in credit risk, resulting in a corresponding loan being transferred to Stage 2 of Stage 3.

Stage 3 Loans are considered to be loan-denominated. The Bank recognizes the provision for expected loan losses for the entire duration of the instrument.

POCI Assets Acquired or created impaired financial assets (POCI assets) are assets that are impaired at the date of initial recognition. POCI assets are initially recognized at fair value and interest income is subsequently recognized on the basis of an adjusted effective interest rate. Expected credit losses are recognized or reversed only in the event of a subsequent change in the amount of expected loan loss during the entire life of the instrument.

The main factors taken into account in the analysis of impairment of loans include the determination of whether overdue principal or interest payments on the loan are more than 90 days, or if there are any difficulties in view of the counterparty's cash flows, the decrease credit rating or breach of the original terms of the relevant agreement. The Bank analyzes impairment in two ways: provisioning for impairment losses for individually assessed loans and provision for impairment losses on loans that are valued on a collective basis.

The Table below shows the value of financial assets by classes of quality as at 31 December 2019 and 31 December 2018.

(in thousands of Ukrainian hryvnias)

31 December 2019

		Standard	***Watch***	***Impaired***	***Total***
Cash and cash equivalents, except for cash on hand	Stage 1	145 163	-	-	**145 163**
Loans to customers at amortized cost					
Loans to corporate customers	Stage 1	1 067 494	-	-	**1 067 494**
	Stage 2	-	98 255	-	**98 255**
	Stage 3	-	-	58 914	**58 914**
	POCI assets	-	-	29 263	**29 263**
	Total	**1 067 494**	**98 255**	**88 177**	**1 253 926**
Loans to retail customers	Stage 1	2 021	-	-	**2 021**
	Stage 2	-	-	-	**-**
	Stage 3	-	-	-	**-**
	POCI assets	-	-	-	**-**
	Total	**2 021**	**-**	**-**	**2 021**
Irrevocable credit lines	Stage 1	7 067	-	-	**7 067**
	Stage 2	-	-	-	**-**
	Stage 3	-	-	-	**-**
	Total	**7 067**	**-**	**-**	**7 067**
Financial guarantees	Stage 1	7 428	-	-	**7 428**
	Stage 2	-	-	-	**-**
	Stage 3	-	-	-	**-**
	Total	**7 428**	**-**	**-**	**7 428**
Total		**1 228 173**	**98 255**	**88 177**	**1 415 605**

The credit quality of financial assets is managed by the Bank internal credit ratings. The tables above show the credit quality by the asset class for the credit lines in the statement of financial position based on the Bank credit rating system.

(in thousands of Ukrainian hryvnias)

31 December 2018

		Standard	*Watch*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	Stage 1	187 882	-	-	**187,882**
Loans to customers at amortized cost					
Loans to corporate customers	Stage 1	1 023 063	-	-	**1 023 063**
	Stage 2	-	168 379	-	**168 379**
	Stage 3	-	-	59 382	**59 382**
	POCI assets	-	-	23 792	**23 792**
	Total	**1 023 063**	**168 379**	**83 174**	**1,274,616**
Loans to retail customers	Stage 1	250	-	-	**250**
	Stage 2	-	30	-	**30**
	Stage 3	-	-	609	**609**
	POCI assets	-	-	-	**-**
	Total	**250**	**30**	**609**	**889**
Irrevocable credit lines	Stage 1	6 994	-	-	**6 994**
	Stage 2	-	-	-	**-**
	Stage 3	-	-	-	**-**
	Total	**6 994**	-	-	**6,994**
Financial guarantees	Stage 1	8 540	-	-	**8 540**
	Stage 2	-	-	-	**-**
	Stage 3	-	-	-	**-**
	Total	**8 540**	-	-	**8,540**
Total		**1 226 729**	**168 409**	**83 783**	**1 478 921**

Off-balance sheet exposure

The maximum exposure to off-balance sheet credit risk at 31 December is as follows:

	2019	**2018**
Irrevocable credit lines	7 067	6,994
Guarantees	7 428	8,540
Total off-balance sheet exposure	**14 495**	**15,534**

(c) Market risk

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) Currency risk

Currency risk is the risk that movements in foreign exchange rates will affect income or the value of its portfolios of financial instruments.

(in thousands of Ukrainian hryvnias)

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and constantly monitors foreign currency positions in accordance with the regulations of the NBU and internally developed methodology. The policy with regard to open foreign currency position is restricted to certain thresholds under regulatory provisions of the NBU, however, the calculation of open currency position under regulatory provisions may differ from the below table.

Currency positions as at 31 December 2019 are as follows:

	USD	**EUR**	**Other currencies**
Assets			
Cash and cash equivalents	54 885	78 747	226
Due from banks	3 198	-	-
Loans and advances to customers	350 546	213 523	-
Other assets	-	-	-
	408 629	**292 770**	**226**
Liabilities			
Due to banks	12 542	44 918	-
Due to international financial institutions	119 721	196 964	-
Due to customers	276 253	51 004	1 436
Subordinated debt	-	-	-
Other liabilities	-	-	-
	408 516	**292 886**	**1 436**
Net balance sheet position	**113**	**(116)**	**(1 210)**
Derivatives: forward foreign currency exchange contracts (note 26)	-	-	-
Net (short) long position	**113**	**(116)**	**(1 210)**

(in thousands of Ukrainian hryvnias)

Currency positions as at 31 December 2018 are as follows:

	USD	**EUR**	**Other currencies**
Assets			
Cash and cash equivalents	116,410	30,615	287
Due from banks	3,129	-	-
Loans and advances to customers	391,477	204,080	-
Other assets	-	-	-
	511,016	**234,695**	**287**
Liabilities			
Due to banks	(140,071)	-	-
Due to international financial institutions	-	(190,285)	-
Due to customers	(299,278)	(43,450)	(360)
Subordinated debt	(38,474)	-	-
Other liabilities	-	-	-
	(477,823)	**(233,735)**	**(360)**
Net balance sheet position	**33,193**	**960**	**(73)**
Derivatives: forward foreign currency exchange contracts (note 26)	(27,688)	-	-
Net (short) long position	**5,505**	**960**	**(73)**

Other currencies are mainly represented by Turkish lira.

The table shows currencies in which the Bank has significant positions as at December 31. The analysis is to measure the effect of possible changes in the exchange rates of foreign currencies against hryvnia, with the unchangeable value of all other variables, on the profit and loss statement of the Bank. The effect on the capital is not different from the effect on the profit and loss statement. The negative value in the table reflects a potential net decrease in the profit and loss statement or equity, and the positive values reflect the potential net increase.

Currency	_Strengthening of exchange rate against Ukrainian hryvnia, % 2019_	_Effect on profit before tax 2019_	_Weakening of exchange rate against Ukrainian hryvnia, % 2019_	_Effect on profit before tax 2019_
USD	+20,00	689	-20,00	(689)
EUR	+20,00	287	-20,00	(287)

Currency	_Strengthening of exchange rate against Ukrainian hryvnia, % 2018_	_Effect on profit before tax 2018_	_Weakening of exchange rate against Ukrainian hryvnia, % 2018_	_Effect on profit before tax 2018_
USD	+20.00	1,101	-20.00	(1,101)
EUR	+20.00	192	-20.00	(192)

(in thousands of Ukrainian hryvnias)

The currency risks specified in IFRS 7 arise from the financial instruments denominated in a currency that is not the functional currency and has a monetary nature; the risks associated with the translation are not taken into account.

(ii) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. To manage interest rate risk, management continually assesses market interest rates for different types of interest bearing assets and liabilities.

Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates. In practice, management resets interest rates on both assets and liabilities based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement, which sets forth the new interest rate.

The average effective interest rates of major interest bearing assets and liabilities as at 31 December 2019 are as follows:

	USD	**EUR**	**Ukrainian hryvnia, %**
Assets			
Cash and cash equivalents	-	-	-
Deposit certificates of the National Bank of Ukraine	-	-	12,53%
Due from banks	1,71%	-	-
Loans and advances to customers	9,10%	8,50%	20,80%
Liabilities			
Due to banks	-	0,10%	13,00%
Due to international financial institutions	6,96%	3,85%	13,44%
Due to customers	4,79%	2,18%	9,20%
Subordinated debt	-	-	-

The average effective interest rates of major interest bearing assets and liabilities as at 31 December 2018 are as follows:

(in thousands of Ukrainian hryvnias)

	USD	EUR	Ukrainian hryvnia, %
Assets			
Cash and cash equivalents	1.77%	-	-
Deposit certificates of the National Bank of Ukraine			14.30%
Due from banks	2.69%	-	-
Loans and advances to customers	10.30%	9.14%	23.58%
Liabilities			
Due to banks	8.12%	-	19.69%
Due to international financial institutions	-	4.87%	-
Due to customers	-	5.24%	10.47%
Subordinated debt	8.80%	-	-

(d) Liquidity risk

Liquidity risk arises in the general funding of activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

To maintain its short-term liquidity, the Bank takes short-term deposits, enters into repurchase transactions and buys and sells foreign currency, securities and precious metals. To maintain its long-term liquidity, the Bank takes medium and long-term deposits, sells assets such as securities, regulates its interest rate policy and strives to reduce expenses.

(in thousands of Ukrainian hryvnias)

The financial assets and financial liabilities maturity periods under the contracts as at 31 December 2019 are as follows:

	Within one month	From one to three months	From three months to one year	1-5 years	More than five years	Total
Assets						
Cash and cash equivalents	164 228	-	-	-	-	164 228
Deposit certificates of the National Bank of Ukraine	195 304	-	-	-	-	195 304
Due from banks	-	-		3 198	-	3 198
Loans and advances to customers	382 796	312 372	511 457	33 745	-	1 240 370
	742 328	**312 372**	**511 457**	**36 943**	**-**	**1 603 100**
Liabilities						
Due to banks	147 620	-	-	-	-	147 620
Due to international financial institutions	3 709	4 404	258 582	70 435	-	337 130
Due to customers	422 519	88 344	168 531	57 582	-	736 976
	573 849	**92 747**	**427 113**	**128 017**	**-**	**1 221 726**
Liquidity (gap) surplus for the period	168 863	219 625	84 343	(91 074)	-	381 758
Cumulative liquidity (gap) surplus	**168 863**	**388 488**	**472 832**	**381 758**	**-**	**381 758**

The financial assets and financial liabilities maturity periods under the contracts as at 31 December 2018 are as follows:

	Within one month	From one to three months	From three months to one year	1-5 years	More than five years	Total
Assets						
Cash and cash equivalents	187,882	-	-	-	-	187,882
Deposit certificates of the National Bank of Ukraine	156,225	-	-	-	-	156,225
Due from banks	-	-	3,129	-	-	3,129
Loans and advances to customers	236,304	347,107	597,154	80,428	-	1,260,813
	580,411	**347,107**	**600,283**	**80,428**	**-**	**1,608,225**
Liabilities						

Due to banks	20,040	-	140,071	-	-	160,110
Due to international financial institutions	1,011	-	48,254	142,110	-	191,375
Due to customers	367,596	184,221	274,541	55,187	-	881,545
Subordinated debt	-	-	200	38,274		38,474
	388,647	**184,221**	**463,066**	**235,571**	**-**	**1,271,505**
Liquidity (gap) surplus for the period	191,764	162,886	137,217	(155,143)	-	**336,720**
Cumulative liquidity (gap) surplus	**191,764**	**354,650**	**491,867**	**336,720**	**-**	**336,720**

The item "Due to customers" include term deposits of individuals providing for the early withdrawal thereof. The Bank management believes that most individuals deposits will not be withdrawn before the maturity thereof, so the customers funds are reported by their contractual maturities.

The analysis of maturities of the undiscounted financial liabilities (including interest payments that will be accrued in the future) of the Bank as at 31 December 2019 is presented in the table below:

	Within one month	**From one to three months**	**From three months to one year**	**1-5 years**	**More than five years**	**Total**
Due to banks	135 366	-	-	-	-	**135 366**
Due to customers	430 236	89 809	172 770	59 256	-	**752 071**
Credit related commitments	-	2 149	12 347	-	-	**14 495**
Due to international financial institutions	5 321	7 664	263 520	78 003	-	**354 508**
Subordinated debt	-	-	-	-	-	**-**
Total	**570 923**	**99 622**	**448 636**	**137 259**	**-**	**1 256 441**

The analysis of maturities of the undiscounted financial liabilities (including interest payments that will be accrued in the future) of the Bank as at 31 December 2018 is presented in the table below:

	Within one month	**From one to three months**	**From three months to one year**	**1-5 years**	**More than five years**	**Total**
Due to banks	20,963	1,847	145,152	-	-	**167,962**
Due to customers	373, 802	185,883	286,668	61,954	-	**908,307**
Credit related commitments	-	556	566	-	-	**1,122**
Due to international financial institutions	1,694	4,968	50,554	145,295	-	**202,512**
Subordinated debt	-	-	2,354	48,293	-	**50,647**
Total	**396,459**	**193,254**	**485,295**	**255,543**	-	**1,330,550**

(in thousands of Ukrainian hryvnias)

29. Capital management

(i) Regulatory capital

Under the current capital requirements set by the NBU, banks have to maintain a ratio of capital to risk weighted assets (regulatory capital adequacy ratio) above the prescribed minimum level. If the Bank does not maintain or sufficiently increase its capital base in line with the increase in its risk weighted assets, it may be non-compliant with the NBU capital adequacy regulations, which could lead to the imposition of sanctions by the NBU. This could have a material adverse effect on results of operations and financial condition. As at 31 December 2019, the minimum level set by the NBU is 10.0% (31 December 2018: 10.0%).

The Bank complied with the requirements of the National Bank of Ukraine regarding the value of the regulatory capital adequacy ratio as at 31 December 2019 and 2018.
The following table shows the elements of the capital position calculated in accordance with the requirements of Basel Accord I, as at 31 December:

	2019	2018
Tier 1 capital		
Statutory capital	364 410	311 510
Retained earnings, share premium and additional paid in capital	24 497	91 260
Total Tier 1 capital	**388 907**	**402 770**
Subordinated debt	-	38 474
Total capital	**388 907**	**441 244**

30. Balances with related parties

The Bank grants loans and advances to customers, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the party when making financial and operational decisions. Terms of transactions with related parties are established at the time of the transaction. Related parties comprise entities which are under common control with the Bank, members of the Supervisory Board, key management personnel and their close family members, companies that are controlled or significantly influenced by shareholders, by key management personnel or by their close family members.

As at 31 December 2019 and 2018, the ultimate controlling party of the Bank is JSC "ALTINBAŞ HOLDING ANONIM ŞIRKETI", which is ultimately controlled by members of Altinbaş family.

The Bank balances and transactions with its related parties as at 31 December 2019 and 2018 are presented in the table below.

	2019	2018
Balances and transactions with the Parent company		
Statement of financial position (as at 31 December):		
Subordinated debt	-	38,474
Statement of comprehensive income:		
Interest expense	2 374	3,243
Balances and transactions with the key management personnel		
Statement of financial position (as at 31 December):		
Loans and advances to customers	36	-
Due to customers	1 114	6,783

(in thousands of Ukrainian hryvnias)

Statement of comprehensive income:		
Interest income	11	1
Interest expense	133	478
Salary and salary related charges payable	14 157	12,694
Balances with related parties		
Statement of financial position (as at 31 December):		
Due to customers	56	65
Statement of comprehensive income:		
Interest expense	-	-

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2019 are as follows:

	UAH	Interest rate	USD	Interest rate	EUR	Interest rate
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	-	-	-	-
Balances with key management personnel						
Credits	36	36,00%	-	-	-	-
Deposits from customers	66	13-15%	772	2-5%	-	-
Current accounts	205	6-8%	66	0.50%	5	0,0%
Balances with related parties						
Current accounts	-	-	56	0%	-	-

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2018 are as follows:

	UAH	Interest rate	USD	Interest rate	EUR	Interest rate
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	38,474	5.5%	-	-
Balances with key management personnel						
Deposits from customers	-	-	6,180	2-5%	-	-
Current accounts	398	6-8%	126	0%	79	0.0%
Balances with related parties						
Current accounts	-	-	65	0%	-	-

(in thousands of Ukrainian hryvnias)

The contractual remaining maturities of balances with related parties as at 31 December 2019 are as follows:

	Within one month	From one to three months	From three months to one year	1-5 years	More than five years	Total
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	-	-	-	**-**
Balances with key management personnel						
Credits	36	-	-	-	-	**36**
Due to customers	354	760	-	-	-	**1 114**
Balances with related parties						
Due to customers	56	-	-	-	-	**56**

The contractual remaining maturities of balances with related parties as at 31 December 2018 are as follows:

	Within one month	From one to three months	From three months to one year	1-5 years	More than five years	Total
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	200	38,274	-	**38,474**
Balances with key management personnel						
Due to customers	738	4,585	646	814	-	**6,783**
Balances with related parties						
Due to customers	65	-	-	-	-	**65**

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly, and also includes members of the Board of Management.

(in thousands of Ukrainian hryvnias)

31. Fair value measurement

(a) Fair value of financial assets and financial liabilities that are not measured at fair value

The table below presents the carrying amounts and fair values of financial assets and financial liabilities at amortized cost. The fair value of the non-financial assets and non-financial liabilities is not presented in the table.

	2019		2018	
	Total carrying amount	**Fair value**	**Total carrying amount**	**Fair value**
Cash and cash equivalents	164 228	164 228	187,882	187,882
Deposit certificates of the National Bank of Ukraine	195 304	195 304	156,225	156,225
Due from banks	3 198	3 198	3,129	3,129
Loans and advances to customers	1 240 370	1 259 211	1,260,813	1,280,260
Total	**1 603 100**	**1 621 941**	**1,608,049**	**1,627,496**
Due to banks	135 078	135 078	160,111	160,111
Customer accounts	750 667	753 850	881,545	885,299
Due to international financial institutions	337 430	337 430	191,375	191,375
Subordinated debt	-	-	38,474	39,022
Total	**1 223 175**	**1 226 358**	**1,271,505**	**1,275,807**

The methods and assumptions used to fair value the financial instruments not reported at fair value in the financial statements are described below.

Assets which fair value is approximately equal to their carrying amount

For the financial assets and financial liabilities being liquid or short-term (less than three months), it is assumed that their carrying amount is approximately equal to their fair value. The said assumption also applies to the deposits on demand, savings accounts with no fixed maturity, and floating rate financial instruments.

Financial assets and financial liabilities at amortized cost

For the instruments carried at amortized cost, the discounting model of cash flows using current market rates for similar financial instruments with a similar status, similar to credit risk and maturity is applied.

(b) Financial assets at fair value

All assets and liabilities which fair value is measured or disclosed in the financial statements are classified by the level of the fair value measurement hierarchy presented below at the lowest level that is material for the fair value measurement as a whole:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: valuation methods for which all the inputs with a significant effect on fair value are at the lowest level of the hierarchy and can be obtained directly or indirectly from market sources; and

(in thousands of Ukrainian hryvnias)

- Level 3: valuation methods for which all the inputs with a significant effect on fair value are at the lowest level of the hierarchy and cannot be obtained directly or indirectly from market sources.

For the assets and liabilities reported in the consolidated financial statements on an ongoing basis, at the end of each reporting period, the Bank analyzes whether there has been a transition between levels of the hierarchy by reassessing the distribution by categories (based on the lowest-level data, which is generally important for the fair value measurement).

For disclosure purposes at fair value, the Bank determines the classes of assets and liabilities based on the nature, characteristics, and risks of the asset or liability, and the fair value hierarchy.

		Fair value		
31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets reported at fair value				
Cash and cash equivalents	-	164 228	-	**164 228**
Deposit certificates of the National Bank of Ukraine	-	195 304	-	**195 304**
Due from banks	-	3 198	-	**3 198**
Loans and advances to customers	-	1 240 370	-	**1 240 370**
Financial liabilities reported at fair value				
Due to banks	-	135 078	-	**135 078**
Due to customers	-	750 667	-	**750 667**
Due to international financial institutions	-	337 430	-	**337 430**
Subordinated debt	-	-	-	**-**

		Fair value		
31 December 2018	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets reported at fair value				
Cash and cash equivalents		187,882		**187,882**
Deposit certificates of the National Bank of Ukraine	-	156,225	-	**156,225**
Due from banks	-	3,129	-	**3,129**
Loans and advances to customers	-	1,260,813	-	**1,260,813**
Financial liabilities reported at fair value				
Due to banks	-	160,111	-	**160,111**
Due to customers	-	881,545	-	**881,545**
Due to international financial institutions	-	191,375	-	**191,375**
Subordinated debt	-	-	38,474	**38,474**

32. Subsequent events

During the period prior to the date of approval of these financial statements there were no the following events:

- business combination;

- termination or decision to terminate the activity;

- restructuring of the Bank;

- any court decisions in favor of the plaintiffs that could give rise to material financial liabilities of the Bank that are not reflected in the Bank's financial statements.

On 31 December 2019, the World Health Organization reported that a limited number of cases of unknown pneumonia were detected in Wuhan, Hubei. On 7 January 2020, the Chinese authorities identified that it was caused by a new type of coronavirus (COVID-19). Since 31 December 2019, the development and distribution of COVID-19 has led to many related events. The beginning of 2020 was characterized by the spread of the pandemic generated by the COVID-19 coronavirus. The first case of a coronavirus was detected in Ukraine on 3 March.

To prevent the spread of the COVID-19 virus in Ukraine, in March 2020 the Ukrainian government introduced temporary restrictions at the state border, ensured the abolition of regular transport and introduced other restrictions for the national quarantine period. Depending on further developments related to the pandemic, the restrictive measure may be abolished or extended.

It cannot be ruled out that this could have an impact on the economic slowdown with potential quantifiable impacts, as well as on the Bank's operations and profitability, mainly due to its impact on operating income and costs associated with risk management.

Following the COVID-19 outbreak, the Bank continues to monitor the situation closely and take precautionary measures in accordance with the recommendations of the World Health Organization and local authorities.

Signed and authorised for release by and on behalf of the Management Board of the Bank

I.Yu. Tykhonov — Chairman of the Board

I.M. Kuzmenko — Chief Accountant

23 April 2020