JOINT-STOCK COMPANY

“PRAVEX BANK”

Financial statements as at 31 December 2019 and for the year then ended

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			(in thousands of Ukrainian hryvnias)
Item	**Notes**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
ASSETS			
Cash and cash equivalents	6	787,608	823,213
Loans and advances to banks	7	377,325	138,567
Loans and advances to customers	8	1,435,797	1,219,305
Investments in securities	9	2,661,675	1,704,809
Investment property	10	19,380	93,293
Current income tax receivable		1,141	1,631
Property, plant and equipment and intangible assets	11	333,497	448,282
Right-of-use assets	12	52,828	-
Other financial assets	13	26,065	21,527
Other non-financial assets	14	28,053	50,364
Non-current assets held for sale and disposal groups	15	41,264	-
Total assets		**5,764,633**	**4,500,991**
LIABILITIES			
Due to banks	16	214	185
Due to customers	17	3,638,304	2,372,835
Debt securities issued by the Bank	18	3,583	5,573
Provisions for liabilities	19	11,510	7,345
Other financial liabilities	20	163,768	66,208
Other non-financial liabilities	21	52,217	44,662
Total liabilities		**3,869,596**	**2,496,808**
EQUITY			
Share capital	22	1,048,726	1,048,726
Share premium	22	4,600,754	4,600,754
(Accumulated deficit)		(3,966,523)	(3,898,038)
Reserves and other funds		1,332	1,332
Revaluation reserves		210,748	251,409
Total equity		**1,895,037**	**2,004,183**
Total liabilities and equity		**5,764,633**	**4,500,991**

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" **Gianluca Corrias**

Chief Accountant
JSC "PRAVEX BANK" **L.V. Ostakhova**

DATE: **19 February 2020**

			(in thousands of Ukrainian hryvnias)
Item	**Notes**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
Interest income	25	545,785	493,821
Interest expenses	25	(151,905)	(101,256)
Net interest income		**393,880**	**392,565**
Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks	8	19,505	(5,372)
Net interest income after provisions for impairment of loans and advances to customers, and due from banks		**413,385**	**387,193**
Fee and commission income	26	150,276	142,705
Fee and commission expenses	26	(64,286)	(48,172)
Net profit from transactions with debt financial instruments carried at FVTOCI		42	-
Net profit from foreign exchange		22,697	18,018
Net (loss) arising from foreign currency translation		(7,572)	(4,948)
Net (loss) from investment property revaluation		(2,680)	(54,586)
Gains from initial recognition of financial assets at interest rates higher or lower than market rates		3	26
Gains from initial recognition of financial liabilities at interest rates higher or lower than market rates		-	21
Net (increase) in provisions for impairment of other financial and non-financial assets	13.14	(542)	(1,163)
Gains from derecognition of financial assets		13,373	-
Gains from derecognition of financial liabilities		19	3
Net (loss) from (increase) in provisions for liabilities	19	(13,984)	(1,569)
Other operating income	27	47,215	47,664
Employee benefits expense		(265,017)	(227,306)
Depreciation and amortisation		(111,678)	(73,190)
Amortisation of right-of-use assets		(24,645)	-
Other administrative and operating expenses	28	(279,405)	(332,370)
Loss before tax		**(122,799)**	**(147,674)**
Income tax benefits	8	1,297	10,347
Loss from continuing operations		**(121,502)**	**(137,327)**
OTHER COMPREHENSIVE INCOME:			
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Changes in gains arising from revaluation of property, plant and equipment	25	8,491	19,053
Changes in gains less losses arising from revaluation of transactions with shareholders		446	256
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	25	(448)	(3,256)
ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS			
Changes in results arising from revaluation of investments in securities carried at FVTOCI	25	4,716	-
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	25	(849)	-
Other comprehensive income after tax		12,356	16,053
Total comprehensive loss for the period		**(109,146)**	**(121,274)**
Loss attributable to shareholders		(121,502)	(137,327)
Total comprehensive loss attributable to shareholders		**(109,146)**	**(121,274)**
Loss per share from continuing operations:			
Basic loss per ordinary share	32	(0.07)	(0.08)
Diluted loss per ordinary share	32	(0.07)	(0.08)

			(in thousands of Ukrainian hryvnias)
Item	**Notes**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
Loss per share attributable to shareholders:			
Basic loss per ordinary share for the period (UAH)	32	(0.07)	(0.08)
Diluted loss per ordinary share for the period (UAH)	32	(0.07)	(0.08)

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			(in thousands of Ukrainian hryvnias)
Item	**Notes**	**2019**	**2018**
1	**2**	**3**	**4**
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received		383,943	407,392
Interest expenses paid		(149,938)	(103,715)
Fee income received		150,016	142,705
Fee and commission expenses paid		(64,297)	(48,199)
Results of foreign currency transactions		22,697	18,018
Other operating income received		27,272	6,530
Personnel costs		(250,444)	(229,067)
Other administrative and operating expenses, paid		(295,245)	(332,370)
Cash used in operating activities before changes in operating assets and liabilities		**(175,996)**	**(138,706)**
Net decrease/(increase) in loans and advances to banks		(284,244)	2,274
Net (increase) in loans and advances to customers		(115,622)	(670,350)
Net decrease in other financial assets		8,936	21,550
Net increase/(decrease) in amounts due to banks		29	(536)
Net increase/(decrease) in amounts due to customers		1,291,313	(537,647)
Net (decrease) in debt securities issued by the Bank		(1,335)	(31,305)
Net increase/(decrease) in other financial liabilities		42,080	(3,576)
Net cash flows from operating activities		**765,161**	**(1,358,296)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of securities		(118,945,801)	(99,279,842)
Result from transactions with debt financial instruments carried at FVTOCI		42	-
Proceeds from the sale of investments in securities		118,157,967	100,362,818
Acquisition of property, plant and equipment		(8,844)	(35,381)
Proceeds from the sale of investment property		39,637	50,779
Result from disposal of property, plant and equipment and intangible assets		68,517	70,165
Acquisition of intangible assets		(35,478)	(43,713)
Net cash from investing activities		**(723,960)**	**1,124,826**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net decrease in cash and cash equivalents		41,201	(233,470)
Effect of the NBU exchange rate fluctuations on cash and cash equivalents		(76,806)	(32,010)
Cash and cash equivalents at the beginning of the period	**6**	**823,213**	**1,088,693**

			(in thousands of Ukrainian hryvnias)
Item	**Notes**	**2019**	**2018**
1	**2**	**3**	**4**
Cash and cash equivalents at the end of the period	**6**	**787,608**	**823,213**

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Item	**Attributable to shareholders**						**Total equity**
	share capital	**share premium and other additional capital**	**reserves and other funds**	**revaluation reserves**	**retained earnings**	**total**	
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Balance as at 1 January 2018	**1,038,007**	**3,502,964**	**1,332**	**263,418**	**(3,771,287)**	**1,034,434**	**1,034,434**
Changes due to IFRS 9	-	-	-	(60)	(14,678)	**(14,738)**	**(14,738)**
Changes in accounting policies and restatement of property, plant and equipment, low-value non-current assets, low-value fast-moving items and intangible assets					(2,748)	**(2,748)**	**(2,748)**
Adjusted balance as at 1 January 2018	**1,038,007**	**3,502,964**	**1,332**	**263,358**	**(3,788,713)**	**1,016,948**	**1,016,948**
Total comprehensive income	**-**	**-**	**-**	**(11,949)**	**(109,325)**	**(121,274)**	**(121,274)**
(loss) for 31 December 2018	**-**	**-**	**-**		(137,327)	**(137,327)**	**(137,327)**
other comprehensive income	**-**	**-**	**-**	(11,949)	28,002	**16,053**	**16,053**
Amortisation of property, plant and equipment revaluation reserve or realised revaluation surplus/deficit	**-**	**-**	**-**	(11,906)	27,693	**15,787**	**15,787**
Transactions with shareholders	**-**	**-**	**-**	(43)	309	**266**	**266**
Issue of shares:							
nominal value	10,719	-	-	-	-	**10,719**	**10,719**
share premium	-	1,097,790	-	-	-	**1,097,790**	**1,097,790**
Closing balance as at 31 December 2018 (balance as at 1 January 2019)	**1,048,726**	**4,600,754**	**1,332**	**251,409**	**(3,898,038)**	**2,004,183**	**2,004,183**
Total comprehensive income	**-**	**-**	**-**	**(40,661)**	**(68,485)**	**(109,146)**	**(109,146)**
(Loss) for 2019	**-**	**-**	**-**		(121,502)	**(121,502)**	**(121,502)**
other comprehensive income	**-**	**-**	**-**	(40,661)	53,017	**12,356**	**12,356**

(in thousands of Ukrainian hryvnias)

Item	Attributable to shareholders						Total equity
	share capital	share premium and other additional capital	reserves and other funds	revaluation reserves	retained earnings	total	
1	2	3	4	5	6	7	8
Amortisation of property, plant and equipment revaluation reserve or realised revaluation surplus/deficit	-	-	-	(44,578)	52,632	**8,054**	**8,054**
Amortisation of securities revaluation reserve	-	-	-	3,867	385	**4,252**	**4,252**
Transactions with shareholders	-	-	-	50	-	**50**	**50**
Closing balance as at 31 December 2019	**1,048,726**	**4,600,754**	**1,332**	**210,748**	**(3,966,523)**	**1,895,037**	**1,895,037**

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Note 1. Information about the Bank

Note 1. Information about the Bank

Full name of the Bank	Joint-Stock Company “PRAVEX BANK”
Short name of the Bank	JSC “PRAVEX BANK”
Location	9/2 Klovskyi Uzviz, Kyiv 01021, Ukraine
Country of registration	Ukraine
Form of incorporation	Private Joint-Stock Company
Name and location of the parent company	Intesa Sanpaolo S.p.A. 10121 Italy, Turin, Piazza San Carlo, 156
Management shareholding	0%
Foreign investor shareholding	INTESA SANPAOLO S.p.A. (Italy) owns 100% of the Bank’s share capital
Reporting period	From 1 January to 31 December 2019
Reporting currency and measurement unit	UAH ‘000

The strategic business and development goal of JSC “PRAVEX BANK” (hereinafter – “the Bank”) is to create a universal bank providing a full range of bank services to legal entities and individuals.

The operation within the framework of a limited macroeconomic scenario amidst the frozen military conflict in the East of Ukraine, unstable economic and political situation, inflation and devaluation risks and varying intentions of the financial market players hampered the implementation of the Bank’s strategy in the year ended 31 December 2019 and had an adverse effect on its financial results.

The above factors forced the Bank to focus on the solvency issues and its reliability, giving the highest priority to:

- liquidity management;
- enhancing the Bank’s performance and financial results;
- engaging corporate and retail segments more actively, both in terms of lending business and deposit-taking;
- strengthening the Bank’s position both in the corporate and retail segments, particularly by attracting new customers and improving the service quality.

In accordance with the key priorities above, the Bank took the following actions:

- invested available funds in NBU deposit certificates and domestic government loan bonds (DGLBs) issued by the Ministry of Finance of Ukraine to avoid liquidity risks and ensure risk-free interest income,
- provided loans to legal entities (corporate loans) targeting customers with a stable financial position and high reputation on the market;
- resumed retail lending with a tight control over the credit risk by:
  - ✓ launching a new lending product – European personal loan;
  - ✓ launching mortgage lending;
  - ✓ continued providing car loans
- the Bank joined the EBRD's Trade Facilitation Programme that will help expand cooperation with international banks, access new international markets and increase the volume of trade financing.
- took active steps to improve efficiency of its branch network;

- continued work aimed at realisation/sale of collateral;
- took active steps to reduce overdue loans by restructuring the customers' debt.

Note 2. Economic environment of the Bank

The Bank operates in Ukraine. The political and economic situation in Ukraine has been unstable in recent years and demonstrates characteristics of an emerging market. Consequently, operations in Ukraine involve risks that do not typically exist in other markets.

In recent months, various factors have influenced the global and financial markets, namely:

- Oil and gas prices increased due to the revision of the OPEC agreement by its partners and a decreased production in USA;
- Increasing external demand in terms of rising prices (steel, iron ore prices);
- With the negative prospects of global trade growth and the risks of economic downturn, central banks across different countries had to cut their policy rates.
- At the same time, the progress in US-China trade negotiations in lifting the trade restrictions has partly reduced pressure on the markets and the EU's agreement to postpone Brexit has ensured a resurgence of investor interest in risky assets, increased capital inflows to developing countries and strengthened their national currencies.

In spite of the unpredictable prospects for the global economy, the Ukrainian economy began to show signs of recovery, such as the GDP growth (14 consecutive quarters), slowing inflation down to the targets set by the National Bank of Ukraine (5.1% in November), slower depreciation of the Ukrainian hryvnia against major foreign currencies (the revaluation trend was prevailing), monetary policy easing by reducing the policy rate to 13.5% (in December 2018 it was 18.0%), which led to a further decrease in the value of hryvnia resources, increase in the NBU international reserves (including due to the higher daily planned purchases of the foreign currency to replenish reserves from USD 30 to 50 million) and the general revival of business.

The liberalisation of the currency legislation and the strengthening of macrofinancial stability allowed to lift more than 30 currency restrictions in 2018-2019, including those limiting the purchase of foreign currency by individuals and the surrender requirement to sell corporate proceeds in foreign currency. Also, the NBU allowed Ukrainian companies to pay dividends abroad within a monthly limitation. In February 2019, a new law on currency and currency transactions has come into force. The new law abolishes a number of restrictions, defines new principles of foreign currency transactions, regulation and supervision and results in a significant liberalisation of foreign currency transactions and capital movements.

The banking sector is operating in a favourable macroeconomic environment: the deposit growth is sufficient to support lending and the increased demand for banking services in business and retail ensures high earnings. Thus, the banking system has reached a record net profit of UAH 59.0 billion for the first 11 months of 2019, or 3 times more than that in 2018 (UAH 20.0 billion), and the return on capital in the banking sector reaches almost 40%. The profitability of the banking system is driven by high margins in the retail segment and high commission income. In May 2019 the Ukrainian market joined the Clearstream network under the agreement signed between Clearstream and the NBU, which facilitates growth in the demand and liquidity of government bonds, including by streamlining investment for non-residents, and allows the government to expand funding sources, reduce the borrowing cost and improve the monetary structure of the national debt.

In September 2019, Ukraine has finally settled its debt to IMF under the stand-by program launched in 2014. It repaid USD 560.9 million in debt plus USD 110 million in interest on Eurobonds. The International Monetary Fund has reached an agreement with the Ukrainian government on a new three-year EFF Extended Fund Facility for 4 billion Special Drawing Rights (SDR) – about USD 5.5 billion.

During 2019, international rating agencies revised and improved Ukraine's ratings, namely:

- In September 2019, Fitch Rating improved Ukraine’s long-term and short-term foreign-currency and national-currency credit rating (IDR) from B- to B and updated its outlook from stable to positive. That became possible after Ukraine demonstrated the ability to access external financing of the national budget in a timely manner, having improved its macroeconomic stability and reduced its public debt, whilst the reduced election period alleviated the political uncertainty.
- In November 2019, Moody's Investors Service upgraded rating of the Ukrainian government from stable to positive, affirming Ukraine’s long-term issuer and senior unsecured ratings at Caa1. Amongst the key drivers improving its outlook, the agency named the rebuilding of Ukraine's foreign exchange reserves, thus reducing external vulnerability in the context of large external repayments, the improvement of Ukraine's macroeconomic stability and the prospect for renewed reform momentum strengthening the country's economic resilience.

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

These financial statements reflect the management’s current assessment of the effect that the Ukrainian economic environment has on the Bank’s operations and financial position. The future economic environment may differ from the management’s assessment.

Note 3. Basis of preparation

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter – ‘IFRS’), requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation and applicable regulations on the submission of annual reports by issuers and professional participants of the stock market to the National Securities and Stock Market Commission of Ukraine.

During the year ended 31 December 2019 and in preparing these financial statements, the Bank consistently applied significant accounting policies set out below.

The preparation of financial statements under IFRS requires the management to make judgements, estimates and assumptions that affect the application of accounting policies. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognised in the period in which the estimates are revised and in all future periods.

Transactions are recorded in the underlying transaction currency. Assets and liabilities, income and expenses from transactions with foreign currencies are reflected in UAH equivalent at the official NBU exchange rate for foreign currencies at the date of recognition. The functional currency of these financial statements is the Ukrainian hryvnia (UAH). The financial statements are presented in thousands of Ukrainian hryvnias, unless otherwise indicated.

Note 4. Accounting policies of JSC “PRAVEX BANK” for the year ended 31 December 2019

4.1. Basis of measurement

The Bank’s accounting policies are based on the underlying accounting principles under which the financial statements are prepared: completeness, substance over form, business entity concept, prudence, going concern, accrual and matching, consistency (consistent application of accounting policies) and the single monetary unit.

Information on the criteria for the recognition and measurement of assets and liabilities and income and expenses is set out below in the following sections of this note.

4.2. Use of accounting estimates and assumptions

The preparation of financial statements requires the management to make judgements, estimates and assumptions that may significantly affect the amounts in the statement of financial position and in the statement of profit or loss and other comprehensive income, as well as the amounts of assets and liabilities in the financial statements. The estimates are based on the available information and subjective judgements, often based on historical experience, that are used to formulate reasonable assumptions when assessing results of operations. Taking into account their nature, estimates and assumptions used, can be changed from year to year, and, therefore, the amounts presented in the financial statements may significantly differ in the future financial years as a result of change in the subjective estimates.

The management should make its subjective estimates regarding the following:

- estimate of expected losses from loans and other financial assets;
- estimates and assumptions with regard to acquiring deferred tax assets.

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

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

The Bank recognises expected credit loss allowances at an amount equal to lifetime ECLs, except for those instruments, for which the allowance amount recognised will be 12-month ECLs:

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

Should actual repayments be less than the management's estimates, the Bank would be required to record additional impairment expense.

Exchange rates applied during the restatement of assets and liabilities denominated in foreign currencies. The Ukrainian hryvnia is not a freely 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 preparing these financial statements, the management applied the NBU official exchange rate to recalculate the transactions and balances in foreign currencies. The NBU official exchange rates are derived from officially published sources. The management believes that the application of these rates substantially serves the comparability purposes.

4.3. Changes in accounting policies

Effective from 1 January 2019, changes in the Bank’s accounting policies occurred as a result of adoption of IFRS 16.

IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. Within this model, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value fast-moving items. Lessor accounting remains similar to the current standard, i.e. lessors continue to classify leases as finance or operating leases.

The most significant effect identified is that the Bank will recognise new assets and liabilities for its operating leases of office buildings. As at 31 December 2018, the Bank had no non-cancellable operating leases.

The Bank applies the selected option consistently to all of its leases.

The Bank applied IFRS 16 using a modified retrospective approach, which means that the cumulative effect of the first-time adoption was recognised in retained earnings as at 1 January 2019. Accordingly, the comparative information for 2018 was not restated, meaning it was presented according to prior presentation under IFRS 17 and respective interpretations.

Furthermore, the disclosure requirements under IFRS, as a rule, did not apply to comparative information.

In adopting IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities by recognising the difference in retained earnings. The respective effect is presented in aggregate below.

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**01/01/2019**	**31/12/2018**
1	**2**	**3**	**4**
Assets			
1	Right-of-use assets – PP&E	79,430	-
Liabilities			
2	Lease liabilities	79,430	-

As at 1 January 2019, the Bank recognised assets and liabilities in the amount of UAH 79,430 thousand. There is no effect on equity and Statement of Profit or Loss and Other Comprehensive Income. Information about right-of-use assets and liabilities, interest expense on lease liabilities of the lessee as at 31 December 2019 is presented in Notes 12, 25.

4.4. Initial recognition of financial instruments

A financial instrument represents any contract that gives rise to (increases) a financial asset of one entity and a financial liability or equity instrument of another entity.

The Bank recognises 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 amortised cost (AC) or at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL).

Financial assets are not reclassified after their initial recognition, unless the Bank changes its business model for managing financial assets in the period after the change. The Bank may reclassify financial assets only if it has changed 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.

4.5.1. Business model assessment

The Bank classifies and measures financial assets based on the business model that it uses for managing those assets and their contractual cash flow characteristics.

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

— the stated policies and objectives for the portfolio of the financial assets and the operation of these policies in practice, including whether the management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the maturities of the financial assets to the maturities of the liabilities that are funding those assets or realising 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

— the frequency, volume and timing of sales in prior periods, reasons for such sales and expectations about future sales. However, information about sales 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 realised.

In assessing whether the contractual cash flows are solely payments of principal and interest on the outstanding principle (SPPI criterion), the Bank considers the contractual terms of the financial instrument. This include assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows so 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 of the time value of money – e.g. periodic revision of interest rates.

A financial asset is measured at AC 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 to hold assets to collect contractual cash flows; and

— 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 FVTOCI 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 by sale of financial assets; and

— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not qualifying for measurement at AC or FVTOCI as described above are measured at FVTPL.

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

— at amortised cost;

— at fair value through profit or loss.

The Bank regularly evaluates the business model that it uses to manage financial assets for generating cash flows. The Bank, at the date of the business model assessment, takes into account all objective evidence (factors) available on this 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 discount (premium) for the underlying financial instrument. The Bank amortises the amount of discount/premium during the life of a financial instrument (excluding financial instruments at FVTPL) using the effective interest method at least once a month. The amount of discount/premium must be fully amortised by the financial instrument maturity date.

4.5.2. Expected credit loss allowance

The Bank recognises the expected credit loss (ECL) allowance on the following financial instruments that are not measured at FVTPL:

— financial assets measured at AC;
— financial assets measured at FVTOCI;
— credit liabilities and financial guarantees;
— financial accounts receivable.

No allowance is recognised on equity investments.

Expected credit losses allowance should be recognised at an amount equal to either 12-month ECLs or lifetime ECLs.

12-month ECLs are the portion of ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments, for which 12-month ECLs are recognised, are referred to as Level 1 Financial Instruments.

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

The impairment requirements of IFRS 9 are complex and require the use of judgements and estimates, particularly with regard to:

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

4.5.3. Valuation of expected credit losses

Expected credit losses are identified as an estimate of credit losses weighted on the probability of default (PD). They are measured as follows:

— *financial assets that are not credit-impaired at the reporting date:* as a present value of all expected cash shortfalls (i.e. the difference between the cash flows that are due to the Bank under a 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 asset's gross carrying amount and the present value of estimated future cash flows;

- *undrawn loan commitments:* as a present value of the difference between contractual cash flows due to the Bank under a contract, if the holder draws down the commitment, and the cash flows that the Bank expects to receive, if the loan is issued; and
- *financial guarantee contracts:* the present value of expected payments to reimburse the holder for credit losses that it incurs less any amounts that the Bank expects to recover.

4.5.4 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 by applying experienced credit judgement. The Bank uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are determined using qualitative and quantitative factors that indicate a risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades 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 grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade 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 grade.

For financial assets that have become credit-impaired (recognised within grade 3) after initial recognition, the interest income is calculated by applying the effective interest rate to the amortised value of a financial asset. If a financial asset is no longer credit-impaired, the interest income is calculated based on the gross carrying amount.

Significant increase in credit risk

In determining whether there is a significant increase in credit risk (SICR) of a financial instrument since its initial recognition, the Bank considers reasonable and supportable information that is relevant and accessible without undue cost of effort, including both quantitative and qualitative information, an analysis based on the Bank's historical experience, an expert credit assessment and forward-looking information.

Firstly, the Bank identifies whether a significant increase in credit risk has occurred for an exposure based on the remaining lifetime probability of default of a financial instrument at the reporting date and the remaining lifetime probability of default for this point in time that was estimated at the time of initial recognition of the exposure.

The assessment of whether there has been a significant increase in credit risk since initial recognition of a financial instrument requires identification of the initial recognition date of the instrument. For some revolving credit facilities (such as credit cards and overdrafts), the contract date may be a long time ago. Changes in contractual terms of a financial instrument discussed below may also affect the assessment.

Significant increase in credit risk

The Bank develops a framework that incorporates both quantitative and qualitative information to determine if there is a significant increase in credit risk on a particular financial instrument since initial recognition. The framework aligns with the Bank’s internal credit risk management process. The criteria for determining a significant increase in credit risk vary by portfolio and include a ‘backstop’ based on delinquency.

In certain instances, using the experienced credit judgement 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 determines 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.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECLs measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Loans are written off against provisions when there is no realistic prospect of future recovery and all collateral has been realised or transferred to the Bank. The bad debt is recognised and the debt balance is written off against the provisions.

The Bank analyses its receivables on loans and other accounts receivable to identify bad debts at least once a quarter.

The Bank recognises credit and other receivables as bad if they meet at least one or several of the following criteria:

- limitation period on the debt has expired, and no repayments of the debt have been made for a three-year period;
- overdue debt of a deceased person possessing no inheritable property upon which the execution could be levied;
- overdue debt of missing or deceased persons recognised as such by court decision;
- forgiven overdue debt of a retail borrower, unless such individual is the creditor's associate, or if he or she is, or was employed by the creditor;
- overdue debt of a corporate or retail borrower outstanding due to insufficiency of the borrower's property, provided that enforcement measures in respect of the borrower's property did not result in a full debt repayment;
- cancellation of the debt collection proceedings due to their inefficiency, i.e. when the Bank's related legal expenses exceed the collectible amount;
- debt uncollectible due to impediments of extraordinary nature (force majeure) as determined by the law, including:
    - extraordinary weather conditions and natural disasters (e.g. hurricane, storm, flood, snow blockage, glaze ice, earthquake, fire, subsidence or landslide), unless such weather conditions and natural disasters are insurance events covered by an insurance policy in respect of the pledged property;
    - extraordinary situations caused by a party other than a party to the relevant agreement (e.g. strike, lockout, declared or undeclared war, threat of war, act of terror, blockade, revolution, conspiracy, uprising, mass unrest, public rallies, illegal acts of third parties, fire or explosion);
    - conditions brought under regulation of relevant executive authorities, as well as those related to clean-up and remediation operations with regard to natural disasters and extraordinary situations;
- debt of business entities that were recognised bankrupt or liquidated in a due course of the law;

- debt outstanding upon completion of the bankruptcy procedure, unless the Bank's expenses have been fully recovered or there is a possibility to collect any other type of collateral;
- debt outstanding upon decision of the court not in the Bank's favour and/or decision of the Bank to abandon any further claims in respect of the debt;
- debt recognised fraudulent as a result of the line-of-duty investigation.

Bad debt is recognised 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 amounts include the implementability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected revenues, availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows.

Non-financial assets

Other non-financial assets, other than deferred taxes, are tested at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the higher of their fair value less costs to sell and value in use. In measuring the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows that are largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Renegotiated loans

If the currency of the loan has been changed, the original loan is derecognised and the new loan is recognised.

If modification of a financial instrument other than measured at FVTPL does not result in a derecognition, the Bank recalculates the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognises any resulting adjustment as a modification gain or loss in profit or loss.

Definition of default

The Bank considers a financial asset to be in default when:

— the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising the collateral (if any is held); or

— the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due on the next day when the customer has breached an advised limit or been advised of a smaller limit than the current amount outstanding.

In assessing whether a borrower is in default, the Bank considers indicators that are:

— qualitative: e.g. breaches of covenant;

- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on the data generated internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Generating the term structure of the probability of default

Credit risk grades are used as a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change with the passage of time.

This analysis includes the identification and calibration of relationships between changes in PD and changes in key macro-economic factors, as well as a detailed analysis of the effect that certain other factors (e.g. forbearance experience) have on the risk of default. For most exposures, key macro-economic indicator will be GDP growth.

The Bank's approach to incorporating forward-looking information into this assessment is discussed below.

4.6. Derecognition of financial instruments

Financial assets are derecognised only when a sale results in a transfer of all the risks and rewards related to assets. Conversely, if a significant portion of risks and rewards related to the sold financial assets is retained, they continue to be recognised as assets even if the ownership of these assets was transferred. Unless the identification of transfer of risks and rewards is practicable, financial assets are derecognised when control over assets is lost. Alternatively, when control is retained at least partially, the Bank continues to recognise assets to the extent of its continuing involvement. The extent of the Bank's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset and to changes in respective cash flows. Finally, the transferred financial assets are derecognised, if the Bank retains contractual rights to receive cash flows from an asset, but simultaneously assumes an obligation to pay the respective cash flows, and only the respective cash flows, to third parties. The Bank derecognises a financial liability or its part when its contractual obligations are discharged or cancelled or expire.

Loans and debt securities are written off (either partially or in full) when there is no reasonable prospects of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

4.7. Modifications

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different ('substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. Changes in cash flows on existing financial assets or financial liabilities are not considered a modification if they result from existing contractual terms, e.g. changes in interest rates. The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or exchanged financial asset are substantially different. The quantitative and qualitative evaluation of whether the modification is substantial takes into account qualitative factors, quantitative factors and the combined effect of qualitative and quantitative factors. If the cash flows are substantially different from the original financial asset, then the contractual rights to cash flows are deemed to have expired. In making this evaluation, the Bank analogises to the guidance on the derecognition of financial liabilities.

The Bank concludes that the modification is substantial based on the following qualitative factors:

— change in the currency of the financial asset;

— change in collateral or other credit enhancement;

— change in the terms of the financial asset resulting in a non-compliance with the SPPI criterion.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining life of the modified financial asset. If such a modification occurred due to the borrower's financial difficulties, then the gain or loss is presented within impairment losses. In other cases, it is presented within interest income calculated using the effective interest method.

For loans that envisage the borrower's right to prepay at nominal value without significant penalties, the Bank takes into account the interest rate adjusted to the market level in response to the changes in market conditions similarly to the accounting treatment of floating-rate instruments, i.e. the interest rate is revised prospectively.

As part of the credit-risk management activities, the Bank renegotiates loans to customers experiencing financial difficulties (referred to as 'forbearance activities'). If the Bank plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the evaluation of modification takes place. As a result, in all likelihood, the contractual cash flows recognised for the original financial asset as at the point of modification will be equivalent to the new modified contractual cash flows. If, based on the quantitative evaluation, the Bank concludes that the modification of financial assets as part of the Bank's forbearance policy is not substantial, the Bank performs a qualitative evaluation of whether the modification is substantial.

The Bank derecognises a financial liability when its terms are modified in such a way that the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability, the Bank applies an accounting policy consistent with the approach for adjusting the financial asset's gross carrying amount when the financial asset is not derecognised as a result of modification, i.a. the Bank recognises any adjustment to the financial liability's amortised cost arising from such a modification (or exchange) in profit or loss at the date of modification (or exchange).

The quantitative and qualitative evaluation of whether the modification is substantial takes into account qualitative factors, quantitative factors and the combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial based on the following qualitative factors:

— change in the currency of the financial liability;

— change in collateral or other credit enhancement;

— inclusion of conversion option;

— change in the subordination of the financial liability.

For the purposes of quantitative assessment, the terms are considered substantially different if the present value of the cash flows under the new terms, including fees paid net of any fees received, discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the profit or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

4.8. Cash and cash equivalents

The Bank recognises cash on hand, balances on accounts in the National Bank of Ukraine, correspondent accounts and overnight deposits in other banks within cash and cash equivalents. The Bank does not recognise mandatory reserves within cash and cash equivalents for the purposes of the statement of financial position and the statement of cash flows if there are restrictions on their use.

4.9. Loans and advances to customers

Loans are measured by the Bank at amortised cost only if both of the following conditions are met:

1) a financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

2) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Loans are initially recognised on the underlying contract date based on the fair value of the financial instrument that equals to the amount granted, including expenses/income that are directly attributable to a single loan and can be determined when originated, even if paid at a later date.

Subsequent to initial recognition loans are carried at amortised cost, which equals to the original cost increased/decreased by principal repayments and by amounts of adjustments/repayments and amortisation calculated using the effective interest method of any difference between the initial amount and the amount expected in maturity that, usually, relates to expense/income directly attributable to the loan. The effective interest rate is the rate that exactly discounts the estimated future cash flows on a loan, i.e. the principal amount and interest, to the amount of the cash disbursed, including expenses/income attributable to the loan. This measurement method is based on the financial approach and allows allocating the economic effect of expenses/income over the remaining period until maturity.

4.10. Investments in securities at fair value through other comprehensive income

The Bank recognises a financial asset at fair value through other comprehensive income if both of the following requirements are met:

1) a financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

2) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt securities and shares, financial assets at FVTOCI are initially recognised at the settlement date. Assets are initially recognised at fair value taking into account transaction costs and income directly attributable to the instrument.

Subsequent to the initial recognition, financial assets are carried at fair value. Income and loss from the change in fair value are recognised in other comprehensive income up to the moment the financial asset is derecognised or objective indications of impairment are identified. When a financial asset is sold or when a loss is recognised, accumulated gain or loss is reversed through the statement of profit or loss and other comprehensive income. For determination of the fair value of financial instruments quoted in an active market, market quotations are used. If the market for a financial instrument is not active, pricing models are applied that take into account the current market and contractual prices of the underlying instruments and other factors. Equity instruments included to this category and financial derivatives that have equity instrument as an underlying asset whose fair value cannot be determined reliably are recognised at cost. Financial assets available for sale are tested for any indication of impairment. If any such indication exists, the loss is determined as a difference between the carrying amount of an asset and its fair value. If indications of impairment no longer exist after the event that occurred after the recognition of impairment, loans and debt securities are reversed through the statement of profit or loss and other comprehensive income, and equity instruments are reversed through other comprehensive income. The reversal shall be recognised only to the extent that the carrying amount of the financial asset does not exceed its amortised cost had no impairment losses been recognised in the prior periods.

4.11. Investments in securities at amortised cost

Recognised only if both of the following conditions are met:

1) a financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows (‘repayment model’);
2) contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (‘positive SPPI test’).

4.12. Financial instruments at fair value through profit or loss

All other debt financial assets are measured by the Bank at fair value through profit or loss if such financial assets do not meet the criteria of subsequent measurement at amortised cost or at fair value through other comprehensive income.

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); or
- upon initial recognition, designated as at fair value through profit or loss.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

The management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of the fair value through profit or loss category. Financial assets that meet the definition of loans and receivables may be reclassified out of the fair value through profit or loss or out of the fair value through other comprehensive income category, if the Bank has an intention and ability to hold them in the near future or until maturity. Other financial instruments may be reclassified out of the fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

4.13. Property, plant and equipment

Property, plant and equipment represents tangible assets held by the Bank to use in its ordinary activity, to render services, to lease to other parties or to perform administrative function, to the extent that the useful lives of such assets exceed one year.

Property, plant and equipment are initially recognised at cost that includes any costs directly attributable to acquisition and bringing the assets to the working condition for their intended use.

Subsequent to initial recognition, the Bank measures the property, plant and equipment, other than properties of the Bank, using historical cost method.

Assets accounted for at historical cost after initial recognition are not subject to any revaluations.

The Bank measures its properties using the revalued cost method. The Bank remeasures any properties carried at revalued amount to the extent that the residual value of such properties differs significantly from its fair value at the balance sheet date. In case any properties are revaluated, the Bank performs a revaluation of all other properties on the same date.

To determine the fair values of its properties, the Bank engages an independent expert appraisal as at the balance sheet date. It is mandatory that an independent expert appraisal is carried out by an independent appraiser as at the end of the reporting year.

Subsequent revaluations of a group of property, plant and equipment revalued in previous periods are made with sufficient regularity to ensure that their residual value as at the balance sheet date does not differ materially from their fair value.

As at 31 December 2019, the appraisal of properties was carried out by an independent appraiser Limited Liability Company "EXPANDIA". As at the appraisal, LLC "EXPANDIA" held the appraiser's certificate required by the applicable legislation of Ukraine and had previous experience of appraising similar properties.

Fair value of investment property items was determined to be equal to the market value, net of value added tax. The market value was calculated by the comparative approach (method of adjusting value to similar properties) and income approach.

A revaluation surplus of buildings is recognised directly in other comprehensive income, except to the extent it offsets a previous deficit on the same asset recognised in profit or loss. A revaluation deficit on buildings is recognised in profit or loss, except to the extent that it offsets a previous surplus recognised directly in other comprehensive income.

In recognising a revaluation surplus/deficit, the historical (revalued) amount of property, plant and equipment is decreased by accumulated depreciation, and the carrying amount calculated on a net basis is revalued to the fair value. Based on this method, the revalued amount of property, plant and equipment is equal to its fair value, and the accumulated depreciation amounts to zero.

The costs of improvement of property, plant and equipment are recognised on capital investments accounts.

Useful lives and applicable depreciation rates are reviewed at each year-end. The below table presents useful lives of certain categories of property, plant and equipment for 2019:

Description	**Useful life, years**
Buildings and constructions	33.33
Machinery and equipment	4-15
Vehicles	10
Fixtures and fittings (furniture)	4-10
Other PP&E	2-10

Property, plant and equipment is depreciated on a straight-line basis. In 2019, ended on 31 December 2019, there were no changes in the depreciation method and useful lives of property, plant and equipment.

All non-current assets (except for land and construction in progress) are subject to depreciation.

Expenditures incurred for operating leasehold improvements are charged over the period starting from the month following the month when the lease is complete of improvements and ending in the last month of the lease term, or, if the economic life of a leasehold improvement is shorter than the lease, depreciation is charged over the useful life of the leasehold improvement.

Depreciation is discontinued on the earlier of:

— the date of transferring the underlying asset to non-current assets held-for-sale; and
— the date of derecognition of the underlying asset.

Items of property and equipment are derecognised in case of their disposal as a result of sale, free transfer, liquidation, etc.

4.14. Intangible assets

The Bank classified the licenses to use computer software and the acquired computer software within intangible assets.

Acquired intangible assets are measured at cost (historical/actual cost) that includes the actual costs incurred to acquire and bring specific items to the condition necessary for them to be capable of operating in the manner intended.

Subsequently, the Bank measures intangible assets at historical cost (at cost), less accumulated amortisation and accumulated impairment losses.

Amortisation is charged on a straight-line basis. During 2019, ended on 31 December 2019, the Bank made no changes to the amortisation method and useful lives of intangible assets. Useful lives and amortisation rates of intangible assets are revised at each year-end and when such revisions are supported by relevant feasibility studies.

Useful lives of intangible assets are specified below:

Description	Useful life, years
Software packages and solutions	1 - 10
Software licences	1 - 10

Amortisation is charged on a monthly basis applying the rates calculated by reference to the useful lives of each individual intangible asset.

4.15. Leases

The Bank accounts for leases in accordance with IFRS 16 Leases and the NBU Regulation No. 480 dated 25 December 2005.

A lease or lease component is recognised as a contract that is, or contains, a lease if it conveys to the Bank the right to use the asset (the underlying asset) for a period of time in exchange for consideration, when the following criteria are met:

- the leased asset is identifiable;
- the rights to obtain all economic benefits from use of the asset are conveyed to the Bank;
- the right to order others to operate the asset in a manner the Bank determines for a certain period in exchange for consideration is conveyed to the Bank.

The Bank does not recognise leases. Instead, it recognises the recognition exemption to account for:

- ✓ leases with a lease term of 12 months or less;
- ✓ leases where the underlying asset's value is less than EUR 5,000.00 (determined at the NBU exchange rate)
- ✓ perpetual leases;
- ✓ gratuitous leases;
- ✓ non-identifiable leases.

The Bank recognises lease payments as expenses on a straight-line basis over the lease term for leases falling within the recognition exemption.

The decision to apply the exemption for low-value assets is made for each contract separately.

Software licence and other licensing agreements are not recognised as leases. The Bank recognises these assets as intangible assets according to IAS 38 Intangible Assets.

If a lease arrangement is recognised as a lease, at the commencement date, the Bank recognises:

- right-of-use assets;
- lease liabilities.

A right-of-use asset is measured at cost that includes:

- the amount of the initial measurement of the lease liability
- any lease payments made at the commencement date, less any lease incentives received
- initial direct costs;
- an estimate of costs to be incurred in dismantling or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Initial direct costs include expenses that the Bank incurred from:

- sales commissions,
- notary services,
- advisory services,
- collateral,
- lessor's consideration;
- other costs.

Initial direct costs exclude:

- general overhead costs;
- costs attributed to receiving quotes in respect of potential leases;
- repairs of the assets leased.

Lease liabilities are carried at present value of lease payments net of VAT and are not paid at the measurement date. The liability amount is determined by discounting future payments using the interest rate implicit in the lease that can be readily determined.

If the interest rate cannot be determined from conditions of a lease, the discount rates for the Bank are set by the parent company.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments, less any incentives receivable;
- variable lease payments that depend on an index or a rate;
- residual value guarantee;
- exercise price of a purchase option if there is a reasonable certainty that the Bank will exercise that option;
- penalties for terminating the lease, if the lease term reflects the Bank exercising an option to terminate the lease.

If the contract conditions require the lease payment to be indexed to an inflation index, future payments following after the initial recognition of the liability are remeasured on a monthly basis using the current inflation index.

To determine the lease and the lease term as the non-cancellable period of a lease, the Bank assesses the lease term and analyses the length of the non-cancellable period of a lease, as well as the Bank's right to exercise an option to extend or terminate the lease.

The lease term is assessed at the commencement date by the Bank’s structural units responsible for managing assets and/or initiating lease arrangements.

The Bank revises the lease term if there is a change in the non-cancellable period of a lease.

Right-of-use assets are initially recognised at cost.

After the initial recognition of right-of-use assets, the Bank applies the cost model by reference to accumulated amortisation using the straight-line method.

The Bank depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

If the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or if the cost of the right-of-use asset reflects that the Bank will exercise a purchase option, the Bank shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.

Lease modification.

The Bank accounts for a new lease if the modification increases the scope of the lease by adding more underlying assets or increasing the consideration for the lease by an amount commensurate with the stand-alone price for the increase in scope.

For a modification that does not result in an obligation to account for the lease as a separate lease, the features of the existing asset(s) are adjusted simultaneously with adjustments to the amount of the asset and liability (remeasurement).

The amount of a liability is measured, recalculated and the difference between the new and existing balance of the liability is remeasured through the carrying amount of an asset or gain/loss if one of the following conditions is met:

- for the carrying amount of an asset, if:
there is a change in the lease term;
there is a recognition of an option/change in cost/termination of the lease;
there is a change in estimates of residual value guarantees;
there is a change in the amount of variable lease payments that depend on an index and are attributable to future periods.
- for the gain or loss if:
there is a change in the amount of variable lease payments that depend on an index and are attributable to the current month;
there is a change in the amount of variable lease payments that do not depend on an index and are attributable to the current month.

If the amount of a write-down is recognised as an adjustment of the right-of-use asset, at which point the carrying amount of the asset is reduced to zero, then the residual value of the remeasured liabilities is attributed to gains/losses.

4.16. Investment property

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

If the use of the investment property changes and it is reclassified to property, plant and and equipment, the fair value of the investment property as at the reclassification date becomes its acquisition cost for its subsequent accounting.

As at 31 December 2019, the appraisal of investment properties was carried out by an independent appraiser Limited Liability Company “EXPANDIA”. As at the appraisal, LLC “EXPANDIA” held the appraiser’s certificate required by the applicable legislation of Ukraine and had previous experience of appraising similar properties.

4.17. Non-current assets held for sale

The Bank recognises non-current assets as held-for-sale, if their carrying amount is recoverable from their sale, rather than through continuing use.

For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable as at the date when the asset is recognised.

Non-current assets held for sale are measured and accounted for at the lower of carrying amount and fair value.

Non-current assets held for sale are not depreciated.

4.18. Financial derivatives

A derivative is a financial instrument meeting all three of the following criteria:

(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;

(b) it requires no initial net investments or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;

(c) it is settled at a future date.

All derivative financial instruments are initially measured and recognised at fair value. Transaction costs are recognised as expenses at the time of initial recognition. Transaction costs do not include any premiums or discounts on forward contracts or options.

At every balance sheet date after the initial recognition, financial derivatives are carried at fair value less any transaction costs.

Exchange-traded financial derivatives are remeasured by the Bank based on results of each trading day (trading session) to the values equal to their quoted (estimated) prices.

Where the quoted market prices of financial derivatives are not available, the Bank determines their fair values using the following methods:

— by reference to a market price of another similar instrument;

— analysis of discounted cash flows;

— other methods that ensure reliable measurement of fair values of derivative financial instruments.

4.19. Borrowings

The Bank mostly designates its own bonds to the borrowings category The Bank may realise self-issued bonds at a nominal value with a discount or premium.

The Bank accrues interest and amortises the discounts (premiums) on self-issued bonds subject to the terms and conditions of their issue at least once a month over the period from the placement date and until the redemption date.

The amortisation of discount (premium) for the reporting period is determined using the effective interest method. The amortisation of discount/premium on transactions with self-issued debt securities results in higher/lower interest expenses.

The Bank can redeem self-issued bonds both on and prior to their maturities (if such an option is stipulated by the terms and conditions of the issue). The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. In case of early redemption of a security, the Bank amortises respective part of the discount (premium) through the date of redemption.

4.20. Provisions for liabilities

The Bank recognises provisions for liabilities and contingent liabilities.

Provisions for contingent liabilities are established to cover probable risks arising from lawsuits claiming reimbursement of losses in favour of third parties. The Bank recognises the provision in the amount required to reimburse all reasonable contingent expenses the Bank may incur under third parties’ lawsuits.

The Bank recognises a provision for liabilities only to the extent all three of the following conditions are met:

— The Bank has a present (legal or constructive) debt as a result of past events;

— it is probable that an outflow of economic benefits will be required to settle the debt;

— the amount of the debt can be estimated reliably.

4.21. Employee benefits

Costs incurred to pay for the labour and the single contribution for mandatory state social insurance, calculated as a percentage of the employee's current salary before tax, are recognised in the period in which they were incurred. According to the Ukrainian law, the Bank transfers the single contribution for the statutory public social insurance to the state budget of Ukraine. Costs incurred to pay the unified contribution for the statutory public social insurance are recognised in benefit costs. Upon their retirement, employees receive post-employment benefits from the State Pension Fund of Ukraine. The Bank is not a party to any other non-state retirement benefit plans or other material employee benefits plans that would require additional accruals.

The Bank recognises provisions for unused vacations.

4.22. Income tax

The Bank recognises its current income tax payable as a liability equal to the amount calculated for the reporting period in accordance with the applicable tax law of Ukraine. As at 31 December 2019 and 31 December 2018, the income tax was 18%:

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

Current income tax is the amount of income tax determined in the reporting period in accordance with the tax law of Ukraine.

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

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

Deferred tax assets and tax liabilities attributable to the same tax and payable within the same period are offset. In years when the amount of respective deductible temporary differences exceeds the amount of taxable temporary differences, respective deferred tax assets are recognised within assets in the statement of financial position under the caption “Deferred tax assets”. Otherwise, in years when the amount of taxable temporary differences exceeds the amount of deductible temporary differences, resulting deferred taxes are recognised in the statement of financial position under the caption “Deferred tax liabilities”.

When determining the portion of the unused deferred tax assets and that of outstanding deferred tax liabilities that are believed to be realised in the years after the balance sheet date, the Bank analyses the degree of probability of such realisation. In case the expected taxable profit does not fully offset respective taxable temporary differences, the realisation of which was expected in the period, the Bank recognises impairment of the deferred tax asset.

The recognised impairment loss is recognised in the statement of profit or loss and other comprehensive income under the caption “Income tax”.

Taxable profit expected in the future period is calculated by reference to the business plan prepared by the management and the available tax planning options.

4.23. Share capital and share premium

Share capital is the value of the shares/equity interests in the Bank contributed in cash by the Bank’s shareholders in the amount prescribed by the Articles of Association.

Share premium represents the surplus of the funds received from initial offering or sale of the Bank's own shares (other corporate rights) over their nominal value, or the surplus of the nominal value of the shares (other corporate rights) over their redemption value.

4.24. Recognition of income and expenses

Income and expenses are accounted for on an accrual basis, i.e. they are recognised in the period to which they are attributable.

Revenue from services rendered is recognised by reference to the stage of completion of the transaction at the reporting date to the extent that the transaction result can be estimated reliably.

Interest income and expenses are recognised using the effective interest rates in proportion to the time and amount of the underlying asset (liability).

Interest income and expense are recognised in the statement of profit or loss and other comprehensive income using the effective interest method. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

— the gross carrying amount of the financial asset; or

— the fair value of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not the expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Any differences arising between the interest income/expense determined by using the effective interest method and the interest income/expense accrued at the nominal interest rate on the financial instruments acquired or issued at the nominal value (i.e., bearing no discount or premium) are recognised as non-amortised discounts or premiums within interest income and expenses.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the fair value of the liability.

However, for financial assets that have become credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If a financial asset is no longer credit-impaired, the interest income is calculated based on the gross carrying amount.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the fair value of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income and expense presented in the statement of profit or loss and other comprehensive include:

— interest income and interest expense on financial assets and financial liabilities measured at fair value calculated using the effective interest method;

— interest income on debt instruments measured at FVTOCI calculated using the effective interest method;

— the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of the variability in interest cash flows in the same period as the hedged cash flows affect the interest income/expense;

— the effective portion of changes in the fair value that are designated and qualify as derivatives for hedging the fair value of the interest rate risk;

— interest income on non-derivative debt instruments at FVTPL is presented separately as “Other interest income”. The interest income is measured using the effective interest method, excluding transaction costs.

Commissions that are not included in the cost of loan (e.g. commissions for cash and settlement services, etc.), are recognised within commission income.

Dividends on variable-income securities available for sale are recognised as income for the period during their holding.

4.25. Foreign currencies

Items of assets and liabilities, income and expenses arising from transactions in foreign currencies and precious metals are recognised in a UAH equivalent at the official NBU exchange rate for foreign currencies and banking metals ruling at the recognition date.

Income and expenses on items denominated in foreign currencies are translated into the Ukrainian hryvnias at the NBU exchange rate ruling at the transaction date. Foreign currency accruals are accounted for at the exchange rate ruling at the accrual date.

Assets and liabilities denominated in foreign currencies are recognised in the statement of financial position at the official NBU exchange rate ruling at the reporting date. As at 31 December 2019, the exchange rates of UAH established by the NBU were as follows:

Currency	31 December 2019	31 December 2018
USD	23.69	27.69
EUR	26.42	31.71

All monetary items carried on the balance sheet are retranslated each time when the NBU exchange rate is revised and the results are recognised under the caption “Gains less losses from foreign currency translation” in the statement of profit or loss and other comprehensive income.

The Bank recognises gains and losses from dealing in foreign currencies as gains/losses from foreign currency purchase, sale and exchange transactions.

4.26. Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position only to the extent there is a legally enforceable right to offset and there is an intention to realise the asset and settle the liability simultaneously.

4.27. Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. That definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, the Bank uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, the Bank’s intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements. The fair value measurement framework described in IFRS 13 applies to both initial and subsequent measurement if fair value is required or permitted by other IFRSs.

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 its non-performance risk.

As a result, the Bank adopted a new definition of fair value, as set out below. The change had no significant effect on the measurements of assets and liabilities.

For financial instruments, fair value is determined through the use of quoted prices obtained from an active financial market. 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.

If the market for the financial instrument is not active, the Bank estimates the fair value by using a valuation technique. The chosen valuation technique incorporates all the factors that market participants would take into account when pricing the transaction. The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

The valuation techniques include:

— using market inputs that are indirectly linked to the instrument being measured and are obtained from products with similar risk characteristics;

— using – even only in part – unobservable inputs that are not derived from the market, for which estimates and assumptions made by the assessor are used.

When measuring fair value, the Bank maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Banks measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

Level 1 inputs:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date.

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available. If any Level 1 inputs are available for financial instruments, some of which might be exchanged in multiple active markets, the emphasis within Level 1 is on determining both of the following:

(a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and

(b) whether the Banks can enter into a transaction for the asset or liability at the price in that market at the measurement date.

If the Bank holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability will be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the Bank. That is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank uses bid prices for asset positions and ask prices for liability positions.

Level 2 inputs:

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

(a) quoted prices for similar assets or liabilities in active markets.

(b) quoted prices for identical or similar assets or liabilities in markets that are not active.

(c) inputs other than quoted prices that are observable for the asset or liability, for example:

(i) interest rates and yield curves observable at commonly quoted intervals;

(ii) implied volatilities; and

(iii) credit spreads.

(d) market-corroborated inputs.

Adjustments to Level 2 inputs can vary depending on factors specific to the asset or liability. Those factors include the following:

(a) the condition or location of the asset;

(b) the extent to which inputs relate to items that are comparable to the asset or liability; and

(c) the volume or level of activity in the markets within which the inputs are observed.

An adjustment to a Level 2 input that is significant to the entire measurement can result in a fair value measurement being categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

Level 3 inputs:

Level 3 inputs are unobservable inputs for the asset or liability.

This category includes all instruments where the valuation technique includes inputs not based on observable data, and the unobservable inputs have a significant effect on the instrument's measurement. This category includes instruments that are measured based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The choice between the above valuation techniques is not free, but must follow a specific order of priority. Specifically, if quoted prices in active markets are available, as a rule, other valuation approaches cannot be used. IFRS 13 describes three different valuation techniques that may be used to measure fair value (which would be applied for Level 2 and Level 3 hierarchy based on the inputs used in the valuation techniques):

— Market approach: uses prices comparison and other relevant information from market transaction involving identical or similar assets or liabilities.

— Income approach: converts future amounts (e.g. cash flows or income and expenses) to a single current (discounted) amount that reflects current market expectations about those future amounts.

— Cost approach: reflects the amount required currently to replace the service capacity of an asset (often referred to as current replacement cost, which differs from the costs incurred).

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available. In some cases, this will result in more than one technique being used.

Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, any of the following events take place:

(a) new markets develop;

(b) new information becomes available;

(c) information previously used is no longer available;

(d) valuation techniques improve;

(e) market conditions change.

The Bank has formalised the Market Risk Management Policy that defines the principles and tools used for the assessment, control and management of fair value and assigns the overall responsibility for measuring fair value to the Risk Management Department that is independent from operational function.

As at 31 October 2018, fair value measurement was applied to land plots and buildings appraised by an independent entity at the end of 2018 by applying the comparable sales method or income capitalisation method to property and the cost approach to certain infrastructure objects or specialised property with limited market information.

4.28. Operating segment information

An operating segment is a component of the 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, as far as allocating resources to segments and assessing their financial performance, and for which discrete financial information is available.

The Bank represents one reportable segment that has a centralised management and follows a common lending policy and marketing strategy.

The Bank has no customers generating revenues in excess of 10% of its total external revenues.

Substantially all revenues from external customers are attributable to Ukrainian residents. Substantially all assets of the Bank are located in Ukraine.

Note 5. New and revised standards

Two new standards become effective for annual periods beginning on or after 1 January 2019, early application is permitted. In preparing these financial statements, the Bank adopted new and revised standards early.

Amendments to References to the Conceptual Framework in IFRS Standards

Definition of a Business (Amendments to IFRS 3).

IFRS 17 Insurance Contracts.

Definition of Material (Amendments to IAS 1 and IAS 8).

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – designed to facilitate an understanding of the definition of material in IAS 1 and is not intended to alter the underlying concept of materiality in IFRS. The definition of material in IAS 8 was superseded by a reference to IAS 1. Effective for annual period beginning on or after 1 January 2020, early application is permitted.

IFRS 17 Insurance Contracts – a new financial reporting standard for insurance contracts that addresses recognition, measurement, presentation and disclosure. Effective for annual periods beginning on or after 1 January 2021, early application is permitted.

Definition of a Business (Amendments to IFRS 3).

The amendments to standards and interpretations are not expected to have a significant effect on the Bank's financial statements.

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019	31/12/2018
1	**2**	**3**	**4**
1	Cash	415,468	233,507
2	Provision for cash balances located in temporarily occupied territories	(1,431)	(1,488)
3	Balances with the National Bank of Ukraine	86,282	405,812
4	**Correspondent accounts with:**	287,317	185,394
4.1.	domestic banks	1,850	558
4.2.	foreign banks	285,467	184,836
5	Provisions for cash on correspondent accounts with other banks	(28)	(12)
6	**Total cash and cash equivalents**	**787,608**	**823,213**

Line 6 in Table 6.1 corresponds to account "Cash and cash equivalents" in the statement of financial position.

As at 31 December 2019, the Bank placed cash on a correspondent account with DEUTSCHE BANK TRUST AG. AMERICAS in the amount of UAH 95,208 thousand (2018: DEUTSCHE BANK TRUST CO. AMERICAS in the amount of UAH 38,924 thousand), which represents a significant concentration.

As at 31 December 2019 and 31 December 2018, balances on correspondent accounts were not overdue.

Table 6.2. Movements in provisions for cash on correspondent accounts with other banks as at 31 December 2019 and for the year then ended

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Provisions for cash on correspondent accounts with other banks	Total
1	**2**	**3**	**4**
1	Balance at the beginning of the year	(12)	(12)
3	(Increase) in provision for impairment during the year	(18)	(18)
4	Foreign exchange differences	2	2
5	**Balance at the end of the period**	**(28)**	**(28)**

Balances on line 2 in Tables 6.2, 7.2 and 8.2 correspond to account "Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks" in the statement of profit or loss and other comprehensive income. The difference between the amount shown in account "Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks" in the statement of profit or loss and other comprehensive income and the amounts in line 2 of Tables 6.2, 7.2 and 8.2 represents the bad debt written off against provision in prior reporting periods and repaid as at 31 December 2019 (UAH 9,717 thousand) and during 2018 (UAH 7,253 thousand).

Table 6.3. Movements in provisions for cash on correspondent accounts with other banks as at 31 December 2018 and for the year then ended

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Provisions for cash on correspondent accounts with other banks	Total
1	2	3	4
1	Balance at the beginning of the year	(1)	(1)
2	IFRS 9 adjustment	(57)	(57)
3	Adjusted balance at the beginning of the year	(58)	(58)
4	Decrease in provision for impairment during the year	42	42
5	Foreign exchange differences	4	4
6	**Balance at the end of the period**	**(12)**	**(12)**

Table 6.4. Credit quality analysis of cash and cash equivalents as at 31 December 2019

(in thousands of Ukrainian hryvnias)

Line	Item	Balances on correspondent accounts with other banks by impairment stage	Cash	Balances with the National Bank of Ukraine	Total
1	2	3	4	5	6
1	Impairment Stage 1:	287,317	414,037	86,282	787,636
1.1.	Not overdue	287,317	414,037	86,282	787,636
2	Impairment Stage 3:	-	1,431	-	1,431
2.2	More than 90 days	-	1,431	-	1,431
3	Provision for cash impairment	(28)	(1,431)	-	(1,459)
4	**Total cash and cash equivalents**	**287,289**	**414,037**	**86,282**	**787,608**

Table 6.4. Credit quality analysis of cash and cash equivalents as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Balances on correspondent accounts with other banks by impairment stage	Cash	Balances with the National Bank of Ukraine	Total
1	2	3	4	5	6
1	Impairment Stage 1:	185,394	232,019	405,812	823,225
1.1.	Not overdue	185,394	232,019	405,812	823,225
2	Impairment Stage 3:	-	1,488	-	1,488
2.2	More than 90 days	-	1,488	-	1,488
3	Provision for cash impairment	(12)	(1,488)	-	(1,500)
4	**Total cash and cash equivalents**	**185,382**	**232,019**	**405,812**	**823,213**

Note 7. Loans and advances to banks

Table 7.1. Loans and advances to banks

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1	Loans to other banks:	377,447	138,572
1.1	Short-term loans	377,447	138,572
2	Provision for impairment of amounts due from banks	(122)	(5)
3	**Total amounts due from other banks less provisions**	**377,325**	**138,567**

Line 3 in Table 7.1 corresponds to account "Loans and advances to banks" in the statement of financial position.

Line 1 "Loans to other banks" includes accrued income in the amount of UAH 245 thousand (2018: UAH -125 thousand). As at 31 December 2019, loans to other banks amounted to UAH 377,447 thousand (as at 31 December 2018 – UAH 138,572 thousand), which represents a significant concentration.

Table 7.2. Movements in provisions for impairment of loans and advances to banks as at 31 December 2019 and for the year then year ended

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Provisions for cash on correspondent accounts with other banks**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	(5)	(5)
2	(Increase) in provision for impairment during the year	(118)	(118)
3	Foreign exchange differences	1	1
4	**Balance at the end of the period**	**(122)**	**(122)**

Balances on line 2 in Tables 6.2, 7.2 and 8.2 correspond to account "Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks" in the statement of profit or loss and other comprehensive income. The difference between the amount shown in account "Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks" in the statement of profit or loss and other comprehensive income and the amounts in line 2 of Tables 6.2, 7.2 and 8.2 represents the bad debt written off against provision in prior reporting periods and repaid as at 31 December 2019 (UAH 9,717 thousand) and during 2018 (UAH 7,253 thousand).

Table 7.3. Movements in provisions for impairment of loans and advances to banks as at 31 December 2018 and for the year then year ended

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Provisions for cash on correspondent accounts with other banks**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	-	-
2	IFRS 9 adjustment	(92)	(92)
3	Adjusted balance at the beginning of the year	(92)	(92)
4	Decrease in provision for impairment during the year	87	87
5	**Balance at the end of the period**	**(5)**	**(5)**

Table 7.4. Credit quality analysis of cash and cash equivalents as at 31 December 2019

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Balances on correspondent accounts with other banks by impairment stage**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1:	**377,447**	**377,447**
1.1	Not overdue	**377,447**	**377,447**
2	Provision for cash impairment	**(122)**	**(122)**
3	**Total cash and cash equivalents**	**377,325**	**377,325**

Table 7.5. Credit quality analysis of cash and cash equivalents as at 31 December 2018

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Balances on correspondent accounts with other banks by impairment stage**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1:	**138,572**	**138,572**
1.1.	Not overdue	138,572	138,572
2	Provision for cash impairment	(5)	(5)
3	**Total cash and cash equivalents**	**138,567**	**138,567**

Note 8. Loans and advances to customers

Table 8.1. Loans and advances to customers

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1	Corporate loans	1,095,892	1,073,455
2	Retail mortgage loans	89,348	119,370
3	Retail consumer loans	267,789	82,333
4	Other retail loans	24	62
5	Provision for impairment of loans	(17,256)	(55,915)
6	**Total loans less provisions**	**1,435,797**	**1,219,305**

Line 6 in Table 8.1 corresponds to account “Loans and advances to customers” in the statement of financial position. Loans and advances to customers are recognised at AC.

Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2019 would be UAH 14,358 thousand lower/higher (31 December 2018: UAH 12,193 thousand).

Line 6 in Table 8.1 discloses information about loans recognised at amortised cost. No loans and advances to customers are measured through profit or loss.

Concentration of loans to customers

The Bank believes that potential concentration risk per customer may arise when at least 10% of net loan portfolio is attributable to a limited number of borrowers. As at 31 December 2019 and 31 December 2018, loans per customer account for 16% and 33%, respectively (UAH 234,630 thousand and UAH 401,495 thousand, respectively).

Table 8.2. Movements in provisions for impairment of loans as at 31 December 2019 and for the year then year ended

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Corporate loans	Retail mortgage loans	Retail consumer loans	Total
1	**2**	**3**	**4**	**5**	**6**
1	Balance at the beginning of the year	(45,006)	(6,338)	(4,571)	(55,915)
2	Decrease in provision for impairment during the year	1,343	7,059	1,522	9,924
3	Bad debt write-offs against the provision	-	403	12	415
4	Assignment of claim	33,501	-	-	33,501
5	Recovery of loans written off against provisions in prior periods	-	(7,601)	-	(7,601)
6	Interest accrued on impaired loans	(53)	(287)	(5)	(345)
7	Foreign exchange differences	2,209	552	4	2,765
8	**Balance at the end of the period**	**(8,006)**	**(6,212)**	**(3,038)**	**(17,256)**

Balances on line 2 in Tables 6.2, 7.2 and 8.2 correspond to account “Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks” in the statement of profit or loss and other comprehensive income. The difference between the amount shown in account “Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks” in the statement of profit or loss and other comprehensive income and the amounts in line 2 of Tables 6.2, 7.2 and 8.2 represents the bad debt written off against provision in prior reporting periods and repaid as at 31 December 2019 (UAH 9,717 thousand) and during 2018 (UAH 7,253 thousand).

Table 8.3. Movements in provisions for impairment of loans as at 31 December 2018 and for the year then year ended

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Corporate loans	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Balance at the beginning of the year	(5,336)	(8,269)	(998)	(13)	(14,616)
2	IFRS 9 adjustment	3,406	(9,888)	(8,190)	(21)	(14,693)
3	Adjusted balance at the beginning of the year	(1,930)	(18,157)	(9,188)	(34)	(29,309)
4	(Increase)/decrease in provision for impairment during the period	(43,287)	25,995	4,504	34	(12,754)
5	Bad debt write-offs against the provision	-	303	109	-	412
6	Recovery of loans written off against provisions in prior periods	-	(14,590)	-	-	(14,590)
7	Interest accrued on impaired loans	-	(132)	4	-	(128)

(in thousands of Ukrainian hryvnias)						
Line	**Movements in provisions**	**Corporate loans**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
8	Foreign exchange differences	211	243	-	-	454
9	**Balance at the end of the period**	**(45,006)**	**(6,338)**	**(4,571)**	**-**	**(55,915)**

Table 8.4. Loan structure by types of economic activity

(in thousands of Ukrainian hryvnias)					
Line	**Economic activity**	**31/12/2019**		**31/12/2018**	
1	**2**	**3**	**4**	**5**	**6**
1	Production and distribution of electricity, natural gas and water	39,140	2.69%	-	0.00%
2	Transactions with real estate, leasing, engineering and servicing	37,510	2.58%	1	0.01%
3	Trade, repair of vehicles, household equipment and items of personal use	399,396	27.49%	192,942	25.43%
4	Agriculture, hunting, forestry	168,676	11.61%	228,175	18.39%
5	Processing industry	451,170	31.05%	652,337	36.21%
6	Retail	357,161	24.58%	201,765	19.96%
7	**Total loans and advances to customers less provisions**	**1,453,053**	**100,00%**	**1,275,220**	**100,00%**

Таблиця 8.5. Information about loans by collateral type of as at 31 December 2019

(in thousands of Ukrainian hryvnias)						
Line	**Item**	**Corporate loans**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	**Unsecured loans**	**321,638**	**108**	**190,662**	**24**	**512,432**
2	**Loans secured by:**	**424,951**	**89,240**	**32,925**	**-**	**547,116**
2.1	cash	41,098	-	11,422	-	52,520
2.2	Real estate	383,853	89,240	21,503	-	494,596
2.2.1	residential mortgage	2,338	85,852	584	-	88,774
2.2.2	non-residential mortgage	381,515	-	20,919	-	402,434
2.2.3	Land	-	**3,388**	**-**	**-**	**3,388**
3	**Other assets**	**349,303**	**-**	**44,201**	**-**	**393,504**
3.1	equipment	87,869	-	-	-	87,869
3.2	goods in turnover	139,715	-	-	-	139,715
3.3	vehicles	121,719	-	44,201	-	165,920
4	**Total loans and advances to customers, gross of provision charges**	**1,095,892**	**89,348**	**267,788**	**24**	**1,453,052**

Table 8.6. Information about loans by collateral type as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Corporate loans	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7
1	Unsecured loans	415,396	-	5,504	62	420,962
2	Loans secured by:	658,059	119,370	76,829	-	854,258
2.1	cash	100,476	-	-	-	100,476
2.2	Real estate	177,717	119,370	23,931	-	321,018
2.2.1	residential mortgage	-	114,998	723	-	115,721
2.2.2	non-residential mortgage	177,717	4,372	23,208	-	205,297
2.3.	Other assets	379,866	-	52,898	-	432,764
2.3.1	equipment	113,850	-	-	-	113,850
2.3.2	goods in turnover	239,250	-	-	-	239,250
2.3.3	vehicles	26,766	-	52,898	-	79,664
4	**Total loans and advances to customers, gross of provision charges**	**1,073,455**	**119,370**	**82,333**	**62**	**1,275,220**

Table 8.7. Credit quality analysis as at 31 December 2019

(in thousands of Ukrainian hryvnias)

Line	Item	Corporate loans	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7
1	**Impairment Stage 1:**	1,095,892	80,510	267,426	24	1,443,852
1.1.	Not overdue	1,095,892	78,227	265,458	24	1,439,601
1.2.	Less than 30 days	-	2,283	1,968	-	4,251
2	**Impairment Stage 2:**	-	3,076	-	-	3,076
2.1.	Not overdue	-	2,885	-	-	2,885
2.2.	Less than 30 days	-	191	-	-	191
3	**Impairment Stage 3:**	-	5,762	363	-	6,125
3.1.	Not overdue	-	125	49	-	174
3.2.	Less than 30 days	-	56	-	-	56
3.5	91 - 180 days	-	923	-	-	923
3.6.	181 - 270 days	-	681	54	-	735
3.7.	More than 270 days	-	3,977	260	-	4,237
4	**Total loans, gross of provision charges**	1,095,892	89,347	267,788	24	1,453,053
5	**Provision for loan impairment**	(8,006)	(6,212)	(3,038)	-	(17,256)
6	**Total loans less provisions**	1,087,888	83,135	264,750	24	1,435,797

Table 8.8. Credit quality analysis as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Corporate loans	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7
1	**Impairment Stage 1:**	**986,052**	**102,622**	**71,874**	**62**	**1,160,610**
1.1.	Not overdue	986,052	99,757	70,430	62	1,156,301

						(in thousands of Ukrainian hryvnias)
Line	**Item**	**Corporate loans**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1.2.	Less than 30 days	-	2,865	1,423	-	4,288
1.3.	31 - 60 days	-	-	21	-	21
2	**Impairment Stage 2:**	**52,226**	**11,092**	**10,208**	**-**	**73,526**
2.1.	Not overdue	52,226	9,074	10,082	-	71,382
2.2.	Less than 30 days	-	945	-	-	945
2.3.	31 - 60 days	-	931	29	-	960
2.4.	61 - 90 days	-	142	97	-	239
3	**Impairment Stage 3:**	**35,177**	**5,655**	**252**	**-**	**41,084**
3.1.	Not overdue	35,177	695	-	-	35,872
3.2.	31 - 60 days	-	994	16	-	1,010
3.3.	61 - 90 days	-	63	8	-	71
3.4.	91 - 180 days	-	-	90	-	90
3.5	181 - 270 days	-	942	44	-	986
3.6.	More than 270 days	-	2,960	95	-	3,055
4	**Total loans, gross of provision charges**	**1,073,455**	**119,369**	**82,334**	**62**	**1,275,220**
5	**Provision for loan impairment**	**(45,006)**	**(6,338)**	**(4,571)**	**-**	**(55,915)**
6	**Total loans less provisions**	**1,028,449**	**113,031**	**77,763**	**62**	**1,219,305**

As at 31 December 2019 and 31 December 2018, the majority of loans provided to corporate borrowers are short-term and are granted to borrowers with a minimal credit risk according to the Bank's assessment.

8.9. Credit exposure and financial effect of collateral value

Corporate loans

Corporate loans are subject to individual assessment and testing for impairment. The general creditworthiness of a corporate customer tends to be the most relevant indicator of the quality of the loan granted to it. Since a collateral provides additional security, the Bank generally requests corporate borrowers to provide it.

Based on the management's estimates, the expected credit loss allowance without collateral would be higher as at 31 December 2019 by UAH 2,369 thousand (31 December 2018: by UAH 3,792 thousand).

Retail loans

Based on the management's estimates, the expected credit loss allowance would be higher as at 31 December 2019 by UAH 1,119 thousand (31 December 2018: by UAH 1,548 thousand) for mortgage loans and as at 31 December 2019: by UAH 310 thousand (31 December 2018: by UAH 1,663 thousand) for other retail loans.

The mass valuation of collateral was performed for real estate (apartments, housing estate, non-residential premises, land plots) and movable property (vehicles) as at 1 July 2019. The valuation was performed by an independent certified appraiser.

The market value was determined based on results of the comparative methodological approach.

Note 9. Investments in securities

Table 9.1. Investments in securities

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1	Debt securities at AC	**1,352,197**	**1,704, 806**
1.1	domestic government loan bonds	-	450,275
1.2	certificates of deposit of the National Bank of Ukraine	1,352,197	1,254,531
2	Debt securities at FVTOCI	**1,309,475**	-

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
2.1	domestic government loan bonds	1,309,475	-
3	Shares of enterprises and other variable-income securities that are not traded on stock exchanges and are recognised at FVTOCI	34	34
4	Provision for impairment of securities	(31)	(31)
5	**Total investments in securities less provisions**	**2,661,675**	**1,704,809**

Line 5 in Table 9.1 corresponds to account "Investments in securities" in the statement of financial position.

Table 9.2. Credit quality analysis of debt securities carried at amortised cost as at 31 December 2019

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**NBU certificates of deposit**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1	1,352,197	**1,352,197**
1.1	Not overdue	1,352,197	**1,352,197**
2	Provision for impairment of securities	-	-
3	**Total investments in securities at AC**	**1,352,197**	**1,352,197**

Table 9.3. Credit quality of debt securities carried at fair value through other comprehensive income as at 31 December 2019.

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Domestic government loan bonds**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1	1,309,475	1,309,475
1.1	Not overdue	1,309,475	1,309,475
2	Provision for impairment of securities	-	-
3	**Total investments in securities at FVTOCI**	**1,309,475**	**1,309,475**

Table 9.4. Credit quality analysis of debt securities carried at amortised cost as at 31 December 2018

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**NBU certificates of deposit**	**Domestic government loan bonds**	**Total**
1	**2**	**3**	**4**	**5**
1	Impairment Stage 1	1,254,531	450,275	1,704,806
1.1	Not overdue	1,254,531	450,275	1,704,806
2	Provision for impairment of securities	-	-	-
3	**Total investments in securities at AC**	**1,254,531**	**450,275**	**1,704,806**

Table 9.5. Movements in provisions for impairment of securities carried at fair value through other comprehensive income as at 31 December 2019 and for the year then ended

			(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Corporate shares**	**Total**
1	**2**	**3**	**4**
1	Balance as at 1 January 2019	(31)	(31)
2	Increase in provision for impairment during the year	-	-
3	**Balance as at 31 December 2019**	**(31)**	**(31)**

Table 9.6. Movements in provisions for impairment of securities carried at fair value through other comprehensive income as at 31 December 2018 and for the year then ended

			(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Corporate shares**	**Total**
1	**2**	**3**	**4**
1	Balance as at 1 January 2018	(31)	(31)
2	Increase in provision for impairment during the year	-	-
3	**Balance as at 31 December 2018**	**(31)**	**(31)**

Table 9.7. Investments in shares and other securities carried at fair value through other comprehensive income

					(in thousands of Ukrainian hryvnias)
Line	**Name**	**Activity**	**Country of registration**	**Measured at cost (fair value cannot be reliably measured)**	
				31/12/2019	**31/12/2018**
1	**2**	**3**	**4**	**5**	**6**
1	CJSC Crimean Stock Exchange	Financial market management	Ukraine	11	11
2	CJSC Ukrainian Inter-Bank Currency Exchange	Financial market management	Ukraine	2	2
3	Crimean Inter-Bank Currency Exchange	Financial market management	Ukraine	20	20
4	UCE “UICE Contracting House”	Financial market management	Ukraine	1	1
5	**Total**			**34**	**34**

Note 10. Investment property

Table 10.1. Fair value of investment property

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1	Fair value of investment property at the beginning of the period	93,293	177,981
2	Recovery of carrying amount from sale of investment property	(34,361)	(30,102)
3	Reclassified to non-current assets held for sale and disposal groups	(39,248)	-
4	Property foreclosed by the Bank	2,733	-
5	Losses from sale of investment property	(357)	-
6	(Decrease) in investment property value	(2,680)	(54,586)
7	**Fair value of investment property at the end of the period**	**19,380**	**93,293**

Line 7 in Table 10.1 corresponds to account “Investment property” in the statement of financial position.

Fair value of investment property items was determined to be equal to the market value, net of value added tax. The market value was determined using the comparative and income approach. Fair value of the transformer substation was calculated using the cost approach.

Table 10.2. Amounts recognised in the statement of profit or loss and other comprehensive income

			(in thousands of Ukrainian hryvnias)
Line	**Income and expense**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1	Gains from disposal of investment property	7,651	18,739

Note 11. Property, plant and equipment and intangible assets

(in thousands of Ukrainian hryvnias)

Line	Item	Land plots	Buildings, constructions and transmission equipment	Machinery and equipment	Vehicles	Fixtures and fittings (furniture)	Other PP&E	Other non-current tangible assets	Low-value non-current tangible assets	Construction in progress	Intangible assets	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
1	**Carrying amount as at 1 January 2018**	**226**	**272,627**	**26,268**	**1,473**	**5,003**	**544**	**6,189**	**-**	**3,468**	**150,618**	**466,416**
1.1	**Historical (revalued) cost**	**226**	**277,035**	**176,202**	**10,841**	**10,954**	**2,308**	**22,703**	**-**	**3,468**	**391,533**	**895,270**
1.2	**Depreciation as at 1 January 2018**	**-**	**(4,408)**	**(149,934)**	**(9,368)**	**(5,951)**	**(1,764)**	**(16,514)**	**-**	**-**	**(240,915)**	**(428,854)**
2	Changes in accounting policies	-	-	(703)	(2)	(1,816)	(226)	-	2,747	-	-	-
3	Adjustment of historical cost due to changes in accounting policies	-	-	(1,018)	(3)	(2,122)	(267)	-	3,410	-	-	-
4	Adjustment of depreciation due to changes in accounting policies	-	-	315	1	306	41	-	(663)	-	-	-
5	Adjusted carrying amount due to changes in accounting policies as at 1 January 2018	226	272,627	25,565	1,471	3,187	318	6,189	2,747	3,468	150,618	466,416
6	Adjusted historical (revalued) cost as at 1 January 2018 due to changes in accounting policies	226	277,035	175,184	10,838	8,832	2,041	22,703	3,410	3,468	391,533	895,270
7	Adjusted depreciation as at 1 January 2018 due to changes in accounting policies	-	(4,408)	(149,619)	(9,367)	(5,645)	(1,723)	(16,514)	(663)	-	(240,915)	(428,854)
8	Additions	-	-	-	-	-	-	-	-	66,128	-	66,128

(in thousands of Ukrainian hryvnias)

Line	Item	Land plots	Buildings, constructions and transmission equipment	Machinery and equipment	Vehicles	Fixtures and fittings (furniture)	Other PP&E	Other non-current tangible assets	Low-value non-current tangible assets	Construction in progress	Intangible assets	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
9	Commissioning of property, equipment and intangible assets	-	-	7,678	-	2,135	770	6,394	4,561	(37,811)	16,273	-
10	Improvements of property, equipment and intangible assets	-	1,291	675	-	-	-	143	-	(21,021)	18,912	-
11	**Disposals**	**-**	**(28,303)**	**(11,745)**	**(208)**	**(1,331)**	**(737)**	**(9,757)**	**-**	**(1,244)**	**(4,574)**	**(57,899)**
11.1	**Disposal of impaired items**	**-**	**1,055**	**10,249**	**206**	**(374)**	**340**	**9,757**		**-**	**4,460**	**25,693**
1.2	**Depreciation/amortisation charge**	**-**	**(15,227)**	**(8,728)**	**(722)**	**787**	**245**	**(3,233)**	**(7,308)**	**-**	**(39,004)**	**(73,190)**
12	**Revaluation**	**2**	**21,341**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,343**
12.1	Revaluation of historical cost	2	6,796	-	-	-	-	-	-	-	-	6,798
12.2	Revaluation of depreciation/amortisation	-	14,545	-	-	-	-	-	-	-	-	14,545
13	Reclassified from LVSTI group	-	-	-	-	-	-	-	1,025	-	-	1,025
14	Depreciation due to reclassification from LVSTI Low-value fast-moving items	-	-	-	-	-	-	-	(1,025)	-	-	(1,025)
15	Other	-	-	-	-	-	-	-	-	-	(326)	(326)
16	Other depreciation	-	-	-	-	-	-	-	-	-	117	117
17	**Carrying amount as at 31 December 2018:**	**228**	**252,784**	**23,695**	**747**	**4,404**	**936**	**9,493**	**-**	**9,520**	**146,476**	**448,282**
17.1	**Historical (revalued) cost**	**228**	**256,819**	**171,792**	**10,630**	**9,636**	**2,074**	**19,483**	**8,996**	**9,520**	**421,818**	**910,996**
17.2	**Depreciation as at 31 December 2018 (1 January 2019)**	**-**	**(4,035)**	**(148,098)**	**(9,883)**	**(5,232)**	**(1,138)**	**(9,990)**	**(8,996)**	**-**	**(275,342)**	**(462,713)**
18	Additions	-	-	-	-	-	-	-	-	35,599	-	35,599
19	Commissioning	-	-	2,374	-	87	18	-	1,347	(11,287)	7,461	-

(in thousands of Ukrainian hryvnias)

Line	Item	Land plots	Buildings, constructions and transmission equipment	Machinery and equipment	Vehicles	Fixtures and fittings (furniture)	Other PP&E	Other non-current tangible assets	Low-value non-current tangible assets	Construction in progress	Intangible assets	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
20	Improvements of property, equipment and intangible assets	-	-	501	-	-	-	-	2	(19,580)	19,077	-
21	Transfer to non-current assets held for sale		(6,750)	-	-	-	-	-	-	-	-	(6,750)
21.1	Historical cost		(7,180)	-	-	-	-	-	-	-	-	(7,180)
21.2	Depreciation		430	-	-	-	-	-	-	-	-	430
22	Disposals	-	(43,913)	(250)	-	(5)	-	(59)	-	(37)	-	(44,264)
22.1	Disposal (historical cost)	-	(46,267)	(28,312)	(2,709)	(1,002)	(715)	(78)	(290)	(37)	(4,817)	(84,227)
22.2	Disposal (impairment)	-	2,354	28,062	2,709	997	715	19	290	-	4,817	39,963
23	Depreciation/amortisation charge	-	(14,845)	(7,955)	(443)	(683)	(158)	(3,282)	(1,349)	-	(82,963)	(111,678)
24	Revaluation	27	12,280	-	-	-	-	-	-	-	-	12,307
24.1	Revaluation of historical cost	27	(215)	-	-	-	-	-	-	-	-	(188)
24.2	Revaluation of depreciation/amortisation	-	12,495	-	-	-	-	-	-	-	-	12,495
25	**Carrying amount as at 31 December 2018:**	**255**	**199,556**	**18,365**	**304**	**3,803**	**796**	**6,152**	**-**	**14,215**	**90,051**	**333,497**
25.1	**Historical (revalued) cost**	**255**	**203,157**	**146,355**	**7,921**	**8,721**	**1,377**	**19,405**	**10,055**	**14,215**	**443,539**	**855,000**
25.2	**Depreciation as at 31 December 2019**	**-**	**(3,601)**	**(127,990)**	**(7,617)**	**(4,918)**	**(581)**	**(13,253)**	**(10,055)**	**-**	**(353,488)**	**(521,503)**

As at 31 December 2019, there are no property, plant and equipment items that are:
— legally restricted for ownership, use and disposal;
— pledged as collateral;
— temporarily not in use (conservation, reconstruction, etc.);
— restricted in terms of ownership;
— decommissioned.

As at 31 December 2019, historical (revalued) cost of fully depreciated/amortised property, plant and equipment, intangible assets and other non-current assets amounts to UAH 228,249 thousand. (2018: UAH 210,306 thousand):
— property, plant and equipment – UAH 107,473 thousand (2018: UAH 116,411 thousand)
— intangible assets – UAH 102,487 thousand (2018: UAH 83,723 thousand)
— other non-current assets – UAH 18,289 thousand (2018: UAH 10,172 thousand)

As at 31 December 2019, the costs incurred from the impairment of property held for sale – UAH 4,734 thousand (2018: 0.00).
— recognised directly in equity – UAH 0 thousand (2018: UAH 0.00).

As at 31 December 2019, internally generated intangible assets amounted to UAH 0,00 (2018: UAH 0.00 thousand)

Note 12. Right-of-use assets

The Bank leases office space for the most part. As a rule, a lease is concluded for 3 years with an extension option. The Bank assesses the non-cancellable lease term and its right to exercise the lease extension option in order to recognise the lease arrangement and the non-cancellable term of the lease. Lease payments are reviewed annually or in accordance with the lease.

Certain leases envisage additional lease payments based on movements in the inflation index. Office space leases were entered into several years ago, same as other leases. In prior periods, the leases were classified as operating leases under IAS 17.

Table 12.1 Right-of-use assets.

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1	Right-of-use assets:		
1.1	Buildings and structures	52,828	-
2	**Total other assets less provisions**	**52,828**	**-**

Line 2 in Table 12.1 corresponds to account “Right-of-use assets” in the statement of financial position.

Table 12.2 Movements in right-of-use assets.

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Buildings**	**Total**
1	**2**	**3**	**4**
1	Balance at 1 January 2019	-	-
2	Adjustment due to changes in accounting policies under IFRS 16	79,430	79,430
3	Amortisation/depreciation charges for the year	(24,645)	(24,645)
4	Derecognition of right-of-use assets	(1,957)	(1,957)
5	**Balance at 31 December 2019**	**52,828**	**52,828**
5.1	Right-of-use assets	76,636	76,636
5.2	Amortisation/depreciation charges for the year	(23,807)	(23,807)

Note 13. Other financial assets

Table 13.1. Other financial assets

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019	31/12/2018
1	**2**	**3**	**4**
1	Accounts receivable from transactions with customers	10,777	11,346
2	Amounts due on accrued income from cash and settlement services and other accrued income	2,454	1,819
3	Accounts receivable from transactions with payment cards	22,879	18,529
3.1	Accounts receivable from transactions with payment cards	31,955	18,529
3.2	Provision for operating risks on transactions with payment cards	(9,076)	-
4	Accounts receivable from transactions with banks	932	932
5	Other assets	169	258
6	Provision for impairment	(11,146)	(11,357)
7	**Total other financial assets less provisions**	**26,065**	**21,527**

Line 7 in Table 13.1 corresponds to account “Other financial assets” in the statement of financial position. In order to cover operational risks associated with the accumulation of active balances on transit accounts as far as the interbank transactions with payment cards issued by the Bank in the network of other banks and with payment cards issued by other banks in the Bank’s network, as well as the acquiring transactions, the Bank created a provision that is recognised in Line 4 Table 13.1. Other financial assets.

Table 13.2. Analysis of changes in provision for impairment of other financial assets for 2019

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Accounts receivable from transactions with customers	Amounts due on overdue accrued income from cash and settlement services, and other accrued income	Accounts receivable from transactions with banks	Other	Total
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Balance as at 1 January 2019	(9,896)	(298)	(932)	(231)	(11,357)
2	(Increase)/decrease in provision for impairment during the year	140	(266)	-	8	(118)
3	Bad debt written off	26	72	-	105	203
4	Recovery of debt written off against provisions in prior periods	-	(14)	-	-	(14)
5	Foreign exchange differences on provisions	140	-	-	-	140
6	**Closing balance as at 31 December 2019**	**(9,590)**	**(506)**	**(932)**	**(118)**	**(11,146)**

Line 2 Table 13.2 and Line 2 Table 14.2 corresponds to account “Net (increase) in provisions for impairment of other financial and non-financial assets” in the statement of profit or loss and other comprehensive income. The difference between amounts shown in account “Net (increase) in provisions for impairment of accounts receivable and other financial assets” in the statement of profit or loss and other comprehensive income and amounts in Line 2 Table 13.2 and Table 14.2 represent the bad debt written-off in previous reporting periods against provision and repaid during 2019 at the amount of UAH 17 thousand.

Table 13.3. Analysis of changes in provision for impairment of other financial assets for 2018

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Accounts receivable from transactions with customers	Amounts due on overdue accrued income from cash and settlement services, and other accrued income	Accounts receivable from transactions with banks	Other	Total
1	2	3	4	5	6	7
1	Balance as at 1 January 2018	(9,101)	(371)	(932)	(266)	(10,670)
2	(Increase)/decrease in provision for impairment during the year	(1,015)	(73)	-	35	(1,053)
3	Bad debt written off	235	146	-	-	381
4	Foreign exchange differences on provisions	(15)	-	-	-	(15)
5	**Closing balance as at 31 December 2018**	**(9,896)**	**(298)**	**(932)**	**(231)**	**(11,357)**

Table 13.4. Credit quality analysis of other financial assets as at 31 December 2019 and for the year then ended

(in thousands of Ukrainian hryvnias)

Accounts receivable without significant financing component

Line	Item	Accounts receivable from transactions with customers	Amounts due on accrued income from cash and settlement services and other accrued income	Accounts receivable from transactions with payment cards	Accounts receivable from transactions with banks	Other assets	Total
1	2	3	4	5	6	7	8
1	Impairment Stage 1:	1,229	1,971	22,879	-	50	26,130
1.1	Not overdue	1,037	1,901	22,879	-	50	25,868
1.2	Less than 30 days	182	50	-	-	-	232
1.3	31 - 60 days	9	11	-	-	-	20
1.4	61 - 90 days	1	9	-	-	-	10
2	Impairment Stage 3:	9,548	483	-	932	118	11,081
2.1	Not overdue	-	-	-	-	-	-
2.2	Less than 30 days	-	12	-	-	-	12
2.3.	31 - 60 days	-	7	-	-	-	7
2.4	61 - 90 days	-	11	-	-	-	11
2.5	91 - 180 days	96	74	-	-	-	170
2.6	181 - 270 days	11	42	-	-	-	53
2.7	More than 270 days	9,441	337	-	932	118	10,828
3	Total other financial assets	10,777	2,454	22,879	932	169	37,211

(in thousands of Ukrainian hryvnias)							
Accounts receivable without significant financing component							
Line	**Item**	**Accounts receivable from transactions with customers**	**Amounts due on accrued income from cash and settlement services and other accrued income**	**Accounts receivable from transactions with payment cards**	**Accounts receivable from transactions with banks**	**Other assets**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
4	Provision for impairment of other assets	(9,590)	(506)	-	(932)	(118)	(11,146)
5	**Total other financial assets less provisions**	**1,187**	**1,948**	**22,879**	**-**	**50**	**26,065**

Table 13.5. Credit quality analysis of other financial assets as at 31 December 2018 and for the year then ended

(in thousands of Ukrainian hryvnias)							
Accounts receivable without significant financing component							
Line	**Item**	**Accounts receivable from transactions with customers**	**Amounts due on accrued income from cash and settlement services and other accrued income**	**Accounts receivable from transactions with payment cards**	**Accounts receivable from transactions with banks**	**Other assets**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Impairment Stage 1:	1,495	1,554	18,529	-	27	21,605
1.1	Not overdue	1,401	1,466	18,529	-	27	21,423
1.2	Less than 30 days	57	39	-	-	-	96
1.3	31 - 60 days	35	45	-	-	-	80
1.4	61 - 90 days	2	4	-	-	-	6
2	Impairment Stage 3:	9,851	265	-	932	231	11,279
2.1	Less than 30 days	-	12	-	-	-	12
2.2	31 - 60 days	-	6	-	-	-	6
2.3.	61 - 90 days	-	6	-	-	-	6
2.4	91 - 180 days	68	21	-	-	-	89
2.5	181 - 270 days	12	15	-	-	1	28
2.6	More than 270 days	9,771	205	-	932	230	11,138
3	Total other financial assets	11,346	1,819	18,529	932	258	32,884
4	Provision for impairment of other financial assets	(9,896)	(298)	-	(932)	(231)	(11,357)
5	**Total other financial assets less provisions**	**1,450**	**1,521**	**18,529**	**-**	**27**	**21,527**

Note 14. Other non-financial assets

Table 14.1. Other non-financial assets

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019	31/12/2018
1	**2**	**3**	**4**
1	Accounts receivable from purchase of assets	683	264
2	Prepaid services	12,342	30,626
3	Precious metals	14,976	15,949
4	Accounts receivable from taxes and mandatory payments other than income tax	188	191
5	Other assets	1,161	4,211
6	Provision for other financial assets	(1,297)	(877)
7	**Total other non-financial assets less provisions**	**28,053**	**50,364**

Line 7 in Table 14.1 corresponds to account "Other non-financial assets" in the statement of financial position.

Table 14.2. Movements in provision for impairment of other non-financial assets as at 31 December 2019 and for the year then ended

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Accounts receivable from purchase of assets	Prepaid services	Precious metals	Total
1	**2**	**3**	**4**	**5**	**6**
1	Balance as at 1 January 2019	(108)	(437)	(332)	(877)
2	(Increase) in provision for impairment during the year	(430)	(11)	-	(441)
3	Bad debt written off	-	25	-	25
4	Foreign exchange differences on provisions	-	-	(4)	(4)
5	**Balance at 31 December 2019**	**(538)**	**(423)**	**(336)**	**(1,297)**

Line 2 Table 13.2 and Line 2 Table 14.2 corresponds to account "Net (increase) in provisions for impairment of other financial and non-financial assets" in the statement of profit or loss and other comprehensive income. The difference between amounts shown in account "Net (increase) in provisions for impairment of other financial and non-financial assets" in the statement of profit or loss and other comprehensive income and amounts in Line 2 Table 13.2 and Table 14.2 represents the bad debt written-off in prior reporting periods against provision and repaid during 2019 at the amount of UAH 17 thousand.

Table 14.3. Analysis of changes in provision for impairment of other non-financial assets for 2018

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Accounts receivable from purchase of assets	Prepaid services	Precious metals	Total
1	**2**	**3**	**4**	**5**	**6**
1	Balance as at 1 January 2018	(386)	(92)	(346)	(824)
2	(Increase)/decrease in provision for impairment during the year	277	(397)	-	(120)
3	Bad debt written off	-	52	-	52
4	Foreign exchange differences on provisions	-	-	15	15
5	**Closing balance as at 31 December 2018**	**(109)**	**(437)**	**(331)**	**(877)**

Table 14.4. Credit quality analysis of other non-financial assets as at 31 December 2019 and for the year then ended

(in thousands of Ukrainian hryvnias)

Accounts receivable without significant financing component

Line	Item	Accounts receivable from purchase of assets	Prepaid services	Precious metals	Accounts receivable from taxes and mandatory payments other than income tax	Other assets	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Impairment Stage 1:	181	11,919	14,976	188	1,161	28,425
1.1	Not overdue	-	11,919	14,976	188	1,161	28,244
1.2	Less than 30 days	119	-	-	-	-	119
1.3	61 - 90 days	62	-	-	-	-	62
2	Impairment Stage 3:	502	423	-	-	-	925
2.1	31 - 60 days	1	-	-	-	-	1
2.2	91 - 180 days	501	-	-	-	-	501
2.3.	More than 270 days	-	423	-	-	-	423
3	Total other non-financial assets	683	12,342	14,976	188	1,161	29,350
4	Provision for impairment of other non-financial assets	(538)	(423)	(336)	-	-	(1,297)
5	**Total other non-financial assets less provisions**	**145**	**11,919**	**14,640**	**188**	**1,161**	**28,053**

Table 14.5. Credit quality analysis of other non-financial assets as at 31 December 2018 and for the year then ended

(in thousands of Ukrainian hryvnias)

Accounts receivable without significant financing component

Line	Item	Accounts receivable from purchase of assets	Prepaid services	Precious metals	Accounts receivable from taxes and mandatory payments other than income tax	Other assets	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Impairment Stage 1:	222	30,113	15,617	191	4,211	50,354
1.1	Not overdue	90	30,103	15,617	191	4,211	50,212
1.2	Less than 30 days	-	10	-	-	-	10
1.3	61 - 90 days	132	-	-	-	-	132

							(in thousands of Ukrainian hryvnias)
Accounts receivable without significant financing component							
Line	**Item**	**Accounts receivable from purchase of assets**	**Prepaid services**	**Precious metals**	**Accounts receivable from taxes and mandatory payments other than income tax**	**Other assets**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
2	Impairment Stage 3:	42	513	332	-	-	887
2.1	91 - 180 days	26	120	-	-	-	146
2.2	181 - 270 days	-	42	-	-	-	42
2.3.	More than 270 days	16	351	332	-	-	699
3	Total other assets	264	30,626	15,949	191	4,211	51,241
4	Provision for impairment of other assets	(109)	(436)	(332)	-	-	(877)
5	**Total other non-financial assets less provisions**	**155**	**30,190**	**15,617**	**191**	**4,211**	**50,364**

Note 15. Non-current assets held for sale and disposal groups

Table 15.1. Non-current assets held for sale

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1	Non-current assets held for sale:	41,264	-
1.1	Property, plant and equipment	41,264	-
2	**Total non-current assets held for sale**	**41,264**	-

Line 2 Table 15.1 corresponds to account “Non-current assets held for sale” in the statement of financial position.

Non-current assets held for sale include collateral, foreclosed by the Bank under the law of Ukraine, and its own property that accommodates the Bank's branches. Non-current assets are expected to be recovered by way of a sale.

Note 16. Due to banks

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	Correspondent accounts	214	185
2	**Total due to banks**	**214**	**185**

Line 2 in Note 16 corresponds to account “Due to banks” in the statement of financial position.

Note 17. Due to customers

Table 17.1. Breakdown of amounts due to customers

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019	31/12/2018
1	2	3	4
1	**Government and public organisations:**	**298,751**	**7,724**
1.1	Current accounts	9,814	7,594
1.2	Term deposits	288,937	130
2	**Other legal entities:**	**1,460,241**	**1,065,062**
2.1	Current accounts	996,196	854,460
2.2	Term deposits	464,045	210,602
3	**Individuals:**	**1,879,312**	**1,300,049**
3.1	Current accounts	1,329,360	913,017
3.2	Term deposits	549,952	387,032
4	**Total amounts due to customers**	**3,638,304**	**2,372,835**

Line 4 in Table 17.1 corresponds to account "Due to customers" in the statement of financial position.

The Bank believes that a potential concentration risk may arise when at least 10% of deposits from customers (excluding subordinated debt and loans from international financial institutions) are attracted from a limited number of creditors. As at 31 December 2019 and 31 December 2018, deposits of the 5th and 2nd customers of the Bank amounted to UAH 452,141 thousand and UAH 238,010 thousand, respectively, representing 12% of total due to customers as at the reporting dates.

Table 17.2. Breakdown of amounts due to customers by types of economic activity

(in thousands of Ukrainian hryvnias)

Line	Economic activity	31/12/2019		31/12/2018	
		amount	%	amount	%
1	2	3	4	5	6
1	State authorities	11	0.01%	20	0.01%
2	Production and distribution of electricity, natural gas and water	11,902	0.33%	10,768	0.45%
3	Transactions with real estate, leasing, engineering and servicing	151,083	4.15%	133,557	5.63%
4	Trade, repair of vehicles, household equipment and items of personal use	363,633	9.99%	244,870	10.32%
5	Agriculture, hunting, forestry	46,741	1.28%	27,341	1.15%
6	Retail	1,879,312	51.65%	1,300,049	54.78%
7	Processing industry	205,484	5.65%	108,622	4.58%
8	Financial and insurance services	636,302	17.49%	298,174	12.57%
9	Construction	64,394	1.77%	53,895	2.27%
10	Information and telecommunications	149,918	4.12%	123,142	5.19%
11	Other	129,524	3.56%	72,397	3.05%
12	**Total amounts due to customers**	**3,638,304**	**100,00%**	**2,372,835**	**100,00%**

Note 18. Debt securities issued by the Bank

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019	31/12/2018
1	2	3	4
1	Certificates of deposit at AC	3,583	5,573
2	**Total**	**3,583**	**5,573**

Line 2 in Note 18 corresponds to account "Debt securities issued by the Bank" in the statement of financial position.

As at 31 December 2018, Line 1 in Note 18 "Debt securities issued by the Bank" comprises registered short-term (187 days) certificates of deposit issued by the Bank in foreign currencies.

As at 31 December 2019 and 31 December 2018, the Bank has no convertible debt instruments.

Note 19. Provisions for liabilities

Table 19.1. Movement in provisions for liabilities as at 31 December 2019 and for the year then ended.

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Credit-related commitments	Litigation contingencies	Total
1	2	3	4	5
1	Balance at the beginning of the year	**2,525**	**4,820**	**7,345**
2	Increase in provision for impairment during the year	1,082	3,987	5,069
3	Amounts repaid	-	(632)	(632)
4	Foreign exchange differences on provisions	(272)	-	(272)
5	**Balance at 31 December 2019**	**3,335**	**8,175**	**11,510**

Line 5 in Table 19.1 corresponds to account "Provisions for liabilities" in the statement of financial position.

As at 31 December 2019, the Bank's contingencies arising from proceedings in administrative courts and courts of general jurisdiction amount to:
— UAH 1,265 thousand on employment contract disputes;
— UAH 6,245 thousand on deposit contract disputes.
— UAH 665 thousand on tax liabilities;

By results of 2017, the Bank had a dispute with state authorities for the amount of UAH 196 thousand. Based on the Bank's estimates regarding the dispute resolution, no provisions for contingent liabilities in respect of this risk were created in the financial statements as at 1 January 2019.

Table 19.2. Movements in provisions for liabilities as at 31 December 2018 and for the year then ended

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Credit-related commitments	Litigation contingencies	Operational risks	Total
1	2	3	4	5	6
1	Balance at the beginning of the year	**370**	**4,334**	**1,141**	**5,845**
2	IFRS 9 adjustment	44	-	-	44
3	Adjusted balance at the beginning of the year	**414**	**4,334**	**1,141**	**5,889**
4	(Decrease)/increase in provision for impairment during the year	2,131	579	(1,141)	1,569
5	Amounts repaid	-	(93)	-	(93)
6	Foreign exchange differences on provisions	(20)	-	-	(20)
7	**Balance at the end of the period**	**2,525**	**4,820**	**-**	**7,345**

Line 7 in Table 19.2 corresponds to account "Provisions for liabilities" in the statement of financial position.

As at 31 December 2018, the Bank's contingencies arising from proceedings in administrative courts and courts of general jurisdiction amount to:

— UAH 1,021 thousand on employment contract disputes;

— UAH 3,799 thousand on deposit contract disputes;

Note 20. Other financial liabilities

Table 20.1. Other financial liabilities as at 31 December 2019

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1	Balances on the investment account of Intesa Sanpaolo S.p.A.	4,350	4,739
2	Accounts payable on transactions with customers	28,377	29,844
3	Accounts payable on debit and credit cards	44,759	13,602
4	Foreign exchange transactions and settlements	3,383	4,694
5	Provisions for other labour payables	26,373	11,624
6	Lease liabilities	54,314	-
7	Other debt	2,212	1,705
8	**Total other financial liabilities**	**163,768**	**66,208**

Line 8 in Note 20 corresponds to account "Other financial liabilities" in the statement of financial position.

Table 20.2. Lease liabilities by maturities for 2019

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**less than 12 months**	**more than 12 months**	**Total**
1	**2**	**3**	**4**	**5**
1	Lease liabilities:	19,536	34,778	54,314
1.1	Buildings and constructions	19,536	34,778	54,314

Note 21. Other non-financial liabilities

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1	Accounts payable on taxes other than income tax	8,655	7,077
2	Accounts payable on labour	7,560	7,754
3	Accounts payable on asset acquisitions	4,690	10,193
4	Deferred income	6,564	5,306
5	Accounts payable on recruitment services	9,491	5,996
6	Accounts payable on technical support and software maintenance services	511	646
7	Accounts payable on services and security	7,815	5,300
8	Accounts payable on services related to bad debt recovery	24	55
9	Settlements via payment systems and Ukrainian Processing Center	6,901	1,782
10	Other debt	6	553
11	**Total other non-financial liabilities**	**52,217**	**44,662**

Line 11 in Note 21 corresponds to account "Other non-financial liabilities" in the statement of financial position.

Note 22. Share capital

(in thousands of Ukrainian hryvnias)

Line	Item	Number of shares in issue (in thousands)	Ordinary shares	Share premium	Preference shares	Total
1	2	3	4	5	6	7
1	**Balance at 1 January 2018**	**1,669,604**	**1,037,137**	**3,502,964**	**870**	**4,540,971**
2	Contributions for newly issued shares	18,481	10,719	1,097,790	-	1,108,509
3	**Balance at 31 December 2018 (balance at 1 January 2019)**	**1,688,085**	**1,047,856**	**4,600,754**	**870**	**5,649,480**
4	Contributions for newly issued shares	-	-	-	-	-
5	**Balance at 31 December 2019**	**1,688,085**	**1,047,856**	**4,600,754**	**870**	**5,649,480**

As at 31 December 2019 and 31 December 2018, preference shares outstanding amount to 1,500 shares in total.

As at 31 December 2019 and 31 December 2018, the nominal value of the shares is UAH 0.58 per share.

Holders of preference shares have the right to:

— participate in profit distribution and receive dividends in the amount stipulated by their preference shares, notwithstanding the amount of the Bank's net profit earned in the respective year;

— preferences stipulated by the terms of preference share issue are as follows: holders of registered preference shares are entitled to dividends of 18% per annum, notwithstanding the amount of Bank's net profit earned in the respective year.

In accordance with the Ukrainian legislation, distributable reserves are restricted by retained earnings in accordance with laws and regulations.

Note 23. Revaluation reserves (components of other comprehensive income)

Table 23.1. Securities revaluation reserves

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019	31/12/2018
1	2	3	4
1.	Balance at 1 January	-	60
2	Changes due to IFRS 9	-	(60)
3	Changes in gains/losses arising from revaluation of securities at FVTOCI:	4,716	-
3.1	changes in revaluation to fair value	13,730	-
3.2	impairment	(9,014)	-
4	Income tax related to change in reserve for investments in securities	(849)	-
5	**Total revaluation reserves less income tax**	**3,867**	-

Table 23.2. Movements in revaluation reserve for property, plant and equipment

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1	Balance at 1 January	**251,387**	**263,293**
2	Revaluation of PP&E	(44,141)	**(8,640)**
2.1	changes in revaluation to fair value	17,946	21,186
2.2	impairment	(9,455)	(2,133)
2.3.	realised gain/loss on revaluation attributed to retained earnings	(52,632)	(27,693)
3	Income tax related to revaluation of property, plant and equipment	(437)	(3,266)
4	**Total revaluation reserves less income tax**	**206,809**	**251,387**

Table 23.3. Results of adjusting the value of financial instruments in transactions with shareholders

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1.	Balance at 1 January	22	65
2	Results of adjusting the value of financial instruments in transactions with shareholders	61	(53)
2.1	Gain recognised on initial recognition of the financial instrument in transactions with the Bank's shareholders	446	287
2.2	(Loss) recognised on initial recognition and attributed to retained earnings on disposal of the financial instrument in transactions with the Bank's shareholders	-	(31)
2.3.	(Loss) recognised on initial recognition and attributed to retained earnings on disposal of the financial instrument in transactions with the Bank's shareholders	(385)	(309)
3	Income tax related to changes in the adjustment of the value of financial instruments in transactions with the Bank's shareholders	(11)	10
4	**Total adjustments of the value of financial instruments, net of income tax**	**72**	**22**

Note 24. Analysis of contractual maturities of assets and liabilities

(in thousands of Ukrainian hryvnias)

Line	Item	Notes	31 December 2019			31 December 2018		
			less than 12 months	more than 12 months	total	less than 12 months	more than 12 months	total
1	2	3	4	5	6	7	8	9
	ASSETS							
1	Cash and cash equivalents	6	787,608	-	787,608	823,213	-	823,213
2	Loans and advances to banks	7	377,325	-	377,325	138,567	-	138,567
3	Loans and advances to customers	8	1,034,995	400,802	1,435,797	943,846	275,459	1,219,305
4	Investments in securities	9	2,661,675	-	2,661,675	1,704,809	-	1,704,809
5	Investment property	10	-	19,380	19,380	-	93,293	93,293
6	Current income tax receivable		1,141	-	1,141	1,631	-	1,631
7	Property, plant and equipment and intangible assets	11	-	333,497	333,497	-	448,282	448,282
8	Right-of-use assets		28223	24605	52,828	-	-	-
9	Other financial assets	12	26,065	-	26,065	21,527	-	21,527
10	Other non-financial assets	13	28,053	-	28,053	50,364	-	50,364
11	Non-current assets held for sale	14	41,264	-	41,264	-	-	-
12	**Total assets**		**4,986,349**	**778,284**	**5,764,633**	**3,683,957**	**817,034**	**4,500,991**
								LIABILITIES
13	Due to banks	15	214	-	214	185		185
14	Due to customers	16	3,629,327	8,977	3,638,304	2,372,781	54	2,372,835
15	Debt securities issued by the Bank	17	3,583	-	3,583	5,573	-	5,573
16	Provisions for liabilities	18	11,510	-	11,510	6,438	907	7,345
17	Other financial liabilities	19	139,202	24,566	163,768	66,208	-	66,208
18	Other non-financial liabilities	20	52,217	-	52,217	44,662		44,662
19	**Total liabilities**		**3,836,053**	**33,543**	**3,869,596**	**2,495,847**	**961**	**2,496,808**

Note 25. Interest income and expense

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019	31/12/2018
1	2	3	4
	Interest income		
1	Interest income on to banks at AC	18,633	110,103
2	Interest income on loans and advances to client at AC	149,220	370,248
3	Interest income on investments in securities at AC	126,464	13,470
4	Interest income on investments in securities at FVOCI	251,468	-
5	**Total interest income**	**545,785**	**493,821**
	Interest expense:		
6	Interest expenses on term deposits of corporate customers at AC	(41,501)	(15,512)
7	Interest income on term deposits of individuals at AC	(18,869)	(13,126)
8	Interest income on overnight loans from other banks at AC	(32)	(7)
9	Interest expenses on current accounts at AC	(81,453)	(72,596)
10	Interest income on securities issued by the Bank and carried at AC	-	(15)
11	Interest expense on lease liabilities of the lessee	(10,050)	-
12	**Total interest expenses**	**(151,905)**	**(101,256)**
13	**Net interest income**	**393,880**	**392,565**

Line 13 in Note 25 corresponds to account “Net interest income” in the Statement of profit or loss and other comprehensive income.

Note 26. Commission/fee income and expenses

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019	31/12/2018
1	2	3	4
	COMMISSION INCOME:		
1	Cash and settlement services	102,832	107,488
2	Bank commission for the lease of safe deposit boxes	10,102	9,240
3	Commission for consulting services	25	31
4	Commission for insurance broker services	3,659	1,380
5	Commission for TaxFree check payments	1,506	1,577
6	Transactions with securities	484	248
7	Interbank transactions with plastic cards	30,618	22,633
8	Guarantees issued	1,010	2
9	Other	40	106
10	**Total fee and commission income**	**150,276**	**142,705**
	COMMISSION EXPENSE:		
11	Cash and settlement services	(47,269)	(33,620)
12	Commission for services and other commissions	(149)	(965)
13	Guarantee expenses	(100)	(471)
14	Services provided by payment systems and transactions with plastic cards	(16,768)	(13,116)
15	**Total fee and commission expense**	**(64,286)**	**(48,172)**
16	**Net fee and commission income**	**85,990**	**94,533**

Line 10 and Line 15 in Note 26 correspond to accounts “Commission income” and “Commission expense” in the statement of profit or loss and other comprehensive income.

Note 27. Other operating income

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019	31/12/2018
1	2	3	4
1	Operating lease income	388	1,196
2	Penalties and fines received	667	615
3	Undrawn funds upon expiration of limitation period	6,406	8,007

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
4	Shortages charged to responsible employees	180	227
5	Result from disposal of investment property	7,651	18,739
6	Result from disposal of property, plant and equipment	26,021	16,404
7	Result from evaluation of property, plant and equipment	4,010	2,290
8	Gains from recovering an advance payment for enforcement proceedings, court fees and other related costs	1,562	-
9	Other	330	186
10	**Total operating income**	**47,215**	**47,664**

Line 10 in Note 27 corresponds to account "Other operating income" in the statement of profit or loss and other comprehensive income.

Note 28. Other administrative and operating expenses

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1	Business trips	4,293	3,419
2	Recruitment services	25,101	20,179
3	Maintenance of property, plant and equipment and intangible assets, telecommunication and other operation services	167,556	188,343
4	Operating lease expenses	4,145	30,865
5	Cash collection and transportation	488	555
6	Services provided by payment systems on payment cards	7,295	6,101
7	Legal services on litigations and payments to collectors	4,537	15,260
8	Professional services	21,667	26,064
9	Marketing and advertising expenses	6,456	8,049
10	Security expenses	6,993	9,308
11	Taxes other than income tax	20,859	21,907
12	Write-down of property, plant and equipment	4,927	-
13	Other	5,088	2,320
14	**Total other administrative and operating expenses**	**279,405**	**332,370**

Line 14 in Note 28 corresponds to account "Other administrative and operating expenses" in the statement of profit or loss and other comprehensive income.

Line 4 "Operating lease expenses" for 2019 breaks down operating lease expenses by items that do not qualify for right-of-use assets IFRS 16 Leases due to the short-term period of the lease and/or insignificant value of the leased asset.

Note 29. Income tax expense

Table 29.1. Income tax benefits

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1	**Current income tax**	**-**	**-**
2	**Change in deferred income tax resulting from:**	**1,297**	**10,347**
2.1	origination or write-off of temporary differences	1,297	10,347
2.2	increase or decrease in tax rate	-	-
3	**Total income tax benefit**	**1,297**	**10,347**

Line 3 in Table 29.1 corresponds to account "Income tax benefit" in the statement of profit or loss and other comprehensive income.

Table 29.2. Reconciliation of accounting loss and taxable loss

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019	31/12/2018
1	**2**	**3**	**4**
1	(Loss) before tax	(122,799)	(147,674)
2	Income tax at applicable tax rate	22,104	26,581
3	Effect of permanent tax differences	535	-
4	Changes in unrecognised deferred tax assets	(70,602)	(17,261)
5	Deferred tax asset not recognised previously	49,260	1,027
6	**Income tax benefits**	**1,297**	**10,347**

Table 29.2.1. Tax effects of deferred tax assets and liabilities recognised for 2019

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2019	Recognised in profit or loss during the year	Recognised in OCI during the year	Balance at 31 December 2019
1	**2**	**3**	**4**	**5**	**6**
1	**Tax effect of temporary differences**				
1.1.	Property, plant and equipment, intangible assets and investment property	-	437	(437)	-
1.2.	Adjustment of the value of financial instruments on initial recognition	-	860	(860)	-
2	Net of deferred tax asset (liability), including:	-	1,297	(1,297)	-
3	**Recognised deferred tax liability**	**-**	**-**	**-**	**-**

Table 29.3.2. Unrecognised deferred tax assets for 2019

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2019	Changes in unrecognised deferred tax assets at year-end 2019	Changes in assessment of whether tax differences, against which the DTA was not recognised in 2019, can be utilised in the future	Balance at 31 December 2019
1	**2**	**3**	**4**	**5**	**6**
1	**Tax effect of impaired temporary differences:**				
1.1	Tax losses carried forward	381,323	72,583	(21,840)	432,066
1.2	Provisions for liabilities	1,388	1,688	-	3,076
1.3	Other assets	2,007	-	-	2,007
1.4.	Property, plant and equipment,	10,859	(3,668)	-	7,191

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2019	Changes in unrecognised deferred tax assets at year-end 2019	Changes in assessment of whether tax differences, against which the DTA was not recognised in 2019, can be utilised in the future	Balance at 31 December 2019
1	**2**	**3**	**4**	**5**	**6**
	intangible assets and investment property				
2	**Provision for impairment of deferred tax assets**	**(395,577)**	**(70,603)**	21,840	**(444,340)**
2.1	Provision for tax losses carried forward	(381,323)	(50,743)	-	(432,066)
2.2	Provision for impairment of other deferred tax assets	(14,254)	1,980	-	(12,274)

Table 29.3.1. Tax effects of deferred tax assets and liabilities recognised for 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2018	Recognised in profit or loss during the year	Recognised in OCI during the year	Balance at 31 December 2018
1	**2**	**3**	**4**	**5**	**6**
1	**Tax effect of temporary differences**				
1.1.	Property, plant and equipment, intangible assets and investment property	(7,104)	10,370	(3,266)	-
1.3.	Adjustment of the value of financial instruments on initial recognition	-	(10)	10	-
2	Net of deferred tax asset (liability), including:	(7,104)	10,360	(3,256)	-
3	**Recognised deferred tax liability**	**(7,104)**	**-**	**-**	**-**

Table 29.3.2. Unrecognised deferred tax assets for 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2018	Changes in unrecognised deferred tax assets at year-end 2018	Changes in assessment of whether tax differences, against which the DTA was not recognised in 2018, can be utilised in the future	Balance at 31 December 2018
1	**2**	**3**	**4**	**5**	**6**
1	**Tax effect of impaired temporary differences:**				
1.1	Tax losses carried forward	395,316	6,484	(20,477)	381,323
1.2	Due from banks and loans to customers	2,799	-	(2,799)	-
1.3	Provisions for liabilities	1,454	(66)	-	1,388
1.4	Other assets	2,174	(167)	-	2,007
1.5.	Property, plant and equipment, intangible assets and investment property	(245)	11,104	-	10,859
2	**Provision for impairment of deferred tax assets**	**(401,498)**	**(17,355)**	23,276	**(395,577)**
2.1	Provision for tax losses carried forward	(395,316)	13,993	-	(381,323)
2.2	Provision for impairment of other deferred tax assets	(6,182)	(8,072)	-	(14,254)

Note 30. (Loss)/gain per ordinary share and preference share

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019	31/12/2018
1	**2**	**3**	**4**
1	Loss attributable to holders of ordinary shares	(121,502)	(137,327)
2	Profit attributable to holders of preference shares	157	157
3	Loss for the year	(121,502)	(137,327)
4	Annual average number of ordinary shares outstanding (in thousands of shares)	1,686,586	1,682,181
5	Annual average number of preference shares outstanding (in thousands of shares)	1,500	1,500
6	Basic and diluted (loss) per ordinary share (in UAH)	(0.03)	(0.08)
7	Basic and diluted gain per preference share (in UAH)	0.10	0.10

Note 31. Dividends

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019		31/12/2018	
		Ordinary shares	Preference shares	Ordinary shares	Preference shares
1	**2**	**3**	**4**	**5**	**6**
1	Balance at 1 January	-	-	-	-
2	Dividends declared for payout during the period	-	157	-	157
3	Increase in reserves due to dividends	-	(157)	-	(157)
4	**Balance at the end of the period**	-	-	-	-

In accordance with the shareholder's resolution no. 2/2019 dated 16 April 2019, dividends on preference shares payable for 2018 were calculated and transferred to the Bank's reserves.

Note 32. Contingent liabilities

Capital investment commitments

As at 31 December 2019, JSC "PRAVEX BANK" assumed contractual obligations to purchase property, plant and equipment and intangible assets in the amount of UAH 4,295 thousand (31 December 2018: UAH 13,048 thousand) in accordance with the contracts concluded.

Table 32.1. Structure of credit-related commitments

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019	31/12/2018
1	**2**	**3**	**4**
1	Credit-related commitments provided	36,745	1,800
2	Unused credit lines	618,446	710,247
3	Export letters of credit	173,771	-
4	Guarantees issued	26,422	-
5	Provision for credit-related commitments	(3,335)	(2,525)
6	**Total credit-related commitments less provisions**	**852,049**	**709,522**

The Bank has outstanding credit-related commitments. These commitments take the form of approved loans and overdraft credit card limits and credit lines. The total of outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without funds being drawn.

Table 32.2. Credit-related commitments by currencies (including provisions)

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2019	31/12/2018
1	**2**	**3**	**4**
1	UAH	532,446	273,250
2	USD	-	220
3	EUR	319,603	436,052
4	**Total**	**852,049**	**709,522**

Note 33. Financial risk management

The Bank manages its risks using a risk management system which is comprehensive, adequate and effective. The risk management system was designed by reference to the specifics of business, business model, nature and scope of operations, risk profile, requirements and recommendations of the NBU and the best practices of the parent company.

The risk management system provides continuous risk analysis for taking timely and adequate management decisions to mitigate risks and reduce their losses by clearly delimiting the functions and tasks of all units of the Bank using the three lines of defence model.

The risk management system includes the definition of the organisational structure, the system of internal documents on risk management, the information system and the risk management tools.

The Risk Management Department is one of the standalone structural units that ensures the Bank's risk management The Bank's system of internal documents establishes the principles of the control system by defining processes, limits, relevant functions and responsibilities. Policies also specify the risk limits and risk-taking principles by types of activity, as well as the necessary actions if the limits are exceeded.

The Bank has a risk management system that consists of permanent committees: Credit Committee, Risk Management Committee, Credit Risk Management Committee, Distressed Asset Management Committee, Assets and Liabilities Management Committee, Operational Risk Management Committee, Information Security Management Committee of the Internal Controls Coordination Committee and of the Crisis Management Committee.

As part of risk management efforts, JSC "PRAVEX BANK" flags the following significant risks specific to its transactions: credit risk, liquidity risk, interest rate risk in the banking book, market risk, as well as non-financial ones – operational risk and compliance risk.

Credit risk

Credit risk is the risk that expected losses will occur on an asset resulting from default of a borrower/counterparty.

The Bank calculates the amount of credit risk by assets on an individual, collective basis.

The Bank groups financial assets on the basis of shared risk characteristics, in particular:

- orientation;
- type of product;
- fractionality applied to loans united in:
- groups of loans issued to corporate borrowers (legal entities) (except for apartment building coowners associations (OSBB) and building cooperatives (ZhBK));
- groups of loans granted to retail borrowers (individuals) and secured by mortgage items;
- groups of loans granted to retail borrowers (individuals) and secured by purchased vehicles;
- groups of loans granted to retail borrowers (individuals) and secured by other types of collateral;
- materiality of the individual requirements (the maximum amount of debt on multiple loans of a single debtor/counterparty included in the group cannot exceed the limit set for the respective group);
- frequency and scope of debt repayment by the borrower as determined by the lending arrangement.

Individual credit risk is the risk of a specific debtor/counterparty of the bank. The assessment of individual credit risk involves the assessment of creditworthiness of an individual debtor/counterparty, i.e. their individual ability to settle the obligations assumed in full and on schedule.

For mitigating a credit risk, the Bank employs different types and conditions for lending transactions in terms of maturity, borrowers, collateral, interest rates, interest accrual methods, limits, loan portfolio diversification, provisioning, monitoring and risk control.

Market risk

The Bank is exposed to market risks arising from changes in interest rates, foreign exchange rates, and other market prices that mostly depend on general and specific market conditions. This is the risk that the fair value or future cash flows will change due to fluctuations in market variables such as interest rates, exchange rates and yield on securities.

The market risk management system is based on the following general principles:

— Independence of the functions of the risk management department from business units;
— Comprehensive approach to identification of tools and risks;
— Coherence at all levels of aggregation due to the use of successive measurement models;
— Time frames for data preparation to support the decisions and process control;
— Transparency in the assessment methodology and criteria used to better understand the adopted risk measurements;
— Extension of authority in determining the delegated authority;
— Efficiency and flexibility in the architecture of the structure of limits and their updating.

Market risk management is carried out exclusively within the limits of the Bank's banking book using the following internal documents:

— Market risk management policies of JSC "PRAVEX BANK" approved by decisions of the competent corporate bodies;
— Interest rate risk management policies of JSC "PRAVEX BANK" approved by decisions of the competent corporate bodies.
— Interest rate risk control and measurement rules of JSC PRAVEX BANK approved by decisions of the competent corporate bodies;
— Financial portfolio management policies of JSC "PRAVEX BANK" approved by decisions of the competent corporate bodies.

The Bank classifies and measures transactions with securities and other financial investments based on the business model, that it uses for managing those assets, and their contractual cash flow characteristics. The Bank measures certificates of deposit and domestic government loan bonds in accordance with the Accounting Policy Regulation of JSC "PRAVEX BANK".

The Bank classifies and measures credit transactions based on the business model, that it uses for managing those assets, and their contractual cash flow characteristics at amortised cost. A credit transaction is assessed for consistency with the business model at the new product launching phase.

Currency risk

Currency risk arises from adverse fluctuations in foreign exchange rates that affect assets, liabilities and off-balance sheet positions in the trading and banking books of the Bank.

The Bank uses limits as the key tool for currency risk management. The Bank applies this instrument by establishing limits on the Bank's overall open foreign exchange position, and limits and sublimits on a foreign exchange position by specific currency. The system of internal limits allows for a comprehensive and adequate management of the currency risk exposure based on the principles adopted by the Bank.

In compliance with the NBU requirements, the Bank sets currency risk limits and sublimits for its units for currency risk management purposes. Such limits are necessary to avoid unexpected losses from significant foreign exchange rate fluctuations.

Table 33.1. Currency risk analysis

(in thousands of Ukrainian hryvnias)

Line	Currency	31/12/2019				31/12/2018		
		Monetary assets	Monetary liabilities	Financial derivatives	Net position	Monetary assets	Monetary liabilities	Net position
1	2	3	4	5	6	7	8	9
1	USD	929,279	955,188	(1,098)	(27,007)	545,438	578,636	(33,198)
2	EUR	358,973	378,102	-	(19,129)	198,039	211,558	(13,519)
3	GBP	4,689	1,220	-	3,469	3,173	1,571	1,602
4	Other	22,399	12,368	1,095	11,126	52,867	42,250	10,617
5	**Total**	**1,315,340**	**1,346,878**	**(3)**	**(31,541)**	**799,517**	**834,015**	**(34,498)**

Table 33.2. Sensitivity of net profit or loss and equity to potential changes in official UAH exchange rates as at the reporting date, assuming that all other variables remain constant

(in thousands of Ukrainian hryvnias)

Line	Item	Weighted average FX rate at 31/12/2019		Weighted average FX rate at 31/12/2018	
		effect on profit/(loss)	effect on equity	effect on profit/(loss)	effect on equity
1	2	3	4	5	6
1	USD strengthening by 20 %	(5,182)	(5,182)	(6,640)	(6,640)
2	USD weakening by 20 %	5,182	5,182	6,640	6,640
3	EUR strengthening by 20 %	(3,826)	(3,826)	(2,704)	(2,704)
4	EUR weakening by 20%	3,826	3,826	2,704	2,704
5	GBP strengthening by 20%	694	694	320	320
6	GBP weakening by 20%	(694)	(694)	(320)	(320)
7	Strengthening of other currencies by 20%	2,006	2,006	2,124	2,124
8	Weakening of other currencies by 20%	(2,006)	(2,006)	(2,124)	(2,124)

Interest rate risk in the banking book

Interest rate risk in the banking book is a probability that losses or additional losses or shortfalls in planned revenues occur due to unfavourable changes in interest rates in the banking book. Interest rate risk in the banking book affects the economic value of the bank’s capital and its net interest income.

The Bank's interest rate risk management is achieved using the following internal documents:

— Management policies on managing interest rate risk in the banking book of JSC “PRAVEX BANK” approved by decisions of the competent corporate bodies;

— Interest rate risk control and measurement rules of JSC “PRAVEX BANK” approved by decisions of the competent corporate bodies.

Table 33.3. General analysis of the interest rate risk

Financial assets and liabilities insensitive to interest rate fluctuations, such as mandatory reserves with the NBU, other financial assets and other financial liabilities, were not included in the general analysis of the interest rate risk as at 31 December 2019 and 31 December 2018.

(in thousands of Ukrainian hryvnias)						
Line	**Item**	**On demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than a year**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
31/12/2019						
1	Total financial assets	2,555,264	633,863	884,868	400,802	4,474,797
2	Total financial liabilities	2,900,412	693,229	35,686	8,977	3,638,304
3	Net interest rate gap at the end of the period	(345,148)	(59,366)	849,182	391,825	836,493
31/12/2018						
4	Total financial assets	1,917,956	825,286	43,610	275,459	3,062,311
5	Total financial liabilities	2,010,929	326,131	35,721	54	2,372,835
6	Net interest rate gap at the end of the period	(92,973)	499,155	7,889	275,405	689,476

Table 33.4. Monitoring of interest rates on financial instruments;

(%)									
Line	**Item**	**31/12/2019**				**31/12/2018**			
		UAH	**USD**	**EUR**	**other**	**UAH**	**USD**	**EUR**	**other**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Assets									
1	Cash and cash equivalents	-	-	-	-	-	2.95	-	-
2	Loans and advances to banks	12.25	2.35	-	-	-	-	-	-
3	Loans and advances to customers	16.28	4.49	4.81		20.46	5.36	5.07	-
4	Investments in securities at amortised cost	12.76	-	-	-	15.40	-	-	-
5	Investments in securities at FVTOCI	11.15	-	-	-	-	-	-	-
Liabilities									
6	Due to customers								
6.1	current accounts	1.31	0.441	0.17	-	0.96	0.19	0.20	-
6.2	term deposits	12.93	1.37	1.10	-	13.61	1.11	1.05	-
7	Debt securities issued by the Bank	-	-	-	-	-	0.03	0.71	-

Other price risk

Other market price risk arises in connection with the Bank's investments in securities. Investments in securities are made within the prescribed limits. Limits on transactions with securities are set by the relevant committee of the parent company. Limits are established with a breakdown by issuers and specific issues of securities. Limits are established for a specific period and are revised upon their end.

The Treasury and Investment Banking Department initiates the necessity to establish the limits. The Risk Management Department concludes on the possibility to establish such limits. Then, the relevant materials are reviewed to the relevant committee of the parent company.

The Risk Management Department monitors the compliance with the established limits on the permanent basis.

The Bank manages its price risk using the following internal documents:

— Guidelines on the prudential valuation of financial instruments at fair value of JSC "PRAVEX BANK" adopted by decisions of competent corporate bodies;
— Rules on the prudential valuation of financial instruments at fair value of JSC "PRAVEX BANK" adopted by decisions of competent corporate bodies;
— Financial portfolio management policies of JSC "PRAVEX BANK" approved by decisions of the competent corporate bodies.

Geographic risk

Geographic risk arises from peculiarities of a specific administrative and geographical area whose conditions differ from those in a country overall. The differences may refer to climate, national, political, legislative and other characteristics of the region that affect the borrower's position and are components of the credit risk.

Concentration of assets and liabilities by region is shown in tables 30.5 and 30.6.

Table 33.5. Analysis of geographic concentration of financial assets and financial liabilities as at 31 December 2019

(in thousands of Ukrainian hryvnias)

Line	Item	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
Assets					
1	Cash and cash equivalents	502,155	282,925	2,528	787,608
2	Loans and advances to banks	64,499	312,826	-	377,325
3	Loans and advances to customers	1,435,797	-	-	1,435,797
4	Investments in securities	2,661,675	-	-	2,661,675
5	Other financial assets	25,853	212	-	26,065
6	**Total assets**	**4,689,979**	**595,963**	**2,528**	**5,288,470**
Liabilities					
7	Due to banks	214	-	-	214
8	Due to customers	3,574,198	54,307	9,799	3,638,304
9	Debt securities issued by the Bank	3,583	-	-	3,583
10	Other financial liabilities	158,374	4,391	1,003	163,768
11	**Total liabilities**	**3,736,369**	**58,698**	**10,802**	**3,805,869**
12	Net balance sheet position	953,610	537,265	(8,274)	1,482,601
13	Credit-related commitments	208,912	-	-	208,912

Table 33.6. Analysis of geographic concentration of financial assets and financial liabilities as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
Assets					
1	Cash and cash equivalents	638,377	179,335	5,501	823,213

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Ukraine**	**OECD**	**Other countries**	**Total**
1	**2**	**3**	**4**	**5**	**6**
2	Loans and advances to banks	(5)	138,572	-	138,567
3	Loans and advances to customers	1,219,270	-	35	1,219,305
4	Investments in securities	1,704,809	-	-	1,704,809
5	Other financial assets	54,611	869	462	55,942
6	**Total assets**	**3,617 062**	**318,776**	**5,998**	**3,941 836**
Liabilities					
7	Due to banks	185	-	-	185
8	Due to customers	2,328,194	25,407	19,234	2,372,835
9	Debt securities issued by the Bank	5,573	-	-	5,573
10	Other financial liabilities	98,752	12,042	76	110,870
11	**Total liabilities**	**2,432,704**	**37,449**	**19,310**	**2,489,463**
12	**Net balance sheet position**	**1,184, 358**	**281,327**	**(13,312)**	**1,452, 373**
13	Credit-related commitments	1,800	-	-	1,800

Liquidity risk

Liquidity risk is an existing or potential risk for revenues and capital that arises from the bank's failure to fulfil its obligations in due time without experiencing unacceptable losses.

The Treasury and Stock Market Department of the Head Financial Department exercises control over liquidity risk management. The liquidity risk management involves the ALCO, Risk Management Department, Head Financial Department, Head Retail Department, Head Corporate Department and the parent company.

Liquidity risk management covers current and term liquidity management, as well as the management of liquidity in extraordinary conditions.

Current liquidity management includes:

— planning the Bank's current needs in liquid cash for the current day and in the 1-month to 1-year time horizon;
— financing the Bank's needs in liquidity for the current operating day;
— ensuring compliance with the NBU requirements with regard to mandatory reserving and liquidity ratios;
— controlling compliance with the established internal limits.

Term liquidity management includes:

— analysis of internal and external factors, namely:
- continuous monitoring of changes in market liquidity;
- identification of the extent to which the bank depends on “large” borrowers;
- tracking legislative changes;

— the liquidity situation is forecast by:
- calculation of liquidity gaps with a breakdown by currencies: national currency, freely convertible currency and non-convertible currency and, in aggregate, by all currencies in UAH equivalent;
- determination of the resource base to maturity with a breakdown by periods (term deposits, taking into account planned and early repayments and projected volumes of attracting funds, cash on current accounts and other types of resources);
- calculation of functional distribution of the resource base into active operations (maximum size of the loan and investment portfolio);

— analysis of liquidity ratios in order to prevent liquidity risk.

Liquidity management in crisis situations due to deterioration of the Bank's financial position are specified in the Contingency Plan.

The Contingency Plan ensures:

— detection of first redflags, their permanent control and determination of procedures to be implemented when the shortage of liquidity becomes evident;

— legitimation of actions of the management responsible for managing the liquidity crisis who should be capable of quickly changing the assets and liabilities structure;

— a range of instruments for immediate actions and intervention to resolve the crisis.

The liquidity risk management is carried out in accordance with the following internal documents:

— The liquidity risk management policy approved by decisions of the competent corporate bodies;

— Procedures for implementation of liquidity risk management as approved by decisions of the competent corporate bodies.

Table 33.7. Analysis of financial liabilities by maturities as at 31 December 2019

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2019 are as follows:

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
1	2	3	4	5	6	7
1	Due to banks	214	-	-	-	214
2	Due to customers	2,902,718	443,790	295,242	9,072	3,650,822
2.1	due to individuals	1,460,167	227,940	192,446	9,072	1,889,625
2.2	other	1,442,551	215,850	102,796	-	1,761,197
3	Debt securities issued by the Bank	3,583	-	-	-	3,583
4	Other financial liabilities	111,964	5,580	21,659	24,565	163,768
5	Financial guarantees	-	26,371	-	-	26,371
6	Other credit-related commitments	-	77,809	123,335	7,768	208,912
7	Total potential future payments under financial liabilities	3,018,479	553,550	440,236	41,405	4,053,670

Table 33.8. Analysis of financial liabilities by maturities for 2018

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2018 are as follows:

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
1	Due to banks	185	-	-	-	-	185
2	Due to customers	2,015,061	255,697	116,658	63	-	2,387,479
2.1	Due to individuals	996,282	222,861	89,886	63	-	1,309,092
2.2	Other	1,018,779	32,836	26,772	-		1,078,387
3	Debt securities issued by the Bank	5,573	-	-	-	-	5,573
4	Other financial liabilities	104,989	5,565	219	76	21	110,870

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
5	Other credit-related commitments	-	-	1,800	-	-	1,800
6	**Total potential future payments on financial liabilities**	**2,125,808**	**261,262**	**118,677**	**139**	**21**	**2,505,907**

Table 33.9. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2019

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
Assets							
1	Cash and cash equivalents	787,608	-	-	-	-	787,608
2	Loans and advances to banks	377,325	-	-	-	-	377,325
3	Loans and advances to customers	123,354	192,686	718,954	351,284	49,519	1,435,797
4	Investments in securities	2,054,584	-	607,091	-	-	2,661,675
5	Other financial assets	23,244	2,821	-	-	-	26,065
6	Total financial assets	3,366,115	195,507	1,326,045	351,284	49,519	5,288,470
Liabilities							
7	Due from banks	214	-	-	-	-	214
8	Due to customers	2,900,411	438,731	290,185	8,977	-	3,638,304
9	Debt securities issued by the Bank	3,583	-	-	-	-	3,583
10	Other financial liabilities	111,964	5,580	21,659	24,565	-	163,768
11	Total financial liabilities	3,016,172	444,311	311,844	33,542	-	3,805,869
12	Net liquidity gap as at 31 December	349,943	(248,804)	1,014,201	317,742	49,519	1,482,601
13	Cumulative liquidity gap as at 31 December	349,943	101,139	1,115,340	1,433,082	1,482,601	-

Table 33.10. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
Assets							
1	Cash and cash equivalents	823,213	-	-	-	-	823,213
2	Due from banks	138,567	-	-	-	-	138,567
3	Loans and advances to customers	362,372	481,125	100,349	207,604	67,855	1,219,305
4	Investments in securities at amortised cost	1,417,388	262,295	25,126	-	-	1,704,809

							(in thousands of Ukrainian hryvnias)
Line	**Item**	**On demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
5	Other financial assets	21,400	127	-	-	-	21,527
6	**Total financial assets**	**2,762,940**	**743,547**	**125,475**	**207,604**	**67,855**	**3,907 421**
Liabilities							
7	Due to banks	185	-	-	-	-	185
8	Due to customers	2,010,929	251,547	110,305	54	-	2,372,835
9	Debt securities issued by the Bank	5,573	-	-	-	-	5,573
10	Other financial liabilities	62,476	3,420	219	72	21	66,208
11	Total financial liabilities	2,079,163	254,967	110,524	126	21	2,444,801
12	**Net liquidity gap as at 31 December**	**683,777**	**488,580**	**14,951**	**207,478**	**67,834**	**1,462,620**
13	**Cumulative liquidity gap as at 31 December**	**683,777**	**1,172,357**	**1,187,308**	**1,394,786**	**1,462,620**	

Operational risk

The Bank defines operational risk as the likelihood of losses or additional losses or shortfall of planned revenue due to deficiencies or errors in the organisation internal processes, intentional or unintentional actions of bank employees or other persons, malfunctions in the IT systems of the bank or due to external factors. The definition applies to the legal risk; however, strategic and reputation risks are not taken into account.

Management activities cover:

— identification and implementation of actions aimed at mitigating the risk and its transfer, in accordance with the position regarding risks identified by the Board, as well as with regard to the objectives of capital placement;

— streamlining and optimising costs/benefits of the insurance return and other forms of risk transfer accepted by the ISP Group.

The key functions of operational risk management are:

— conscious acceptance of operational risk, which is inextricably linked to the Bank's business;
— mitigation of operational risk due to actions taken to appropriate risk factors;
— risk transfer through insurance or other special financial instruments (Alternative Risk Transfer).

The Bank manages its operational risk using the following internal documents:

— Operational Risk Management Policy of JSC “PRAVEX BANK” adopted by decisions of the component corporate bodies;

— Policy on Key Operational Risk Indicators of JSC “PRAVEX BANK” adopted by decisions of the component corporate bodies;

Operational Risk Management Policy of JSC “PRAVEX BANK” adopted by decisions of the component corporate bodies.

Note 34. Capital management

The Bank’s shareholders place much emphasis on the capital increase, specifically, on the increase of the share capital as the key component of capital.

The Bank’s capital is formed for the purpose of:

— highly profitable use of own cash;

— covering all possible risks assumed by the Bank;

— optimising assets and liabilities structure by ageing and deposits.

As at 31 December 2019, according to the NBU requirements, banks must comply with the capital adequacy ratio at the level of 10% and with the common equity adequacy ratio at the level of 7.625% (including the capital conservation buffer of 0.625% that banks must generate in excess of the common capital adequacy ratio starting from 1 January 2020) for risk-weighted assets calculated based on the NBU regulations.

As at 31 December 2019 and 31 December 2018, the Bank complied with regulatory capital adequacy ratio (N2) at 73.01% (31 December 2018: 96.06%) and common equity adequacy ratio (N3) at 69.68% (31 December 2018: 91.68%).

Table 34.1. Structure of regulatory capital calculated according to the NBU requirements

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2019**	**31/12/2018**
1	**2**	**3**	**4**
1	**Common equity**	**1,486,647**	**1,584,665**
2	Share capital	979,090	979,090
3	Share premium	4,600,449	4,600,449
4	Total reserves under Ukrainian legislation	1,332	1,332
5	Intangible assets	(442,229)	(415,225)
6	Amortisation of other intangible assets	353,488	276,946
7	Capital investments in intangible assets	(12,722)	(3,979)
8	Uncovered losses of past years	(3,775,081)	(3,690,848)
9	Result of the current year (loss)	(217,680)	(163,100)
10	**Additional capital**	**70,938**	**75,839**
11	Result on PP&E revaluation	70,938	75,839
12	**Redeployment**	**(3)**	**(3)**
13	Carrying amount of securities that are not traded on stock exchanges carried at FV	(3)	(3)
14	**Total regulatory capital**	**1,557,582**	**1,660,501**

Note 35. Fair value of financial instruments

Fair value of a financial instrument is defined as the amount for which an asset could be exchanged, or a liability settled, between the knowledgeable, willing and independent parties. Fair value estimates are based on the assumption that the Bank will continue its activities in future without any liquidation or significant reduction of transactions or carrying on transactions on unfavourable conditions. Fair value represents credit quality of a financial instrument, as it includes the risk of counterparty's default.

Fair value of financial instruments is determined using quoted prices obtained from financial markets for instruments quoted in an active market or by internal measurement methods for other financial instruments. Market is considered active when quoted prices are readily and regularly available (from a stock exchange, dealer, broker, industrial group, price informational service or regulating authority) and represent actual regular arm's length transactions.

When the market does not operate on a regular basis, i.e. it has no sufficient volatility and constant number of transactions, whilst the difference between the purchase price and the selling price is insufficient, fair value measurement is mainly based on valuation techniques aimed at establishing the price of a hypothetic commercial transaction on an arm's length basis as at the measurement date.

Table 35.1. Analysis of financial instruments at amortised cost and at fair value through other comprehensive income by hierarchy levels as at 31 December 2019

(in thousands of Ukrainian hryvnias)

	Item	**Fair value by different valuation techniques as at 31 December 2019**			**Total fair value**	**Total carrying amount**
		Quoted market price (Level 1)	**Valuation technique using observable inputs (Level 2)**	**Valuation technique using unobservable inputs (Level 3)**		
1	**2**	**3**	**4**	**5**	**6**	**7**
	FINANCIAL ASSETS					
1	Cash and cash equivalents	-	787,608	-	787,608	787,608
2	Loans and advances to banks	-	377,325	-	377,325	377,325
3	Loans and advances to customers	-	-	1,451,685	1,451,685	1,435,797
4	Investments in securities	-	2,661,672	3	2,661,675	2,661,675
5	Other financial assets		-	26,065	26,065	26,065
	FINANCIAL LIABILITIES					
6	Due to banks	-	214	-	214	214
7	Due to customers	-	3,363, 342	-	3,636, 342	3,638,304
8	Debt securities issued by the Bank	-	3,583	-	3,583	3,583
9	Other financial liabilities	-	-	163,768	163,768	163,768

Table 35.2 Analysis of financial instruments at amortised cost and at fair value through other comprehensive income by hierarchy levels as at 31 December 2018

(in thousands of Ukrainian hryvnias)

	Item	**Fair value by different valuation techniques as at 31 December 2018**			**Total fair value**	**Total carrying amount**
		Quoted market price (Level 1)	**Valuation technique using observable inputs (Level 2)**	**Valuation technique using unobservable inputs (Level 3)**		
1	**2**	**3**	**4**	**5**	**6**	**7**
	FINANCIAL ASSETS					
1	Cash and cash equivalents	-	823,213	-	823,213	823,213
2	Loans and advances to banks	-	138,567	-	138,567	138,567
3	Loans and advances to customers	-	-	1,213,359	1,213,359	1,219, 305
4	Investments in securities	-	1,704,806	3	1,704,809	1,704,809
5	Other financial assets		-	21,527	21,527	21,527
	FINANCIAL LIABILITIES					
6	Due to banks	-	185	-	185	185
7	Due to customers	-	2,595, 978	-	2,595, 978	2,372,835
8	Debt securities issued by the Bank	-	5,573	-	5,573	5,573
9	Other financial liabilities	-	-	66,208	66,208	66,208

The Bank uses the following hierarchy when measuring and disclosing the fair value of financial instruments based on the inputs used in the valuation techniques:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that have a significant effect on the reported fair value and are observable on the market, either directly or indirectly;

Level 3: inputs that have a significant effect on the reported fair value and are not based on observable market data (unobservable inputs).

Financial instruments for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a maturity of less than one month from the reporting date, it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to funds on demand, savings accounts without a specific maturity, variable-rate financial instruments, loans issued or deposits placed less than one month before the reporting date.

Fixed-income financial instruments

The fair value of fixed-income financial assets and liabilities carried at amortised cost is measured by comparing market interest rates as at their recognition to current market rates offered for similar financial instruments. The fair value of loans and deposits is calculated by discounted cash flows model using discount rates for assets and liabilities with a similar credit risk and maturity.

For quoted shares and debt securities, the fair values are calculated based on quoted market prices in active markets for identical assets or liabilities. Where shares and debt securities unquoted in active markets, a discounted cash flow model is used by reference to the yield to maturity for similar financial instruments quoted in active financial markets.

Table 35.3. Significant unobservable inputs used in measuring instruments categorised within Level 3 of the fair value hierarchy

						(in thousands of Ukrainian hryvnias)
Year	**Type of instrument**	**Fair value**	**Valuation model**	**Significant unobservable inputs**	**Range of unobservable inputs**	**Fair value sensitivity to unobservable inputs**
1	**2**	**3**	**4**	**5**	**6**	**7**
2019	Loans and advances to customers	1,451,685	Discounting of cash flows	Discount rate	Currency: UAH 12.83 – 30.81% Other currencies: 3.70 – 14.88%	Significant increase of discount rate results in lower values of fair value
2018	Loans and advances to customers	1,213,359	Discounting of cash flows	Discount rate	Currency: UAH 15.73 – 32% Other currencies: 3.32 – 18%	Significant increase of discount rate results in lower values of fair value

Note 36. Presentation of financial instruments by measurement categories

Table 36.1. Financial assets by measurement categories as at 31 December 2019

(in thousands of Ukrainian hryvnias)

Line	Item	Loans and receivables at AC	Assets at FVTOCI	Total
1	2	3	4	5
1	Cash and cash equivalents	787,608	-	787,608
2	Loans and advances to banks	377,325	-	377,325
3	Loans and advances to customers:	1,435,797	-	1,435,797
3.1.	corporate loans	1,095,892	-	1,095,892
3.2.	mortgages of individuals	89,348	-	89,348
3.3.	retail loans	267,789	-	267,789
3.4.	other loans to individuals	24	-	24
3.5	Provision for loan impairment	(17,256)	-	(17,256)
4	Investments in securities	1,352,197	1,309,478	2,661,675
4.1	Investments in securities at AC	1,352,197	-	1,352,197
4.2	Investments in securities at FVTOCI	-	1,309,475	1,309,475
4.3	Shares of enterprises and other variable-income securities that are not traded on stock exchanges and are recognised at FVTOCI	-	34	34
4.3	Provision for impairment of securities at FVTOCI	-	(31)	(31)
5	Other financial assets:	26,065		26,065
5.1.	Accounts receivable from transactions with customers	10,777	-	10,777
5.2.	Amounts due on accrued income from cash and settlement services and other accrued income	2,454	-	2,454

(in thousands of Ukrainian hryvnias)				
Line	**Item**	**Loans and receivables at AC**	**Assets at FVTOCI**	**Total**
1	**2**	**3**	**4**	**5**
5.3.	Accounts receivable on credit and debit card transactions	22,879	-	22,879
5.4.	Accounts receivable from transactions with banks	932	-	932
5.5.	Other assets	169	-	169
5.6.	Provision for impairment	(11,146)	-	(11,146)
6	**Total financial assets**	**3,978,992**	**1,309,478**	**5,288,470**

Table 36.2. Financial assets by measurement categories as at 31 December 2018

(in thousands of Ukrainian hryvnias)				
Line	**Item**	**Loans and receivables at AC**	**Assets at FVTOCI**	**Total**
1	**2**	**3**	**4**	**5**
1	Cash and cash equivalents	823,213	-	823,213
2	Loans and advances to banks	138,567	-	138,567
3	Loans and advances to customers:	1,219,305	-	1,219,305
3.1.	corporate loans	1,073,455	-	1,073,455
3.2.	mortgages of individuals	119,370	-	119,370
3.3.	retail loans	82,333	-	82,333
3.4.	other loans to individuals	62	-	62
3.5	Provision for loan impairment	(55,915)	-	(55,915)
4	Investments in securities	1,704,806	3	1,704,809
4.1	Investments in securities at AC	1,704,806	-	1,704,806
4.2	Investments in securities at FVTOCI	-	34	34
4.3	Provision for impairment of securities at FVTOCI	-	(31)	(31)
5	Other financial assets:	**21,527**	-	**21,527**
5.1.	Accounts receivable from transactions with customers	11,346	-	11,346
5.2.	Amounts due on accrued income from cash and settlement services and other accrued income	1,819	-	1,819
5.3.	Accounts receivable on credit and debit card transactions	18,529	-	18,529
5.4.	Accounts receivable from transactions with banks	932	-	932
5.5.	Other assets	258	-	258
5.6.	Provision for impairment	(11,357)	-	(11,357)
6	**Total financial assets**	**3,907,418**	**3**	**3,907,421**

Note 37. Related-party transactions

Assets and liabilities valuation techniques applied upon recognition of transactions with related parties do not differ from generally accepted methods.
Agreements with the Bank's related parties do not envisage more favourable terms than agreements concluded with other parties.
The Bank's transactions with related parties for the year ended 31 December 2018 had no material effect on the Bank's financial results.

Table 37.1. Balances on related-party transactions as at 31 December 2019

(in thousands of Ukrainian hryvnias)

Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	Denominated in foreign currencies	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Major participants (shareholders) of the Bank												
1	Cash and cash equivalents	-	-	-	-	-	-	87,064	-	on demand	3,063	-	on demand
2	Provisions for cash on correspondent accounts with other banks	-	-	-	-	-	-	3	-	on demand	-	-	-
3	Loans and advances to banks	-	-	-	312,838	2.25 - 2.62%	2 - 31 days	-	-	-	-	-	-
4	Provision for impairment of loans and advances to banks	-	-	-	-	-	-	-	-	-	-	-	-
5	Other financial assets	20	-	2 - 31 days	-	-		2	-	Overnight or 1 day	-	-	-
6	Other non-financial assets	366	-	on demand	-	-	-	-	-	-	-	-	-
7	Other financial liabilities	3,581	-	on demand - less than 31 days	-	-	-	771	-	on demand	-	-	-
8	Other non-financial liabilities	-	-	-	-	-	-	12,814	-	on demand	-	-	-
	Key management personnel												
9	Loans and advances to customers	691	12-13%	on demand - more than 5 years	-								
10	Loan loss provisions	6	-	more than 5 years	-								
11	Due to customers	862	0 - 11%	on demand	1,066	0 - 0.5%	on demand	389	0-0.25%	on demand	-	-	-

(in thousands of Ukrainian hryvnias)

Line	**Item**	**UAH**	**Interest rate**	**Maturity**	**USD**	**Interest rate**	**Maturity**	**EUR**	**Interest rate**	**Maturity**	**Denominated in foreign currencies**	**Interest rate**	**Maturity**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
12	Other financial liabilities	5,391	-	on demand - less than 5 year	-	-	-	-	-	-	-	-	-
13	Other non-financial liabilities	410	-	on demand - less than 31 days	-		-						
	Other related parties												
14	Cash and cash equivalents	-	-	-	-	-	-	-	-	-	2,304	-	on demand

Related parties comprise entities under common control, members of the Supervisory Board, key management personnel and their immediate family members, companies that are controlled or significantly influenced by shareholders, key management personnel or their close family members.

Table 37.2. Income and expenses on related-party transactions as at 31 December 2019 and for the year then ended

(in thousands of Ukrainian hryvnias)

Line	Item	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
1	**2**	**3**	**4**	**5**
1	Interest income	6,031	68	-
2	Interest expenses	-	(94)	-
3	Net (increase) in provisions for impairment of loans and advances to customers, and due from banks	(15)	(6)	-
4	Net profit from foreign exchange	966	-	-
5	Net gain/(loss) from foreign currency translation	(58,631)	113	(454)
6	Fee and commission income	262	9	-
7	Fee and commission expenses	(2,090)	-	(17)
8	Employee benefits expense	-	(23,644)	-
9	Other administrative and operating expenses	(26,011)	(8,668)	(814)

Table 37.3. Loans granted to and repaid by related parties during 2019

(in thousands of Ukrainian hryvnias)

Line	Item	Major participants (shareholders) of the Bank	Key management personnel
1	***2***	***3***	***4***
1	Loans granted to related parties	(20,371,706)	-
2	Loans repaid by related parties	20,151,916	5

Table 37.4. Other rights and obligations on related-party transactions as at 31 December 2019

(in thousands of Ukrainian hryvnias)

Line	Item	Major participants (shareholders) of the Bank	Key management personnel
1	**2**	**3**	**4**
1	Guarantees received	8,092	1,056
2	Currency before spot transactions	2,547	-

Table 37.5. Balances on related-party transactions as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	Denominated in foreign currencies	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Major participants (shareholders) of the Bank												
1	Cash and cash equivalents	-	-	-	-	-	-	35,153	-	on demand	167	-	on demand
2	Loans and advances to banks	-	-	-	138,572	2.95%	2 - 31 days	-	-	-	-	-	-
3	Provision for impairment of loans and advances to banks	-	-	-	5	-	2 - 31 days	-	-	-	-	-	-
4	Other assets	55	-	on demand - less than 31 days	-	-	-	-	-	-	-	-	-
5	Due to banks	-	-	-	-	-	-	-	-	-	-	-	-
6	Other liabilities	3,814	-	on demand	-	-	-	6,930	-	on demand	-	-	-
	Key management personnel												
7	Loans and advances to customers	204	12%	2 days - more than 5 years	-	-	-	-	-	-	-	-	-
8	Loan loss provisions as	1	-	more than 5 years	-	-	-	-	-	-	-	-	-

(in thousands of Ukrainian hryvnias)

Line	**Item**	**UAH**	**Interest rate**	**Maturity**	**USD**	**Interest rate**	**Maturity**	**EUR**	**Interest rate**	**Maturity**	**Denominated in foreign currencies**	**Interest rate**	**Maturity**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
	at 31 December												
9	Due to customers	2,455	0 - 8%	on demand	192	0.25%	on demand	489	0.25 - 0.45%	on demand	-	-	-
10	Other liabilities	668	-	on demand - less than 2 year	-	-	-	-	-	-	-	-	-
	Other related parties												
11	Cash and cash equivalents	-	-	-	-	-	-	-	-	-	5,429	-	on demand
12	Other assets	422	-	on demand	-	-	-	-	-	-	-	-	-
13	Other liabilities	219	-	on demand	-	-	-	-	-	-	-	-	-

Table 37.6. Income and expenses on related-party transactions as at 31 December 2018 and for the year then ended

(in thousands of Ukrainian hryvnias)

Line	Item	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
1	2	3	4	5
1	Interest income	3,752	46	122
2	Interest expenses	(7)	(67)	-
3	Net profit from foreign exchange	1,229	-	-
4	Net gain/(loss) from foreign currency translation	(15,951)	59	(3,603)
5	Fee and commission income	242	47	-
6	Fee and commission expenses	(2,939)	-	(26)
7	Employee benefits expense	-	(29,314)	-
8	Other administrative and operating expenses	(18,414)	(4,842)	(2,348)

Table 37.7. Loans granted to and repaid by related parties during 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Major participants (shareholders) of the Bank	Key management personnel
1	*2*	*3*	*4*
1	Loans granted to related parties	(11,122,180)	(135)
2	Loans repaid by related parties	11,094,997	223

Table 37.8. Other rights and obligations on related-party transactions as at 31 December 2018

(in thousands of Ukrainian hryvnias)

Line	Item	Other related parties
1	2	3
1	Guarantees received	253,713

Table 37.9. Remuneration to key management personnel

(in thousands of Ukrainian hryvnias)

Line	Item	expenses for 2019	accrued liabilities as at 31/12/2019	expenses for 2018	Accrued liabilities as at 31/12/2018
1	2	3	4	5	6
1	Current employee benefits	22,464	403	29,074	610
2	Termination benefits	1,180	-	240	-

The shareholder of JSC “PRAVEX BANK” is an Italian group of companies – Intesa Sanpaolo Group.

Note 38. Subsequent events

There were no events after 31 December 2019 that required changes to the financial statements.

Note 39. Additional disclosures in accordance with the applicable laws of Ukraine

To comply with the Resolution of the National Securities and Stock Market Commission no. 160 dated 12 February 2013 (as amended), the Bank discloses the following information as at 31 December 2019:

- As at 31 December 2019, the Bank's equity amounted to UAH 2,004,183 thousand, including:
  - share capital – UAH 1,048,726 thousand;
  - share premium/discount – UAH 4,600,754 thousand;
  - accumulated deficit – UAH 3,966,523 thousand;
  - revaluation reserves – UAH 210,748 thousand
  - reserves and other funds – UAH 1,332 thousand.

  The Bank's net assets value as at 31 December 2019 exceeds the share capital, which complies with Article 155 of the Civil Code of Ukraine.

  List of the shareholders that own 5% shares and more as at 31 December 2019 is as follows: Intesa Sanpaolo S.p.A., – 10121, Italy – Turin, Piazza San Carlo, 156 is the sole shareholder of 100% shares in the Bank (1,686,585,731 of ordinary shares and 1,500,000 of preference registered shares) and the owner of a substantial shareholding.

- The Bank's share capital as at 31 December 2019 was formed and paid in full exclusively in cash in the amount of UAH 979,090 thousand, except for the effect of applying IAS 29 Financial Reporting in Hyperinflationary Economies, as supported by the accounting records and bank documents available.

  The effect of applying the requirements of IAS 29 Financial Reporting in Hyperinflationary Economies in previous periods resulted in an increase of the share capital for financial reporting purposes by UAH 69,636 thousand.

- Cash contributions to the share capital in the amount of UAH 979,090 thousand were made during the issue of shares by the Bank in 1993-2018. During 2013-2019, the share capital was increased by:
  - UAH 7,250,000 (securities sale and purchase agreement No. 1/13 dated 24 May 2013; payment order No. 1 dated 24 May 2013);
  - UAH 1,295,430 (securities sale and purchase agreement No. 1/15 dated 29 January 2015; payment order no. 1 dated 29 January 2015);
  - UAH 304,906 (securities sale and purchase agreement No. 2/15 dated 6 February 2015; payment order no. 1 dated 6 February 2015);
  - UAH 148,074 (securities sale and purchase agreement No. 3/15 dated 9 February 2015; payment order no. 150400006 dated 9 February 2015);

- UAH 1,122,242 (securities sale and purchase agreement No. 4/15 dated 18 February 2015; payment order no. 1 dated 18 February 2015);
- UAH 1,654,044 (securities sale and purchase agreement No. 5/15 dated 19 February 2015; payment order no. 1 dated 19 February 2015);
- UAH 1,275,304 (securities sale and purchase agreement No. 6/15 dated 20 February 2015; payment order no. 1 dated 20 February 2015);
- UAH 3,971,569 and 72 kopeks (securities sale and purchase agreement no. 7/15 dated 10 September 2015; payment order no. 1 dated 10 September 2015);
- UAH 3,318,928 and 78 kopeks (securities sale and purchase agreement no. 8/15 dated 30 September 2015; payment order no. 1 dated 30 September 2015);
- UAH 6,110,063 and 36 kopeks (securities sale and purchase agreement no. 9/15 dated 9 October 2015; payment order no. 1 dated 9 October 2015);
- UAH 10,719,162 and 12 kopecks payment order no. 1 (securities sale and purchase agreement no. 1/18 dated 25 January 2018, payment order no. 10 dated 25 January 2018).

- Cash contributed for the formation of the Bank's share capital are used for statutory activities.
- As at 31 December 2019, the Bank established that it has no overdue tax liabilities (existence/absence of tax debt), no outstanding duties or penalties for violating the financial services legislation, including securities market services.

  - UAH 1,122,242 (securities sale and purchase agreement No. 4/15 dated 18 February 2015; payment order no. 1 dated 18 February 2015);
  - UAH 1,654,044 (securities sale and purchase agreement No. 5/15 dated 19 February 2015; payment order no. 1 dated 19 February 2015);
  - UAH 1,275,304 (securities sale and purchase agreement No. 6/15 dated 20 February 2015; payment order no. 1 dated 20 February 2015);
  - UAH 3,971,569 and 72 kopeks (securities sale and purchase agreement no. 7/15 dated 10 September 2015; payment order no. 1 dated 10 September 2015);
  - UAH 3,318,928 and 78 kopeks (securities sale and purchase agreement no. 8/15 dated 30 September 2015; payment order no. 1 dated 30 September 2015);
  - UAH 6,110,063 and 36 kopeks (securities sale and purchase agreement no. 9/15 dated 9 October 2015; payment order no. 1 dated 9 October 2015);
  - UAH 10,719,162 and 12 kopecks payment order no. 1 (securities sale and purchase agreement no. 1/18 dated 25 January 2018, payment order no. 10 dated 25 January 2018).

- Cash contributed for the formation of the Bank's share capital are used for statutory activities.
- As at 31 December 2019, the Bank established that it has no overdue tax liabilities (existence/absence of tax debt), no outstanding duties or penalties for violating the financial services legislation, including securities market services.

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" **Gianluca Corrias**

Chief Accountant
JSC "PRAVEX BANK" **L.V. Ostakhova**

DATE: **19 February 2020**

prepared by T.I. Melnyk
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Oversight Board of Joint Stock Company "PRAVEX BANK"
To the National Bank of Ukraine
To the National Securities and Stock Market Commission

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of JOINT STOCK COMPANY "PRAVEX BANK" (hereinafter – the Bank) that include:

- Statement of Financial Position (Balance Sheet), as at 31 December 2019;
- Statement of Profit or Loss and Other Comprehensive Income (Statement of Financial Results) for the year ended 31 December 2019;
- Statement of Changes in Equity (Statement of Equity) for the year ended 31 December 2019;
- Statement of Cash Flows for the year ended 31 December 2019 (direct method);
- Notes to Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material aspects, the financial position of the Bank as at 31 December 2019, as well as its financial results and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) and comply with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" with regard to the preparation of financial statements.

Basis for opinion

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

Emphasis of matter

We refer to Note 2 of the financial statements, which reads that whilst the management believes it is taking appropriate measures to support sustainability of the Bank's business in the current circumstances, such as a complicated political and economic situation and high levels of bureaucracy, further instability of the economic environment could have a negative effect on the Bank's results and financial position in a manner not currently determinable. Our opinion on the matter has not been modified.

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Key audit matters that include the most significant assessed risks of material misstatement, as well as the assessed risks of material misstatement due to fraud

Key audit matters are those matters that, in our professional judgement, were of most significance in 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 in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have identified that the matters below are key audit matters that should be presented in our report.

Key audit matters	How our audit considered the key audit matters
Provision for impairment of loans and advances to customers, credit-related commitments, balances on correspondent accounts in other banks – UAH 22,171 thousand. *Refer to Notes 6, 7, 8 and 19*	
We have focused our attention on this matter as a key audit matter due to the materiality of the balances on items “Loans and advances to customers”, “Loans and advances to banks” and the subjective nature of judgements used in calculating the impairment. Provision for impairment losses reflect the management's estimate of expected losses based on the portfolios of loans and advances to customers at the reporting date. The measurement of expected credit losses of a financial instrument is carried out in a way that reflects: an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, time value of money and all reasonable and supportable information about past events, current conditions and forecasts of future conditions by reference to all reasonable and supportable information, including that which is forward-looking. Identifying whether there has been a significant increase in credit risk, impairment and determining the recoverable amount involves certain assumptions and analysis of different factors, including the borrower's financial position, expected future cash flows, observable market prices, fair value of collateral. The use of different models and assumptions can lead to different outcomes in provisioning for impairment losses on loans and advances to customers.	Our procedures included, among others, the following: - Familiarising with the internal controls system implemented by the management personnel with a focus on the calculation of provisions for impairment losses on loans and advances to customers both on an individual and collective basis. - We have also independently evaluated the appropriateness of the management's judgements regarding the calculation methodology and inputs about past events, current conditions and forward-looking information to calculate the probability of default, as well as the recoverable amounts and collateral value. - We have conducted a selective test of assumptions underlying the calculation of impairment and its quantification, including the analysis of the borrowers' financial position, forecasts about future cash flows and collateral measurement. For loan impairment provisions that showed no individual indications of impairment, we tested the models and inputs used in those models, as well as their mathematical accuracy. We identified no material mismatches as a result of these tests.

Other information

The management is responsible for the other information. Other information comprises the information included in the management report for 2019, which includes the corporate governance report as a separate section (but does not constitute the financial statements and our auditor's report thereon), which we obtained before the date of this auditor's report, and the annual information of the issuer of securities for 2019, which we expect to receive after that date.

Our opinion on the financial statements does not cover the other information and we do not provide any form of assurance conclusion in respect of this other information.

In connection with our audit of the financial statements, it is our responsibility to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed in respect of the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual information of the securities issuer for 2019, if we conclude that there is a material misstatement, we are required to communicate the matter to those charged with governance.

Responsibility of the management and those charged with governance for financial statements

The management is responsible for the preparation and fair presentation of the financial statements according to IFRS and the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" with regard to the preparation of the financial statements and for such internal controls as the management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for supervising the process of financial reporting by the Bank.

Auditor's responsibility for the audit of financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, in their entirety, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report with 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 affect the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. In addition, we:

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

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

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

- conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, which constitute the key audit matters included herein. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal Requirements

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

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

Audit objective and duration

We were appointed as auditors by decision of the Supervisory Board of the Bank dated 30 July 2019 (protocol no. 10_19) to conduct a statutory audit of the Bank's financial statements for the year ended 31 December 2019. The period of total uninterrupted statutory audit of the Bank's financial statements, including the previous renewals and reappointments, is 1 year.

Non-audit services and auditor independence

We confirm that, to the best of our knowledge and belief, we have not provided any illegal non-audit services to the Bank or to any of its controlled entities in accordance with part 4 Article 6 of the Law of Ukraine "On the Audit of Financial Statements and Audit Activities". We, including our key audit partner, have been independent in relation to the Bank as part of the audit.

We will provide to the Bank the following services, other than statutory audit services, that were not disclosed in the financial statements or in the Management Report: assessment of the quality of the Bank's assets and collateral adequacy on loans as at 1 January 2020 within the requirements of the Terms of Reference to assess the resilience of Ukrainian banks and its banking system approved by Resolution of the Board of the National Bank of Ukraine No. 141 dated 22 December 2017.

Consistency of the auditor's report with the additional report for the Audit Committee

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

Consistency of the management report with the financial statements

Based on the results of work performed during the audit and taking into account the obtained knowledge and understanding of the Bank's activities and operating environment, in all material aspects:

- the management report of JSC "PRAVEX BANK" for 2019, which includes the corporate governance report as a separate section, is prepared in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", "Guidance on the Procedure for the Preparation and Publication of Financial Statements in Ukrainian Banks" approved by Resolution of the NBU No. 373 dated 24 October 2011 and other applicable laws and regulations, and the information presented there is consistent with the financial statements;

- we identified no material misstatements in the management report.

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

The purpose of our audit with regard to fraud was to identify and assess risks of material misstatements due to fraud, to obtain sufficient appropriate audit evidence on the assessed risks of material misstatement due to fraud through appropriate audit procedures in response to those risks and to take necessary measures regarding the factual and suspected cases of fraud identified during the audit. However, the main responsibility for preventing and identifying fraud lies with those charged with governance and the Bank's management.

Identification and assessment of potential risks related to violations	Actions responsive of assessed risks

In identifying and assessing the risks of material misstatement with regard to identifying violations, in particular, those related to fraud and non-compliance with laws and regulations, our procedures included, among others, the following:
- inquiries to the management and those charged with governance, including the receipt and review of supporting documentation on the Bank's policies and procedures with regard to:
  - identification, evaluation and compliance with laws and regulations and availability of records about any instances of their violation;
  - identification and response to risks of fraud and availability of records about any factual, suspected or anticipated fraud; and
  - internal controls implemented to reduce risks related to fraud or non-compliance with laws and regulations.
- discussions between audit team members to determine under which circumstances and at what stage may the Bank's financial statements be most vulnerable to material misstatement due to fraud, including fraud techniques. As part of this discussion, we identified areas with potential risk as income recognition, management's negligence of controls; and
- obtaining an understanding of laws and regulations that apply to the Bank and constitute a regulatory framework for its operations. At the same time, special attention
	As a result of our risk identification and assessment procedures, we have not identified any matters related to the risk of fraud or non-compliance with laws and regulations that could be used as key audit matters.
	Our procedures in response to other identified risks, among others, included the following:
	- review of disclosures to financial statements and testing of supporting documentation in order to assess compliance with the applicable laws and regulations set out in this section;
	- inquiring from the management and those charged with governance and internal lawyers with regard to the existing and potential lawsuits and claims;
	- analytical procedures to detect any unusual or unexpected relationships that might point to risks of material misstatements due to fraud;
	- familiarisation with the minutes of meetings of those charged with governance and review of internal audit reports;
	- testing the compliance of accounting information and adjustments; assessment of whether judgements and decisions made by the management in determining accounting estimates indicate a bias; evaluation of the economic feasibility of significant transactions that are unusual or outside the ordinary course of business.
	We also communicated relevant identified laws and regulations and potential fraud risks to all members of the audit team and remained alert throughout the audit

Identification and assessment of potential risks related to violations	Actions responsive of assessed risks
was given to those laws and regulations that directly affected the financial statements or which had a fundamental impact on the Bank's operations. Key laws and regulations that we considered in this context included the Law of Ukraine "On Banks and Banking Activities" and regulations of the National Bank of Ukraine on licensing and prudential supervision, Law of Ukraine "On Securities and Stock Market" and applicable regulations of the National Securities and Stock Market Commission, Law of Ukraine "On Financial Services and State Regulation of the Financial Services Markets".	to any indications of fraud or non-compliance with laws and regulations.

Other matters

Based on the results of work performed during the audit and taking into account the obtained knowledge and understanding of the Bank's activities and operating environment, in all material aspects:

- the information illustrated in the corporate governance report as part of the Management Report of JSC "PRAVEX BANK" for 2019 in accordance with paragraphs 1-4 part 3 Article 40^1 of the Law of Ukraine "On Securities and Stock Market" was prepared in accordance with the Law of Ukraine "On Securities and Stock Market" and other applicable laws and regulations is consistent with the financial statements;

- in our opinion, the corporate governance report as part of the Management Report of JSC "PRAVEX BANK" for 2019, which is responsibility of the Bank's management, presents all the information required by paragraphs 5-9 part 3 Article 40^1 of the Law of Ukraine "On Securities and Stock Market".

Other laws and regulations

Reporting as required by the Law of Ukraine "On Banks and Banking Activities" and "Regulation on the Procedure for a Bank to Submit an Audit Report on the Findings of the Annual Audit of Financial Statements to the National Bank of Ukraine" approved by the Resolution of the National Bank of Ukraine No. 90 dated 2 August 2019

According to the Law of Ukraine "On Banks and Banking Activities" and requirements of the Regulation on the Procedure for a Bank to Submit and Audit Report on the Findings of the Annual Audit of Financial Statements approved by the Regulation of the National Bank of Ukraine No. 90 dated 2 August 2019, the audit report shall also contain information (assessment) on:

1) the consistency (fair presentation) of information about the allocation of the bank's assets and liabilities by maturities in a file that contains figures from the statistical report A7X "Information about the structure of assets and liabilities by periods", which the bank prepares and submits to the National Bank of Ukraine, as at 1 January in the year after the reporting year;

2) the bank's compliance with regulations imposed by the National Bank of Ukraine with regard to:

- internal controls;
- internal audit;
- determining the credit risk exposure on asset-side banking transactions;
- identifying parties related to the bank and conducting transactions with them;
- adequacy of the bank's capital that should be determined by reference to the quality of the bank's assets;
- accounting.

The purpose of the audit was to express an opinion that the Bank's annual financial statements for 2019 present fairly, in all material aspects, the Bank's financial statements in accordance with the International Financial Reporting Standards.

Information presented in this report is the result of our procedures conducted as part of the audit of the Bank's financial statements for 2019. The specified information was obtained on the basis of selective testing to the extent necessary for planning and conducting audit procedures in accordance with the International Standards on Auditing.

This report is intended for the information of and use by the Bank's management and the National Bank of Ukraine and cannot be used by any other party. When reviewing this report, the limited nature (as mentioned above) of the procedures for assessing matters related to the Bank's activities, organisation of its accounting system and internal controls should be also taken into account.

In addition, it should be considered that the assessment criteria on those matters related to the Bank's operations, organisation of its accounting system and internal controls can be different from the criteria applied by the National Bank of Ukraine.

According to the results of our audit procedures within the audit of annual financial statements, we present information (assessment) on the matters above:

As a result of audit procedures within the annual audit, we identified no material discrepancies in the Bank's presentation with regard to the allocation of its assets and liabilities by maturities in a file that contains figures from the statistical report A7X "Information about the structure of assets and liabilities by periods", which the Bank prepares and submits to the National Bank of Ukraine, as at 1 January in the year after the reporting year, i.e. as at 1 January 2020.

The Bank's compliance with regulations imposed by the National Bank of Ukraine with regard to:

internal controls

As a result of audit procedures within the audit of annual financial statements, we found no evidence that the structure and internal controls of the Bank did not comply with the NBU regulations, in particular, with the Regulation of the National Bank of Ukraine No. 88 dated 2 July 2019 "On the Approval of the Regulation on Organising Internal Controls in the Banks of Ukraine and Banking Groups".

internal audit

In our opinion, at the time of the audit, the Bank's internal regulatory documents on internal audit procedures were in line with the NBU regulations, in particular, with the Resolution of the National Bank of Ukraine No. 311 dated 10 May 2016 "On the Approval of the Regulation on Organising the Internal Audit in Banks of Ukraine". Internal audit procedures are conducted in accordance with the Bank's internal regulations.

determining the credit risk exposure on asset-side banking transactions

The Bank calculated the credit risk amount as at the reporting date in accordance with the NBU regulations, including the Regulation on Determining the Credit Risk Exposure on Asset-side Banking Transactions approved by Resolution of the NBU Board No. 351 dated 30 June 2016 (hereinafter – NBU Resolution No. 351).

As a result of audit procedures within the audit of annual financial statements, we didn't identify material discrepancy in the Bank's credit risk calculation as at 31 December 2019.

identification of parties related to the Bank and related-party transactions

As a result of audit procedures, we did not find any evidence of non-compliance of the Bank's risk management system with regard to related-party transactions, procedures for identifying parties related to the Bank and related-party transactions with the NBU regulations. During our audit, we identified no violations of regulations with regard to related-party transactions.

adequacy of the Bank's capital that should be determined by reference to the quality of its assets

The Bank's share capital as at 31 December 2019 is adequate and accounts for UAH 1,048,726 thousand.
According to the Bank, the Bank's share capital as at 31 December 2019 is UAH 1,557,582 thousand, which is consistent with the NBU regulations (refer to Note 34 "Capital management").

accounting

The Bank's accounting system is in line with the NBU regulations and the Bank's accounting policies.

The reporting required by "Requirements to an Audit Opinion Submitted to the National Securities and Stock Market Commission for Obtaining a Licence to Conduct Professional Activity on the Securities Market" approved by the Decision of the National Securities and Stock Market Commission No. 160 dated 12 February 2013

In accordance with the Requirements to an Audit Opinion Submitted to the National Securities and Stock Market Commission for Obtaining a Licence to Conduct Professional Activity on the Securities Market approved by the Decision of the National Securities and Stock Market Commission (hereinafter – NSSMC) No. 160 dated 12 February 2013, we present the following information and conclusions:

main information about the Bank

full name – JOINT-STOCK COMPANY "PRAVEX BANK"

legal entity's identification code in the Unified State Register of Enterprises and Organisations of Ukraine specified in the Unified State Register of Legal Entities and Individual Entrepreneurs and Public Organisations – 14360920

location – 9/2 Klovskyi Uzviz, Kyiv 01021, Ukraine

date of state registration – 27 October 2004

main types of activity – other types of monetary intermediation

date of changes to constituent documents – the Bank's Articles of Association as amended and approved by Shareholder's Decision dated 26 February 2018 (protocol no. 1/2018) as agreed by the NBU on 19 March 2018 and registered by the state registrar on 28 March 2018.

list of participants (shareholders) (natural persons – last name, first name and patronymic; legal entities – name, form of incorporation, location), who own 5% of shares (interest) or more as at the date of the audit opinion with an indication of the actual quantity of shares – INTESA SANPAOLO S.p.A. (Italy) – 100% shareholding in the Bank's share capital.

compliance of the equity size presented in the applicant's financial statements for the last reporting period preceding the licence application date with the applicable regulations of the Commission

The Bank's equity in accordance with the financial statements as at 31 December 2019 amounts to UAH 1,895,037 thousand. The size of the Bank's regulatory capital is in line with the NBU regulations during 2019. According to audit findings, the Bank's capital meets the NSSMC regulations.

compliance of the share capital with constituent documents

The Bank's share capital as at 31 December 2019 is in line with the constituent documents of the Bank and amounts to UAH 1,048,726 as shown in Note 22 "Share capital".

the applicant's lack of overdue obligations to pay taxes (presence/absence of a tax debt) and duties, unpaid penalties for violating the legislation related to financial services, including those provided on the securities market.

As at the audit date, the Bank established that it has no overdue tax liabilities, no unpaid penalties for violating the financial services legislation, including in the securities market.

the uses of cash not contributed to form the share capital of the legal entity, which according to its Articles of Association intends to carry out a professional activity in the securities market from the effective date of or amendments in the Articles of Association with regard to the main types of its economic activity.

According to the Bank's information, all contributions into the Bank's share capital were used for statutory activities.

the applicant's related parties identified as such by the auditor during the audit of financial statements

Information about the management personnel that is identified as a related party to the Bank is presented in the Management Statement of JSC "PRAVEX BANK". Information about related-party transactions is presented in Note 37 "Related-party transactions". During the audit of financial statements, we identified no related parties that were not identified by the Bank or any respective related-party transactions that would not be disclosed in Note 37 "Related-party transactions".

the existence and volume of contingent assets and/or liabilities, the recognition of which is probable

During the audit of financial statements, we identified no contingent assets and/or liabilities, the recognition of which is probable, other than those recognised by the Bank in Note 19 "Provisions for liabilities".

events after the balance sheet date that were not disclosed in the financial statements but can have a significant effect on the applicant's financial position

During the audit of financial statements, identified no events after the balance sheet date that were not disclosed in the financial statements but could have a significant effect on the Bank's financial position (refer to Note 38 "Subsequent events").

existence of other facts and circumstances that can have a significant effect on the applicant's future operations and assessment of its extent

Based on our audit findings, we identified no facts or circumstances, other than those specified in the emphasis of matter section of the Report on the Audit of Financial Statements, that can have a significant effect on the Bank's future operations.

More specifically, the composition and structure of the Bank's financial investments do not, in our opinion, pose a threat to the Bank's future operations.

As at 31 December 2019, the composition and structure of the Bank's financial investments is represented as investments in the NBU certificates of deposit in the amount of UAH 1,352,197 thousand and domestic government loan bonds, the fair value of which was UAH 1,309,475 thousand (refer to Note 9 "Investments in securities")

other financial information in accordance with the law

Our audit of the Bank's financial statements did not apply to any other financial information under the law, other than that presented in the Bank's financial statements for 2019 and illustrated in this section of our report with regard to other laws and regulations.

main information about the terms and conditions of the audit contract

date and number – No. 219/19 dated 21 October 2019

audit start and completion dates – 4 November 2019 and 21 February 2020.

Key audit partner

The Audit Engagement Partner is Nersesian Gagik Serhiiovych.

General Director

BAKER TILLY UKRAINE LLP Alexander Pochkun

Auditor's registration number in the Register of Auditors and Auditing Entities: No. 100810.

Partner

BAKER TILLY UKRAINE LLP Gagik Nersesian

Auditor's registration number in the Register of Auditors and Auditing Entities: No. 100799.

19 February 2020

Kyiv, Ukraine

Main information about the audit firm

Full name: Limited Liability Company "BAKER TILLY UKRAINE".
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Registration number in the Register of Auditors and Auditing Entities: No. 2091.