JOINT STOCK COMPANY
"FIRST UKRAINIAN INTERNATIONAL BANK"

Financial statements

For the year ended 31 December 2019
with independent auditors' report

Management report

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On the audit of the financial statements of the Joint Stock Company "First Ukrainian International Bank".
Bank's registration No. in the Unified State Register of Legal Entities and Entrepreneurs of Ukraine: 14282829 . The registered address of the Bank is 4 Andriivska St., Kyiv, 04070. The Bank was registered on 23 December 1991; the most recent amendments to the constitutional documents of the Bank were made on 12 September 2019. Bank's principal activities as per KVED Code-2010 is 64.19 Other monetary intermediation.
List of shareholders owing 5% or more shares is as follows:

- Limited Liability Company "SCM Finance" – 92.34%, located at: 116-A Nakhimov Avenue, Mariupol, 87534, Donetsk region;
- SCM HOLDINGS LIMITED – 7.66%, located at: 3 Julia House, Themistokli Dervi, Nicosia, Cyprus, P.C.1066.

To the Management Board of the Joint Stock Company "First Ukrainian International Bank"

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Joint Stock Company "First Ukrainian International Bank" (the "Bank"), which comprise the statement of financial position as at 31 December 2019, the income statement, the statement of comprehensive income, the statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of Ukrainian legislation on financial reporting.

Basis for Opinion

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

Key Audit Matters Incorporating the Most Significant Risks of Material Misstatements, Including Assessed Risk of Material Misstatements Due to Fraud

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

Expected credit losses from loans to customers	
See Note 9 to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
Loans to customers comprise 59% of total assets and are presented net of provision for expected credit losses (ECLs), which are estimated on a regular basis and are sensitive to the assumptions used. The expected credit loss model requires that management apply professional judgments and make assumptions on the following major issues: — timely identification of a significant increase in credit risk and a default event on loans to customers (classified as Stages 1, 2, and 3 in accordance with IFRS 9); — calculation of exposure at default (EAD), estimation of probability of default (PD) and loss given default (LGD); — estimation of expected cash flows on loans to customers classified as Stage 3. Due to significant amount of loans to customers and uncertainty inherent in assessment of provision for ECLs, this issue is a key audit matter.	We analyzed main aspects of the Bank's methodology and policies on evaluation of its compliance with IFRS 9 *Financial Instruments*, including through involvement of financial risk management professionals. To analyze the adequacy of professional judgment used by management and the assumptions made in calculating provision for expected credit losses, we, among others, performed the following audit procedures: — In a sampling of loans where potential change in estimation of ECLs may significantly affect the financial statements, we tested the appropriateness of Stage assigned by the Bank by analyzing financial and non-financial information on selected borrowers, and assumptions and professional judgments used by the Bank; — For a sampling of loans classified as Stage 3 that were subject to individual assessment for impairment, and focusing on those with the most significant potential impact on the financial statements, we evaluated reasonableness of future cash flows based on our understanding and available market information; — For loans to customers with ECLs estimated on a collective basis, we analyzed principles of operation and application of relevant models by checking the mathematical accuracy of calculations,

	and inputs in the models by verifying with primary documents on a selective basis; — We performed testing of control over accuracy of calculations of days past due of loans. We also satisfied ourselves that the disclosures in the financial statements adequately reflect the Bank's exposure to credit risk.

Other Information

Management is responsible for the other information. The other information includes:

— Management Report as at and for the year ended 31 December 2019 (that does not include the financial statements and our independent auditors' report thereon), which we obtained prior to the date of this independent auditors' report;

— Annual Information of Securities Issuer to be disclosed and reported to the National Securities and Stock Market Commission (hereinafter "the Commission"), which is expected to become available to us subsequent to the date of the independent auditors' report.

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

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

If, based on the work we have performed, 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 in relation to Management Report of the Bank.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, 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 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 and are therefore the key audit matters. We describe these matters in our auditors' 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 and Regulatory Requirements

Pursuant to Article 14(4) of the Law of Ukraine "*On Audit of Financial Statements and Auditing*", we provide the following information in our Independent Auditors' Report in addition to ISA requirements.

Appointment of the Auditor and Period of Engagement

We were appointed by the Supervisory Board of the Bank on 11 September 2019 to audit the financial statements of the Bank as at and for the year ended 31 December 2019. Our total uninterrupted period of audit engagements is 1 year, covering the year ended 31 December 2019.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 6(4) of the Law of Ukraine "*On Audit of Financial Statements and Auditing*" were provided.

In addition, for the period to which our statutory audit relates, we have not provided any services to the Bank in addition to the audit, which have not been disclosed in the Management Report.

Additional Report to the Audit Committee

We confirm that our auditors' report is consistent with the additional report to the Audit Committee.

Information Disclosed Pursuant to Requirements of the National Securities and Stock Market Commission

The audit was performed from 22 October 2019 to 12 March 2020. The audit was conducted in accordance with Engagement Contract No. 150-SA/2019 dated 22 October 2019.

Management is responsible for compliance by the Bank with legal and regulatory requirements, including those set by the National Securities and Stock Market Commission ("the Commission"). In accordance with Commission's Resolution No.160 dated 12 February 2013, as part of our audit of financial statements, we are required to report on other legal and regulatory matters, including:

1) Description of the audit matters and auditors' conclusions on the following:

— whether the amount of equity reported in the Bank's financial statements as at and for the period ended 31 December 2019 complies with the regulatory requirements of the Commission;
— whether the amount of share capital corresponds to the founding documents (description of assessment and form of contributions);

— formation and payment of share capital;
— absence of any overdue tax liabilities (existence/absence of taxes payable), outstanding duties, or unpaid fines for non-compliance with financial services laws, including those in the securities market;

2) Information on the ways of using funds contributed to share capital of the Bank that, in accordance with the Charter, intends to perform professional activities in the securities market from the date of its incorporation or from the date when amendments to the Charter regarding entity's principal activities are made.

3) Information on related parties of the Bank that were identified as part of our audit of the financial statements.

4) Information on existence and amounts of contingent assets and/or liabilities that may be recognized in the balance sheet with a significant degree of probability.

5) Information on any events subsequent to the balance sheet date that are not reflected in the financial statements, but might have material impact on the Bank's financial position.

6) Information on any other facts and circumstances that may have material impact on the Bank's operations in the future, and assessment of such impact.

7) Other financial information as required by legislation.

Our audit findings are presented below:

1) As at 31 December 2019, Bank's equity amounts to UAH 9,067,377 thousand, including:

   - share capital – UAH 3,294,492 thousand
   - share premium – UAH 101,660 thousand
   - revaluation reserve for property and equipment – UAH 456,914 thousand
   - revaluation reserve for securities – UAH 122 303 thousand
   - reserve fund – UAH 1,475,430 thousand
   - retained earnings – UAH 3,616,578 thousand.

   Bank's equity reported in the financial statements as at and for the year ended 31 December 2019 complies with the regulatory requirements of the Commission.

   Bank's share capital corresponds to the charter documents. As at 31 December 2019, share capital is formed and fully paid in solely in the form of cash contributions amounting to UAH 3,294,492 thousand.

   As at 31 December 2019, the Bank identified that there were no overdue tax liabilities (existence/absence of taxes payable), or outstanding duties, or unpaid penalties for non-compliance with financial services laws, including those in the securities market.

As required by Commission's Resolution No. 160 dated 12 February 2013, we also disclose the following information:

2) Contributions to Bank's share capital were used to perform Bank's activities in accordance with the charter.

3) Transactions and balances with related parties are disclosed in Note 32 to the financial statements.

4) As at 31 December 2019, the Bank has no contingent assets and/or liabilities that may be recognized in the balance sheet with a significant degree of probability, other than those disclosed in the financial statements as at and for the year ended 31 December 2019.

5) There were no events subsequent to the balance sheet date, except those disclosed in Note 36, to the date of the auditors' report that are not disclosed in the financial statements, but might have material impact on Bank's financial position.

6) There were no other facts and circumstances that may have significant impact on the Bank's operations.

7) As at and for the year ended 31 December 2019, there were no other financial statements prepared in accordance with the Laws of Ukraine and regulations of the Commission except for annual financial statements and interim financial statements prepared in accordance with International Financial Reporting Standards.

Our consideration of the matters described above was only for the limited purpose described in the second paragraph of the section «Information Disclosed Pursuant to Requirements of the National Securities and Stock Market Commission».

The engagement partner on the audit resulting in this independent auditors' report is:

УКРАЇНА * ПРИВАТНЕ АКЦІОНЕРНЕ ТОВАРИСТВО * М.КИЇВ
«КПМГ Аудит»
Ідентифікаційний код
31032100

Anna Parkhomenko

Registration No. 101539 in the Register of Auditors and Audit Organisations

Deputy Director

JSC KPMG Audit

12 March 2020

JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Statement of financial position as at 31 December 2019

(in thousands of Ukrainian hryvnias)

	Notes	*2019*	*2018*
Assets			
Cash and cash equivalents	6	9 671 645	9 040 607
Due from banks	7	1 067 864	1 440 447
Securities at fair value through profit or loss	8	39 311	93 200
Securities at fair value through other comprehensive income	8	8 890 820	9 360 514
Loans to customers	9	32 886 479	27 244 297
Other assets	12	658 445	631 513
Property and equipment	10	1 583 991	1 415 623
Investment property	10	94 309	71 876
Intangible assets	10	279 641	320 632
Right-of-use assets	11	264 713	246 482
Total assets		**55 437 218**	**49 865 191**
Liabilities			
Due to the National Bank of Ukraine	13	–	1 002
Due to banks	14	934 276	697 452
Customer accounts	15	42 752 593	39 780 153
Deposit certificates issued	16	–	832 460
Lease liabilities	17	294 619	267 402
Current income tax liability		140 298	62 242
Deferred tax liability	27	26 433	15 636
Other liabilities	18	2 221 622	1 402 830
Subordinated debt	19	–	488 145
Total liabilities		**46 369 841**	**43 547 322**
Equity	21		
Share capital		3 294 492	3 294 492
Share premium		101 660	101 660
Revaluation reserve for property and equipment		456 914	474 735
Revaluation reserve for securities		122 303	(24 753)
Reserve fund		1 475 430	1 475 430
Retained earnings		3 616 578	996 305
Total equity		**9 067 377**	**6 317 869**
Total liabilities and equity		**55 437 218**	**49 865 191**

Signed on behalf of the Management Board on 12 March 2020

S.P. Chernenko (Chairman of the Management Board)

K.O. Shkoliarenko (Financial Director)

O.O. Poleschuk (Chief Accountant)

Notes on pages 6 to 73 are an integral part of these financial statements.

JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Income statement for the year ended 31 December 2019

(in thousands of Ukrainian hryvnias)

	Notes	2019	2018
Interest income calculated using the effective interest rate	23	7 662 951	6 324 632
Other interest income		119 009	40 922
Interest expense	23	(2 491 187)	(2 451 479)
Net interest income		**5 290 773**	**3 914 075**
Allowance for impairment	6, 7, 8, 9, 12, 30	(215 456)	(253 290)
Net interest income less allowance for ECLs		**5 075 317**	**3 660 785**
Fee and commission income	24	2 282 346	1 988 679
Fee and commission expense	24	(536 002)	(483 180)
Net fee and commission income		**1 746 344**	**1 505 499**
Net gains/(losses) from operations with foreign currencies:			
- dealing		254 849	297 452
- translation differences		75 020	(47 926)
Net losses from securities at fair value through profit or loss:			
- dealing		(1 221)	(39)
- change in fair value		(2 256)	(794)
Net gains from securities at fair value through other comprehensive income:			
- dealing		8 347	21 382
Net (losses)/gains from revaluation of investment property	10	24 458	(449)
Net (losses)/ gains from derivative financial instruments		(67 039)	137 184
Net gains from loans at fair value through profit or loss		2 555	–
Net losses on restructuring of mortgage loans to individuals in foreign currency		–	(2 564)
Gains on initial recognition of financial assets at interest rate higher or lower than the market rate		6 384	1 654
Net losses on modification of financial assets that do not result in derecognition		(37 050)	6 632
Result of derecognition of financial assets		5 761	(212)
Lease modification result		1 937	–
Other income	25	164 847	122 379
Operating income		**7 258 253**	**5 700 983**
Operating expenses	26	(4 097 252)	(3 369 555)
Income before income tax		**3 161 001**	**2 331 428**
Income tax expense	27	(557 284)	(322 920)
Net income for the year		**2 603 717**	**2 008 508**
Earnings per share (in Ukrainian hryvnias per share)	33	**181,77**	**140,22**

Signed on behalf of the Management Board on 12 March 2020

S.P. Chernenko (Chairman of the Management Board)

K.O. Shkoliarenko (Financial Director)

O.O. Poleschuk (Chief Accountant)

АКЦІОНЕРНЕ ТОВАРИСТВО «ПЕРШИЙ УКРАЇНСЬКИЙ МІЖНАРОДНИЙ БАНК» Ідентифікаційний код 14282829 Київ Україна № 3 ПУМБ

Notes on pages 6 to 73 are an integral part of these financial statements.

(in thousands of Ukrainian hryvnias)

	2019	*2018*
Net profit for the year	**2 603 717**	**2 008 508**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Unrealised gains/(losses) from securities at fair value through other comprehensive income	205 589	(104 919)
Changes in allowance for expected credit losses from securities at fair value through other comprehensive	(17 906)	(17 130)
Realised gains from securities at fair value through other comprehensive income reclassified to the income statement	(8 347)	(21 382)
Income tax related to components of other comprehensive income	(32 280)	20 644
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**147 056**	**(122 787)**
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		
Revaluation of premises	(1 337)	–
Income tax related to components of other comprehensive income	72	–
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(1 265)**	**–**
Other comprehensive income /(loss) for the year after taxes	**145 791**	**(122 787)**
Total comprehensive income for the year	**2 749 508**	**1 885 721**

Signed on behalf of the Management Board on 12 March 2020

S.P. Chernenko (Chairman of the Management Board)

K.O. Shkoliarenko (Financial Director)

O.O. Poleschuk (Chief Accountant)

АКЦІОНЕРНЕ ТОВАРИСТВО «ПЕРШИЙ УКРАЇНСЬКИЙ МІЖНАРОДНИЙ БАНК» Київ Україна
Ідентифікаційний код 14282829
ПУМБ
№ 3

(in thousands of Ukrainian hryvnias)

	2019	2018
Cash flows from operating activities		
Interest income received	7 199 359	6 181 101
Interest expense paid	(2 443 551)	(2 393 794)
Fee and commission income received	2 274 708	2 023 034
Fee and commission expense paid	(539 683)	(466 961)
Income received from trading in foreign currencies	275 129	297 452
Losses from securities	(1 221)	(39)
(Losses)/gains from financial derivatives	(62 359)	125 276
Other income received	162 685	120 129
Operating expenses paid	(3 444 797)	(2 819 596)
Income tax paid	(500 639)	(209 607)
Cash flows from operating activities before changes in operating assets and liabilities	**2 919 631**	**2 856 995**
Net (increase)/decrease in operating assets		
Due from banks	193 688	(34 532)
Securities at fair value through profit or loss	67 249	85 543
Loans to customers	(6 978 846)	(2 502 316)
Other assets	(227 027)	(96 937)
Net (decrease)/increase in operating liabilities		
Due to the National Bank of Ukraine	(1 000)	1 000
Due to banks	424 450	(188 018)
Customer accounts	5 732 130	2 943 292
Deposit certificates issued/repaid	(801 357)	675 730
Other liabilities	670 687	270 687
Net cash from operating activities	**1 999 605**	**4 011 444**
Cash flows from investing activities		
Purchases of property, equipment and intangible assets	(558 168)	(448 257)
Proceeds from sale of property and equipment and intangible assets	92 563	67 231
Purchase of securities	(54 233 401)	(79 265 004)
Sale/repayment of securities	54 688 428	78 041 374
Net cash used in investing activities	**(10 578)**	**(1 604 656)**
Cash flows from financing activities		
Lease payments made (Note 34)	(163 947)	(76 489)
Redemption of Eurobonds, other borrowed funds and subordinated debt (Note 34)	(482 300)	(1 854 961)
Net cash used in financing activities	**(646 247)**	**(1 931 450)**
Effect of exchange rate changes on cash and cash equivalents	(713 349)	(234 645)
Effect of expected credit losses on cash and cash equivalents	1 607	(1 987)
Net increase in cash and cash equivalents	**631 038**	**238 706**
Cash and cash equivalents at the beginning of the year	9 040 607	8 801 901
Cash and cash equivalents at the end of the year (Note 6)	**9 671 645**	**9 040 607**

Signed on behalf of the Management Board on 12 March 2020

S.P. Chernenko (Chairman of the Management Board)

K.O. Shkoliarenko (Financial Director)

O.O. Poleschuk (Chief Accountant)

Notes on pages 6 to 73 are an integral part of these financial statements.

(in thousands of Ukrainian hryvnias)

	Share capital	Share premium	Revaluation reserve for property and equipment	Revaluation reserve for securities	Reserve fund	Retained earnings	Total equity
Balance at 31 December 2017	**3 294 492**	**101 660**	**484 116**	**69 293**	**1 475 430**	**(620 266)**	**4 804 725**
Effect of adopting IFRS 9	–	–	–	28 741	–	(401 318)	(372 577)
Balance at 1 January 2018 (restated)	**3 294 492**	**101 660**	**484 116**	**98 034**	**1 475 430**	**(1 021 584)**	**4 432 148**
Net income for the year	–	–	–	–	–	2 008 508	2 008 508
Other comprehensive income for the year	–	–	–	(122 787)	–	–	(122 787)
Total comprehensive income for the year	**–**	**–**	**–**	**(122 787)**	**–**	**2 008 508**	**1 885 721**
Depreciation of the revaluation reserve for property and equipment	–	–	(9 356)	–	–	9 356	–
Transfer of property and equipment revaluation reserve resulted from disposal of assets	–	–	(25)	–	–	25	–
Balance at 31 December 2018	**3 294 492**	**101 660**	**474 735**	**(24 753)**	**1 475 430**	**996 305**	**6 317 869**
Net income for the year	–	–	–	–	–	2 603 717	2 603 717
Other comprehensive income for the year	–	–	(1 265)	147 056	–	–	145 791
Total comprehensive income for the year	**–**	**–**	**(1 265)**	**147 056**	**–**	**2 603 717**	**2 749 508**
Depreciation of the revaluation reserve for property and equipment	–	–	(9 057)	–	–	9 057	–
Transfer of property and equipment revaluation reserve resulted from disposal of assets	–	–	(7 499)	–	–	7 499	–
Balance at 31 December 2019	**3 294 492**	**101 660**	**456 914**	**122 303**	**1 475 430**	**3 616 578**	**9 067 377**

Signed on behalf of the Management Board on 12 March 2020

S.P. Chernenko (Chairman of the Management Board)

K.O. Shkoliarenko (Financial Director)

O.O. Poleschuk (Chief Accountant)

АКЦІОНЕРНЕ ТОВАРИСТВО «ПЕРШИЙ УКРАЇНСЬКИЙ МІЖНАРОДНИЙ БАНК» Київ * Ідентифікаційний код 14282829 * Україна
ПУМБ
№ 3

Notes on pages 6 to 73 are an integral part of these financial statements.

(In thousands of UAH)

1. Principal activities

JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (the "Bank") was established on 20 November 1991 and commenced operations in April 1992. The Bank provides a full range of banking services, including taking deposits and granting loans, investing in securities, payments servicing in Ukraine and transfer of payments abroad, exchange of currencies and issuance and processing of transactions with payment cards.

The Bank is a member of the Individuals Deposits Guarantee Fund starting from 2 September 1999 (registration certificate #102 dated 6 November 2012), which operates according to the Law of Ukraine #2740-III "On Individuals Deposits Guarantee Fund". The Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual (2018: UAH 200 thousand).

As at 31 December 2019, the Bank's shareholders are SCM FINANCE (92.3% of the share capital) and SCM HOLDINGS LIMITED (Cyprus) (7.7% of the share capital) (as at 31 December 2018, the Bank's shareholders are SCM FINANCE (92.2% of the share capital), SCM HOLDINGS LIMITED (Cyprus) (7.7% of the share capital) and one individual (0.1% of the share capital)). The ultimate controlling party of the Bank is a Ukrainian citizen, Mr. R.L. Akhmetov.

The registered address of the Bank is at: vul. 4 Andriivska St., Kyiv, Ukraine. As at 31 December 2019, the Bank had 6 regional centres and 202 branches throughout Ukraine (31 December 2018: 6 regional centres and 175 branches throughout Ukraine).

2. Operating environment of the Bank

The Bank conducts its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation, and significant imbalances in the public finance and foreign trade.

Following the significant deterioration in 2014 and 2015, the current political and economic situation in Ukraine remains unstable, though positive movements have been observed in macroeconomic indicators. In 2019, the Ukrainian government continues to pursue a comprehensive structural reform agenda aiming at the removal of the existing imbalances in the economy, public finance and governance, fighting corruption, reforming judiciary system, etc. with the ultimate goal to secure conditions for the economic recovery in the country. Stabilization of the Ukrainian economy in the foreseeable future depends on success of actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions.

On 6 September 2019 and 27 September 2019 international rating agencies Fitch and Standard&Poor's respectively have improved Ukraine's sovereign rating to B. These agencies noticed significant improvements in the macroeconomic environment, responsible fiscal and budgetary policy and emergence of the window of opportunity for implementation of the economic reform.

In 2019, the NBU's official exchange rate of the UAH to the USD went down by 14.45% from UAH 27.688264 to USD 1.00 as at 1 January 2019 to UAH 23.6862 to USD 1.00 as at 31 December 2019. Structural liquidity net surplus has been preserved on the financial market in 2019. The banking sector continues to operate in the environment characterized by excessive liquidity. The NBU's Management Board resolved to reduce its discount rate to 13.5% starting from 13 December 2019. During 2019, the discount rate dropped from 18% to 13.5%. The National Bank of Ukraine is accelerating the relaxation of the monetary policy whereas the rapid strengthening of the exchange rate of the Ukrainian hryvnia results in faster rates of lowering of the inflationary pressure than it was expected.

Ukrainian banks have sufficient capitalization and profitability indicators in the existing macroeconomic situation. The resistance of the sector to the system risks has also been increasing recently. The KPIs of the banking system have improved: the loan portfolio volume has grown, its quality has increased, and the amounts used to transfer to the provisions have been the lowest for more than decade; the banks have demonstrated high profitability ratios. Therefore, the capital adequacy ratios of the banking system are significantly higher in comparison with the established minimum statutory ratios.

Known and estimated results of the above factors on the financial position and performance of the Bank during the reporting period were taken into account while preparing these financial statements. Management has been monitoring the recent developments in the current environment and, as necessary, taking measures to mitigate any adverse implications to a maximum possible extent. Any further adverse developments in the political or macroeconomical environment and/or foreign trade terms may continue to adversely affect the financial position and performances of the Bank in a manner that currently cannot be determined.

3. Basis of preparation

General

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared on the historical cost basis except for financial instruments and investment property carried at fair value and premises and works of arts carried at revalued amount.

4. Summary of significant accounting policies

Earlier application of IFRS 16 Leases

The Bank earlier applies IFRS 16 Leases from 1 January 2018 to contracts that were previously identified as leases applying IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease. At the same time, in compliance with IFRS 16, the Bank does not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

Adoption of new or revised standards and interpretations

Changes in significant accounting policies related to adoption of standards and interpretations applied for the first time in 2019 are provided below. The nature and effect of each new standards and amendment are described below.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation is effective for the annual period starting on 1 January 2019 and addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The Bank must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. This interpretation did not have a significant impact on the Bank's financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective for the annual periods beginning on 1 January 2019. The above amendment did not have a significant impact on the Bank's financial statements.

Amendments to IAS 28 Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

(In thousands of UAH)

4. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

These interpretations are effective for annual reporting periods beginning on 1 January 2019, and are applied retrospectively. Since the Bank does not have such long-term interests in its associate or joint venture, the amendments did not have an impact on its financial statements.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- determine net interest for the rest of the period after the plan amendment, curtailment or settlement, using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure such net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with earlier application permitted. The above amendments did not have a significant impact on the Bank's financial statements.

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

The Bank applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. These amendments are currently not applicable to the Bank but may apply to future transactions. These amendments will apply on future business combinations of the Bank.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

The Bank applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. These amendments are currently not applicable to the Bank but may apply to future transactions.

4. Summary of significant accounting policies (continued)

Annual improvements 2015-2017 cycle (issued in December 2017) (continued)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

The Bank applies those amendments to annual reporting periods beginning on 1 January 2019. The amendments must first be applied to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with the amendments, such amendments did not have any significant effect on the financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The Bank applied those amendments to the annual reporting periods beginning on 1 January 2019. Since the Bank's current practice is in line with the amendments, those amendments had no significant effect on its financial statements.

Provided below is the summary of significant accounting policies applied when preparing these financial statements.

Classification - financial assets

Under IFRS 9, all debt financial assets that do not meet SPPI (solely payment of principal and interest) criterion, are classified at initial recognition as financial assets at fair value through profit or loss. Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL.

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date when the Bank obtains or transfers an asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

After assessment of business model and SPPI test, a financial asset is classified at initial recognition as measured at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss.

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

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

A debt instrument is measured at fair value through other comprehensive income only if it meets both the following conditions and is not classified at the Bank's discretion as measured at fair value through profit or loss:

- a debt instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at fair value through other comprehensive income, gains and losses are recognised in other comprehensive income, except for the following items that are recognised in profit or loss in the same manner as for financial assets measured at amortized cost:

- Interest income calculated using the effective interest method;
- expected credit losses (ECL); and
- gains and losses from translation differences.

(In thousands of UAH)

4. Summary of significant accounting policies (continued)

Classification - financial assets (continued)

When a debt financial asset measured at fair value through other comprehensive income is derecognised, the accumulated gain or loss previously recognised in other comprehensive income is reclassified to profit or loss.

When it comes to the initial recognition of investments in equity instruments not intended for trading, the Bank may, at its own discretion, make a decision, without the right of further cancellation, to recognise subsequent changes in their fair value in other comprehensive income. Such an option is chosen for each investment separately.

Gains and losses from such equity instruments are never reclassified to net income, and no impairment loss is recognised in profit or loss. Dividends are recognised in profit or loss, unless it is evident that they represent a return of the initial cost of the investment, in which case the dividends are recognised in other comprehensive income. When an investment is disposed, accumulated gains and losses recognised in other comprehensive income are reclassified to retained earnings.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, at the initial recognition, the Bank may, at its own discretion, classify, without the right to further reclassification, a financial asset that meets the criteria for measurement at amortised cost or at fair value through other comprehensive income as measured at fair value through profit or loss, if this would eliminate or significantly reduce the accounting inconsistency that would otherwise have occurred.

Business model assessment

The Bank assesses the objectives of a business model within which an asset is held at the level of financial instrument portfolio, insofar as this best reflects the way the business is managed and information provided to management personnel. At that, the following information is considered:

- policies and objectives set for this portfolio of financial assets, as well as those set for the policies in practice, in particular, whether the strategy of management personnel is aimed at obtaining interest income provided for by an agreement, support for a certain structure of interest rates, ensuring matching of maturities of financial assets with maturities of financial liabilities used to finance these assets or obtaining cash flows through the sale of assets;
- how the portfolio effectiveness is evaluated and how this information is communicated to the Bank's management personnel;
- risks impacting the effectiveness of business model (and financial assets held within this business model) and how these risks are managed;
- how the managers who manage the business are remunerated (for example, whether this remuneration depends on the fair value of the assets they manage or on the contractual cash flows they receive from the assets);
- frequency, volume and terms of sales in past periods, the reasons for such sales, as well as expectations about the future level of sales. However, the information on sale levels is considered not separately, but as part of a single comprehensive analysis of how the Bank's objective of managing financial assets is achieved and how cash flows are managed.

Financial assets held for trading which are managed and effectiveness of which is evaluated based on fair value are measured at fair value through profit or loss, since they are held neither for the purpose of obtaining contractual cash flows nor for the purpose of both obtaining contractual cash flows and selling financial assets.

Assessment of whether contractual cash flows are exclusively the payment of principal and interest

For the purposes of this assessment, principal amount is defined as the fair value of a financial asset at its initial recognition. The Interest is defined as a compensation for time value of money, credit risk related to a principal outstanding for a certain period of time, and other basic risks and expenses related to lending (for example, liquidity risk and administrative expenses), as well as profit margins.

In assessing whether contractual cash flows are exclusively the payment of principal and interest on the outstanding part of the principal ("SPPI" criterion), the Bank analyses the contractual terms of a financial instrument.

(In thousands of UAH)

4. Summary of significant accounting policies (continued)

Reclassification

The classification of financial assets after initial recognition does not change, except in the period following the one in which the Bank changes its business model for managing financial assets. The Bank should reclassify its financial assets only if it has changed the business model used to manage these financial assets. It is expected that such changes occur very rarely. Such changes are determined by the Bank's senior management as a consequence of external or internal changes and are significant for the Bank's operations and obvious to external parties.

The classification of financial liabilities after initial recognition is not subject to change.

Derecognition

Financial assets

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

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

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

Any accumulated profit/loss recognised in other comprehensive income from equity investment securities classified at the Bank's discretion as measured at fair value through other comprehensive income is not subject to reclassification into net income or loss upon derecognition of such securities. Any participation interest in the transferred financial asset that meets the criteria for derecognition that has arisen or was retained by the Bank is recognised as a separate asset or liability.

Write offs

Loans and debt securities are subject to write-offs (partially or in full) when there are no reasonable expectations of their recoverability. In such cases, the Bank generally determines that a borrower has no assets or sources of income which can generate cash flows in the amount sufficient to repay debts that are subject to write-offs.

However, the Bank may continue to pursue activities aimed at collecting debts on written off financial assets in accordance with the policy of collecting amounts due.

Modification of financial assets and financial liabilities

Financial assets

As part of credit risk management, the Bank reviews the terms of loans to customers facing financial difficulties ("the policy of reviewing the terms of loan agreements"). If the Bank plans to change the terms of a financial asset in such manner that this change would result in the forgiveness of part of the existing contractual cash flows, the part of an asset is written off until the assessment of substantiality the modification of terms. The Bank performs a qualitative assessment of the substantiality of this modification following the Bank's policy for reviewing the terms of loan agreements.

If cash flows differ significantly ("substantial modification of terms"), the validity of rights to the contractual cash flows related to the original financial asset is 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 for related to financial assets or financial liabilities are not considered to be a modification of terms if they result from current terms of the agreement, for example, changes in interest rates by the Bank due to changes in the discount rate of the National Bank of Ukraine if the relevant loan agreement allows for the Bank to change interest rates.

(In thousands of UAH)

4. Summary of significant accounting policies (continued)

Modification of financial assets and financial liabilities (continued)

The Bank makes a quantitative and qualitative assessment of whether the modification of terms is substantial, that is, whether cash flows from the original financial asset and cash flows from the modified asset or a financial asset that changed it differ substantially. The Bank makes a quantitative and qualitative assessment of the substantiality of terms modification by analysing qualitative factors, quantitative factors and the cumulative effect of qualitative and quantitative factors. If cash flows differ substantially, the validity of rights to the contractual cash flows related to the original financial asset is deemed to have expired.

If cash flows from a modified asset measured at amortised cost do not differ substantially, such modification of terms does not result in derecognition of a financial asset. In this case, the Bank recalculates the gross carrying amount of a financial asset and recognises amount of adjustment of the gross carrying amount as profit or loss from the modification in profit or loss. The gross carrying amount of a financial asset is recalculated as the present value of revised or modified cash flows discounted using the original effective interest rate on this financial asset. Expenses and fees incurred adjust the carrying amount of modified financial asset and are amortised over the life of modified financial asset.

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the new liability is treated with recognition of the resulting difference in the respective carrying amounts. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At each reporting date, financial guarantees are measured based on the ECLs provision. Any increase in the liability relating to financial guarantees is taken to the income statement.

Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including loan commitments and letters of credit and applies requirements to measurement of ECLs in respect to such commitments.

Impairment - Financial assets, loan commitments and financial guarantees

The new impairment model applies to the following financial instruments that are not measured at fair value through profit or loss:

- financial assets that are debt instruments;
- receivables under lease contracts;
- loan commitments and liabilities under financial guarantees.

Impairment losses on investments in equity instruments are not recognised.

Allowances for expected credit losses are recognised in the amount equal to either expected credit losses for 12 months or expected credit losses over the entire life of an instrument for financial instruments in respect of which a significant increase in credit risk was revealed. Expected credit losses over the entire life of an instrument are expected credit losses arising from all possible default events over the entire contractual life of a financial instrument, while expected credit losses for 12 months represent a part of the expected credit losses arising from the default events possible within 12 months after the reporting date.

To estimate the allowance for expected credit losses on financial receivables, the Bank uses a practical simplification in accordance with IFRS 9.

(In thousands of UAH)

4. Summary of significant accounting policies (continued)

Impairment - Financial assets, loan commitments and financial guarantees (continued)

The Bank recognises allowances for expected credit losses in the amount equal to expected credit losses over the entire life of an instrument, except for instruments in respect of which the amount of recognised allowance will be equal to the expected credit loss for 12 months:

- Debt securities, if it was determined that they have low credit risk at the reporting date. The Bank believes that a debt security has a low credit risk if its credit rating corresponds to the world generally accepted definition of the "investment quality" rating;
- other financial instruments (other than receivables under lease contracts), in respect of which there was no significant increase in credit risk from their initial recognition;
- Allowances for losses on receivables under lease contracts will always be measured at the amount equal to the expected credit losses for the entire life of an instrument.

The concept of expected credit losses measurement, definitions of default and other interpretations of the key approaches to impairment are provided in the "Risk management" Note.

Fair value measurement

The Bank measures financial instruments carried at fair value through profit or loss, as well as at fair value through other comprehensive income and such non-financial assets as investment property, property and equipment and works of art at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses the fair value valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Cash and cash equivalents

Cash and cash equivalents include balances on correspondent accounts and overnight deposits due from other banks, deposit certificates issued by the National Bank of Ukraine with maturity up to 1 working day, cash on hand and in transit and balances with the NBU.

Precious metals

Precious metals are accounted as other assets, and related income or loss is recognised in other income.

Gold and other precious metals are recorded at NBU bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded as foreign exchange differences on dealing in precious metals within other income.

(In thousands of UAH)

4. Summary of significant accounting policies (continued)

Repossessed collateral

Repossessed collateral represents non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Sale and repurchase agreements

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions.

Securities sold under sale and repurchase agreements are retained in the statement of financial position. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other banks or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as net gains/(losses) from financial derivatives.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangements results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than for a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include liabilities to the National Bank of Ukraine, due to banks, issued deposit certificates, customer accounts, subordinated debt and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the borrowings are derecognised, expense is recognised through the amortisation process.

Offsetting

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

The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

(In thousands of UAH)

4. Summary of significant accounting policies (continued)

Income taxes

Income taxes have been provided for in the financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the end of reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the income statement except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided for tax losses carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Property and equipment

Property and equipment, other than premises and items of arts, are stated at cost, less accumulated depreciation and any impairment, where required.

Following initial recognition at cost, the Bank's premises and works of arts are carried at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. In such case, the revaluation surplus is recognised in the income statement. A revaluation deficit is recognised in the income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for premises and recognised in other comprehensive income.

When an item of premises is revalued, any accumulated depreciation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

The revaluation reserve is allocated directly to the retained earnings if the revaluation amount is realized, that is if an asset is realized or written off in the process of use of that asset by the Bank. In the latter case, the realized revaluation represents the difference between the amortization accrued based on the revalued carrying amount of the asset and the amortization accrued based on its historical cost.

Construction in progress is carried at historical cost less provision for any impairment in value. Upon completion, assets are reclassified to premises or leasehold improvements at their carrying amount. Construction in progress is not depreciated until the asset is available for use, in which case it is transferred to other category of plant and equipment.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, management of the Bank estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

(In thousands of UAH)

4. Summary of significant accounting policies (continued)

Property and equipment (continued)

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

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

Depreciation of an asset begins from the date when it is available for use. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. For the key categories of property and equipment, the following annual depreciation rates are used.

Premises	2%-5%	
Leasehold improvements	20%	or over the term of lease if shorter than 5 years
Computers and other equipment	20%-33%	

Works of arts are not amortised. The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Intangible assets

All of the Bank's intangible assets have a definite useful life and include capitalised computer software and licenses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable.

Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software and licenses are amortised on a straight line basis over expected useful lives of 3 to 10 years.

Investment property

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

Investment property is initially recognised at cost and subsequently measured at fair value, which reflects market conditions at the reporting date.

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

If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Leases

A lease is entered into by a contract which conveys to a user (lessee) the right to control the use of an identified asset for a period of time in exchange for consideration. A portion of an asset may be separated as a separate identifiable asset if it is physically distinct. If it cannot be physically distinct, then a portion of an asset is not a separately identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset.

If a contractual payment contains more than one lease component or a combination of lease and non-lease component, the contract is based on the relative values of the payment itself.

(In thousands of UAH)

4. Summary of significant accounting policies (continued)

Leases (continued)

Bank as a lessee

For short-term lease not exceeding 12 months from the inception date, as well as for lease of the underlying assets of low value, the Bank applies the practical expedient not to recognise the right-of-use and lease liabilities. Lease payments under such contracts are recognised as operating expenses over the entire term of contract.

In other cases, the net present value of lease payments is recognised as a financial liability. And the lease payments are divided into payment of principal and interest using the effective interest method.

Accordingly, the right-of-use asset is recognised at the net present value of lease liabilities on a contract commencement date, including other direct related costs. Preliminary payments made prior to the commencement date, as well as consideration received from a lessor, are included in a right-of-use asset. The right-of-use asset is amortised on a straight-line basis over the lease term or over the useful life of the asset, if this term is shorter than the lease term.

In the event of a change in the amount of expected lease payments, for example due to an indexed calculation, or based on new estimates of contractual options, the liability is revalued. The adjustment is made with the corresponding adjustment of the right-of-use assets.

Bank as a lessor

A lease under which the Bank acts as a lessor and all the risks and rewards incidental to ownership of an underlying asset are transferred to a lessee, is classified as a finance lease. In this case, the net present inflows of minimum lease payments are recognised as an asset in the form of receivables. Payments from the lessee are divided to repayment of the carrying amount of asset and interest income recognised over the term of finance lease using the effective interest method.

All other lease contracts under which the Bank acts as a lessor are classified as operating leases: a lease facility continues to be stated in the Bank's balance sheet, and lease payments are generally recognised as income on a straight-line basis over the lease term.

Retirement and other employee benefit obligations

The Bank pays the unified social tax and contributes to the social insurance funds to the state budget in respect of its employees. The Bank's contributions are expensed as incurred. The Bank has no other post-retirement benefit plans.

Trade and other payables

Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital

Ordinary shares are classified as equity. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising on the sale of treasury shares are shown as adjustments to share premium.

Segment reporting

Segment reporting comprises the following operating segments: Corporate banking, Retail banking, Distressed assets management, Investment banking and unallocated.

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

(In thousands of UAH)

4. Summary of significant accounting policies (continued)

Interest income and expense

Effective interest rate

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

- gross carrying amount of a financial asset; or
- amortised cost of a financial liability.

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

The effective interest rate calculation includes transaction costs, as well as all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include additional expenses directly related to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus any repayments of the principal plus or minus the cumulative amortisation using the effective interest method of any difference between the amount at initial recognition and the maturity amount and minus, in the case of a financial asset, an allowance for expected credit losses.

Gross carrying amount of a financial asset measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

When calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of an asset (when an asset is not credit-impaired) or the amortized cost of a 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 net carrying amount of a financial asset. If a financial asset is no longer credit-impaired, the interest income is once again calculated on the basis of gross carrying amount.

For financial assets that were credit-impaired at the initial recognition, interest income is calculated by applying the effective interest rate to the net amortised cost of a financial asset adjusted for credit risk. The calculation of interest income on such assets is not carried out based on the gross carrying amount, even if the credit risk related to them will subsequently decrease.

Fee and commission income

Fees, commissions and other income and expense items, including fees for issuance of guarantees, are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commitment fees for loans or borrowings which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan or borrowings. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

(In thousands of UAH)

4. Summary of significant accounting policies (continued)

Foreign currency translation

The Ukrainian hryvnia is the Bank's functional currency as it is the currency of the primary economic environment in which the Bank operates. Transactions in other currencies are treated as transactions in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the National Bank of Ukraine at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as foreign exchange translation results. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Amendments of the financial statements after issue

The Bank's shareholders have the power to amend the financial statements after issue.

New accounting pronouncements

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on the date it first applies IFRS 17. This standard is not applicable to the Bank.

Amendments to the references to the Conceptual Framework for Financial Reporting

Along with the revised Conceptual Framework for Financial Reporting that took effect on 29 March 2018, IASB additionally published amendments to the references to the Conceptual Framework for Financial Reporting. This document sets forth amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC 32.

However, not all above amendments update these requirements as regards references to and quotes from the Conceptual Framework so that they referred to the updated Conceptual Framework for Financial Reporting. Certain phrases have been revised only to indicate the wording of the Conceptual Framework to which they refer (Conceptual Framework for Financial Reporting - IFRS, 2001, 2010 or is updated wording of 2018), or to specify that definitions in a Standard have not been updated in line with the new interpretations set forth in the revised Conceptual Framework for Financial Reporting.

The amendments or the factual improvements are effective for the annual periods beginning on or after 1 January 2020. Earlier application is permitted.

(In thousands of UAH)

4. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

Amendments to IAS 1 and assessment of materiality according to IAS 8

The amendments are intended to facilitate understanding of the substance of IAS 1 and they do not modify the basic concept of materiality defined in IFRSs.

The concept of “obscuring” or “replacement” of relevant information with irrelevant information was included into the new definition.

The definition of the materiality threshold influencing decisions of users of the financial statements was changed from "may influence" to "it can be reasonably expect an influence".

The definition of the materiality threshold in IAS 8 was replaced with reference to such definition in IAS 1. Furthermore, the IASB amended other IFRSs and the Conceptual Framework for Financial Reporting containing the definition of the concept of materiality or refer to this term to ensure consistency.

The amendments are applied retrospectively to the annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The Bank does not expect that the above amendments will have a significant impact on its financial statements.

Amendments to IFRS 3 Business Combinations

The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be recognized as business, an acquisition should include a contribution and a material process that, taken collectively, significantly facilitate creation of the output, i.e. results of operations.

Additional guidance is provided enabling the entity to identify the substance of the acquired item.

The amendments introduce an optional “concentration test” that makes it easier to assess whether an acquired pool of lines of activity and assets represents a business. The above test could be selectively applied to the contract based operations. An operation will be treated as an acquisition of assets (i.e. not as a business) to the extent that substantially entire cost of the acquired assets is focused (concentrated) in a single identifiable asset or groups with similar identifiable assets.

These amendments are applicable prospectively to all business combinations and acquisitions of assets for which the date of acquisition falls on a date of the first annual period beginning on or after 1 January 2020. Earlier application is permitted. The Bank does not expect that the above amendments will have a significant impact on its financial statements.

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

It is well-known that London Interbank Offered Rate (LIBOR) has lost its former reputation during the past decade following establishment of the fact that large lenders were globally manipulating its value in attempts to obtain profits for themselves.

As of today, underway is the global reform of the benchmark interest rates intended to gradually phase out the application of the traditional interbank ask rates such as LIBOR, EURIBOR and other rates that gained far from best reputation recently, in favour of alternative rates. This reform is of critical importance for the global financial system since these very rates have been used to make arrangements on a great number of financial instruments worth trillions of US dollars. As a developer of the international financial reporting standards, IASB is primarily interested to obtain an insight in respective impact on the financial statements, and at the current stage (when specific guidance has not yet been approved) the Board has to address the challenge of uncertainty.

The IASB has already partially resolved the problem within the scope of the first conditional phase out of the two above phases, having published in May preliminary revised wording of the requirements to the hedge accounting contained in IAS 39 and IFRS 9 (these are the “old” and “new” standards dealing with financial instruments accounting matters). This phase will cover the current period of uncertainty until relevant amendments are made to the outstanding agreements. The second phase already tackled by the IASB will be dedicated to the conditional period to follow the moment when the agreements are amended based on the new benchmark rates.

As of today, presented amendments are expected to take effect from 1 January 2020 or a later date.

(In thousands of UAH)

4. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

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

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

Changes in accounting policy

Accounting policies have been consistently applied by the Bank to all the periods presented, except for change in accounting policy. In 2019 following the publication of IFRIC update on accounting for interest income on credit-impaired assets, the Bank has changed the presentation of interest income for the year 2018. Interest income calculated using the effective interest rate for the year ended 31 December 2018 has been decreased and Allowance for impairment has been increased for 2018 by UAH 201 745 thousand.

Changes in the financial statements for the year ended 31 December 2018

To improve the presentation efficiency, the Bank has included a separate item "Cash and cash equivalents" into its statement of financial position, which includes balances on correspondent accounts and overnight deposits due from other banks, deposit certificates issued by the National Bank of Ukraine with maturity up to 1 working day, cash on hand and in transit and balances with the NBU.

Previously cash on hand and in transit and balance with the National Bank of Ukraine have been presented in separate lines in the statement of financial position, while correspondent accounts and overnight deposits due from other banks and deposit certificates issued by the National Bank of Ukraine with maturity up to 1 working day have been presented within Due from banks and Securities at fair value through other comprehensive income, respectively.

Respective notes have been aligned with this new presentation.

	31 December 2018, previous presentation	Changes	31 December 2018, new presentation
Assets			
Cash and cash equivalents	–	9 040 607	9 040 607
Cash on hand and in transit	1 943 482	(1 943 482)	–
Balance with the National Bank of Ukraine	743 346	(743 346)	–
Due from banks	5 594 226	(4 153 779)	1 440 447
Securities at fair value through other comprehensive income	11 560 514	(2 200 000)	9 360 514

The Bank renamed loans to customers from other loans to individuals to credit cards and overdrafts. Respective items were renamed in the financial statements.

The Bank has amended presentation of segment disclosure for 2018 to align it with presentation in as at and for the year ended 31 December 2019.

(In thousands of UAH)

5. Significant accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management of the Bank also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of loans and receivables

The Bank regularly reviews its loan portfolios and accounts receivable to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a repayment of the borrower's debts before the decrease can be identified with an individual loan in that loan portfolio and accounts receivables. When calculating future cash flows, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment for groups of loans and accounts receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank regularly assesses assets pledged as collateral for the individually impaired loans (Stage 3) to estimate the amount of losses likely to be incurred. The amount of the future cash flow from sale of assets is influenced by the value of the assets and the expected term of sale. A simultaneous 10% decrease in the value of assets held by the Bank as collateral on loans and 50% increase in the expected term of exposure those assets would result in an increase in impairment losses on individually impaired loans by UAH 147,077 thousand (2018: UAH 168,160 thousand).

A 10% increase in the value of collateral for impaired loans without change in the exposure term would result in a decrease of the impairment loss on the individually impaired loans by UAH 58,911 thousand (2018: UAH 74,997 thousand).

Impairment loss on corporate loans, which are collectively assessed for impairment (Stages 1 and part of loans to customers not meeting the materiality criterion at Stage 2), may be influenced by the probability of borrower's default (PD) and the level of loss incurred when a borrower defaults (LGD). A simultaneous 10% increase in PD and in LGD would result in an increase in impairment losses of UAH 58,995 thousand (2018: UAH 42,834 thousand). A simultaneous 10% decrease in PD and in LGD would result in a decrease in impairment losses of UAH 53,629 thousand (2018: UAH 47,335 thousand).

Impairment loss on collectively assessed retail loans may be influenced by the probability of borrower's default (PD) and recovery rate (RR). A simultaneous 10% increase in PD and 10% decrease in RR would result in an increase in expected impairment losses by UAH 87,183 thousand (2018: UAH 50,067 thousand). A simultaneous 10% decrease in PD and in RR would result in a decrease in impairment losses by UAH 85,110 thousand (2018: UAH 57,449 thousand).

Fair value of own use premises, works of arts and investment property

As stated in Note 4, the Bank's premises, works or arts and investment property are subject to revaluation on a regular basis. Such revaluations are based on the results of work of an independent appraiser. The basis for their work is the sales comparisons approach, which is further confirmed by the income approach. When performing the revaluation certain judgments and estimates are applied by the appraisers in determination of the comparable premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income approach. In 2019, the Bank has measured the fair value of own premises by engaging independent appraisers. If the prices per square meter were 5% higher or lower, the fair value of own premises would be UAH 41,032 thousand higher or lower, respectively (2018: UAH 41,849 thousand), and the fair value of investment property would be UAH 4,715 thousand higher or lower, respectively (2018: UAH 3,594 thousand).

Determining the terms under lease contracts

The Bank takes into account all available facts and circumstances that give rise to an economic incentive to exercise an option to extend the lease or not to exercise the option to terminate the lease. The Bank determines the total lease term taking into account option to extend the lease term and option to terminate longer lease terms. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control. As a result, the lease term of majority of leases was determined in a range from 3 to 5 years. If lease term was determined to be 1 year longer, ROU and Lease liabilities would be higher by UAH 139 831 thousand (2018: UAH 84 784 thousand).

(In thousands of UAH)

5. Significant accounting estimates and judgements in applying accounting policies (continued)

Fair value measurements

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 29.

6. Cash and cash equivalents

Cash and cash equivalents include the following:

	2019	**2018**
Cash on hand and in transit	2 444 292	1 943 482
Current accounts and overnight deposits with other Ukrainian banks	82 249	18 510
Current accounts and overnight deposits with other foreign banks	2 655 878	4 137 256
Current accounts and overnight deposits with other foreign banks - expected credit losses	(380)	(1 987)
Current account with the National Bank of Ukraine	1 289 606	743 346
Deposit certificates issued by the National Bank of Ukraine	3 200 000	2 200 000
Total cash and cash equivalents	**9 671 645**	**9 040 607**

In accordance with the NBU requirements, the Bank's mandatory reserve balance is computed as a percentage of certain Bank liabilities for the prior provisioning month.

As at 31 December 2019, the National Bank of Ukraine did not require the banks to hold the mandatory reserve on a separate account. The control over the formation of mandatory reserves is carried out per month based on average data for the entire period of holding.

As at 31 December 2019, deposit certificates issued by the National Bank of Ukraine with nominal value of UAH 3,200,000 thousand (31 December 2018: UAH 2,200,000 thousand) with maturity up to 1 working day are classified by the Bank as cash and cash equivalents.

The following is an analysis of changes in the provision for impairment of cash and cash equivalents during 2019:

Cash and cash equivalents	***Stage 1***	***Total***
Expected credt lossas at 1 January 2019	**1 987**	**1 987**
New financial assets originated	2	**2**
Financial assets that have been derecognised	(213)	**(213)**
Remeasurement of loss allowance for expected credit losses	(1 315)	**(1 315)**
Effect of exchange rate of foreign currency	(81)	**(81)**
As at 31 December 2019	**380**	**380**

The following is an analysis of changes in the provision for impairment of cash and cash equivalents during 2018

Cash and cash equivalents	***Stage 1***	***Total***
Expected credt lossas at 1 January 2018	**1 993**	**1 993**
New financial assets originated	275	**275**
Remeasurement of loss allowance for expected credit losses	1 177	**1 177**
Effect of exchange rate of foreign currency	(1 458)	**(1 458)**
As at 31 December 2018	**1 987**	**1 987**

(In thousands of UAH)

6. Cash and cash equivalents (continued)

The following is an analysis of current accounts and overnight deposits with other banks on credit quality as of December 31, 2019:

	Current accounts and overnight deposits with other banks in Ukraine	Current accounts and overnight deposits with other banks in other countries	Total
Stage 1			
- AA- to AA+ rated	–	1 402 024	1 402 024
- A- to A+ rated	–	985 896	985 896
- BBB- to BBB+ rated	–	206 922	206 922
- BB- to BB+ rated	–	34	34
- B- to B+ rated	68 378	2 718	71 096
- Unrated	13 871	58 284	72 155
Total	**82 249**	**2 655 878**	**2 738 127**
Less expected credit loss	–	(380)	(380)
Total current accounts and overnight deposits with other banks	**82 249**	**2 655 498**	**2 737 747**

The following is an analysis of current accounts and overnight deposits with other banks on credit quality as of December 31, 2018:

	Current accounts and overnight deposits with other banks in Ukraine	Current accounts and overnight deposits with other banks in other countries	Total
Stage 1			
- AA- to AA+ rated	–	2 065 779	2 065 779
- A- to A+ rated	–	1 436 771	1 436 771
- BBB- to BBB+ rated	–	605 808	605 808
- BB- to BB+ rated	–	15	15
- B- to B+ rated	4 889	551	5 440
- Unrated	13 621	28 332	41 953
Total	**18 510**	**4 137 256**	**4 155 766**
Less expected credit loss	–	(1 987)	(1 987)
Total current accounts and overnight deposits with other banks	**18 510**	**4 135 269**	**4 153 779**

The credit quality of cash and cash equivalents based on Fitch's ratings

(In thousands of UAH)

7. Due from banks

	2019	2018
Accrued interest income on current accounts and overnight deposits with other banks	–	31
Term deposits with other banks, including:		
- OECD countries	900 440	1 395 474
- domestic	3 814	2 854
- other countries	3 508	42 396
- reverse sale and repurchase agreements	160 317	–
Total term deposits with other banks	**1 068 079**	**1 440 724**
Less: expected credit losses	*(215)*	*(308)*
Total due from banks	**1 067 864**	**1 440 447**

Analysis of changes in gross carrying amounts and corresponding expected credit losses on due from banks during the year ended 31 December 2019 is as follows:

Due from banks	Stage 1	Total
Expected credit losses at 1 January 2019	**308**	**308**
New financial assets originated	206	**206**
Financial assets that have been derecognised	(339)	**(339)**
Remeasurement of loss allowance for expected credit losses	131	**131**
Effect of exchange rate of foreign currency	(91)	**(91)**
At 31 December 2019	**215**	**215**

Analysis of changes in the gross carrying amounts and corresponding expected credit losses on due from banks during the year ended 31 December 2018 is as follows:

Due from banks	Stage 1	Stage 3	Total
Expected credit losses at 1 January 2018	**2**	**256 839**	**256 841**
New financial assets originated`	314	–	314
Remeasurement of loss allowance for expected credit losses	(2)	–	(2)
Use of allowance	–	(239 836)	(239 836)
Effect of exchange rate of foreign currency	(6)	(17 003)	(17 009)
At 31 December 2018	**308**	**–**	**308**

As at 31 December 2019, the total term deposits placed with other banks in OECD and other countries of UAH 903,948 thousand (31 December 2017: UAH 742,995 thousand) are represented by security deposits against import letters of credit and guarantees issued by the Bank in favour of its clients.

Analysis by credit quality of deposits in other banks outstanding at 31 December 2019 is as follows:

	Term deposits with other banks	Total
Stage 1		
AA- to AA+ rated	3 465	**3 465**
A- to A+ rated	602 759	**602 759**
BBB- to BBB+ rated	297 681	**297 681**
BB- to BB+ rated	44	**44**
Unrated	164 130	**164 130**
Total	**1 068 079**	**1 068 079**
Less expected credit losses	(215)	**(215)**
Total due from banks	**1 067 864**	**1 067 864**

The credit ratings were based on the ratings assigned by the international rating agency Fitch. Counterparties included in the category of “unrated” are represented by banks, considered to be mid-size or small banks by the amount of total assets.

(In thousands of UAH)

7. Due from banks (continued)

Analysis by credit quality of due from banks outstanding at 31 December 2018 is as follows:

	Current accounts and overnight deposits with other banks	Term deposits with other banks	Total
Stage 1			
AA- to AA+ rated	–	4 158	**4 158**
A- to A+ rated	–	1 278 238	**1 278 238**
BBB- to BBB+ rated	31	155 423	**155 454**
BB- to BB+ rated	–	51	**51**
Unrated	–	2 854	**2 854**
Total	**31**	**1 440 724**	**1 440 755**
Less expected credit losses	–	(308)	**(308)**
Total due from banks	**31**	**1 440 416**	**1 440 447**

8. Securities

Securities at fair value through profit or loss

	2019	2018
Government debt securities	39 311	93 200
Total securities at fair value through profit or loss	**39 311**	**93 200**

Securities at fair value through other comprehensive income

	2019	2018
Government debt securities	7 677 523	8 317 568
NBU deposit certificates	1 206 240	1 008 313
US Government debt securities	–	27 576
Total debt securities	**8 883 763**	**9 353 457**
including accrued interest income	***170 212***	***200 187***
Shares	7 057	7 057
Total securities at fair value through other comprehensive income	**8 890 820**	**9 360 514**

(In thousands of UAH)

8. Securities (continued)

Securities at fair value through other comprehensive income (continued)

An analysis of changes in the carrying amounts and respective ECL allowance for securities at fair value through other comprehensive income during 2019 is as follows:

Debt securities	Stage 1	Total
Expected credit losses at 1 January 2019	**17 130**	**17 130**
New financial assets originated	34 543	34 543
Financial assets that have been derecognised	(12 338)	(12 338)
Remeasurement of loss allowance for expected credit losses	(4 299)	(4 299)
At 31 December 2019	**35 036**	**35 036**

An analysis of changes in the carrying amounts and respective ECL allowance for securities at fair value through other comprehensive income during 2018 is as follows:

Debt securities	Stage 1	Total
Expected credit losses at 1 January 2018	**28 741**	**28 741**
New financial assets originated	13 127	13 127
Financial assets that have been derecognised	(11 657)	(11 657)
Remeasurement of loss allowance for expected credit losses	(13 081)	(13 081)
At 31 December 2018	**17 130**	**17 130**

An analysis of credit quality of debt securities at fair value through other comprehensive income based on the data published by Standard & Poor's as at 31 December 2019 is as follows:

	Government debt securities	NBU deposit certificates	Total
Stage 1			
B rated	7 677 523	1 206 240	**8 883 763**
Total debt securities	**7 677 523**	**1 206 240**	**8 883 763**

Analysis by credit quality of debt securities at fair value through other comprehensive income based on Standard & Poor's information as at 31 December 2018 is as follows:

	Government debt securities	NBU deposit certificates	US Government debt securities	Total
Stage 1				
- AAA and higher	–	–	27 576	**27 576**
B- rated	8 317 568	1 008 313	–	**9 325 881**
Total debt securities	**8 317 568**	**1 008 313**	**27 576**	**9 353 457**

The credit ratings for Ukrainian Government debt securities' issuers and deposit certificates issued by the NBU are based on sovereign rating of Ukraine.

The primary factor that the Bank considers in determining whether a debt security is impaired is an issuer's credit risk.

As at 31 December 2019, deposit certificates with the nominal value of UAH 3,200,000 thousand (31 December 2018: UAH 2,200,000 thousand) with the maturity up to 1 working day are classified by the Bank as cash and cash equivalents (Note 6).

As of December 31, 2019 government debt securities include domestic government bonds with maturity from February 12, 2020 to August 3, 2022 and effective interest rate from 4% to 19% per annum (as of December 31, 2018 - with maturity repayments from January 2, 2019 to February 12, 2020 and effective interest rates from 5% to 23% per annum), as well as deposits from the National Bank of Ukraine with maturity date on January 10, 2020 and effective interest rate of 14% per annum (31 December 2018 - maturity date is January 4, 2019, and the effective interest rate is 20%).

(In thousands of UAH)

9. Loans to customers

	2019	2018
Corporate loans	24 746 211	24 937 942
Finance lease	611 334	116 410
Less: expected credit losses	(4 159 463)	(6 146 422)
Total corporate loans less expected credit losses	**21 198 082**	**18 907 930**
Loans to individuals		
Consumer loans	7 606 758	7 018 902
Credit cards and overdrafts	6 635 511	3 383 048
Mortgage loans	803 516	1 002 623
Car loans	143 674	157 644
Less: expected credit losses	(3 501 062)	(3 225 850)
Total loans to individuals less expected credit losses	**11 688 397**	**8 336 367**
Total loans to customers	**32 886 479**	**27 244 297**

The analysis of the gross carrying amount by stages of impairment as of December 31, 2019 is as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Corporate loans	16 963 454	2 134 070	5 381 699	266 988	24 746 211
Finance lease	602 011	9 323	–	–	611 334
Consumer loans	6 254 531	124 621	1 227 606	–	7 606 758
Credit cards and overdrafts	5 590 917	123 429	921 165	–	6 635 511
Mortgage loans	61 620	6 389	734 183	1 324	803 516
Car loans	–	–	143 674	–	143 674
Less: expected credit losses	(716 049)	(198 811)	(6 735 570)	(10 095)	(7 660 525)
Total loans to customers	**28 756 484**	**2 199 021**	**1 672 757**	**258 217**	**32 886 479**

The analysis of the gross carrying amount by stages of impairment as of December 31, 2018 is as follows:
:

	Стадія 1	Стадія 2	Стадія 3	POCI	Всього
Corporate loans	13 415 182	3 275 584	7 942 410	304 766	24 937 942
Finance lease	116 410	–	–	–	116 410
Consumer loans	5 601 033	141 981	1 275 888	–	7 018 902
Credit cards and overdrafts	2 763 467	69 908	549 673	–	3 383 048
Mortgage loans	96 015	2 622	902 898	1 088	1 002 623
Car loans	1 008	91	156 545	–	157 644
Less: expected credit losses	**(515 654)**	**(263 261)**	**(8 565 727)**	**(27 630)**	**(9 372 272)**
Total loans to customers	**21 477 461**	**3 226 925**	**2 261 687**	**278 224**	**27 244 297**

(In thousands of UAH)

9. Loans to customers (continued)

Changes in expected credit losses on loans measured at amortised cost

The tables below disclose the changes in the expected loan losses on loan contracts with the Bank's customers. New financial assets originated include ECL charge on loans issued during 2019. Financial assets that have been derecognised include ECL release on repaid and sold loans. Remeasurement of loss allowance for expected credit losses include increase or decrease in the expected credit losses under the contracts existed at the beginning and end of the reporting period.

Analysis of changes in expected credit losses on corporate loans during 2019 is as follows:

Corporate loans	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses at 1 January 2019	**210 551**	**157 976**	**5 749 834**	**27 007**	**6 145 368**
New financial assets originated	143 287	–	–	543	143 830
Financial assets that have been derecognised due to repayment	(57 701)	(966)	(110 348)	–	(169 015)
Transfers to Stage 1	947	(947)	–	–	–
Transfers to Stage 2	(4 284)	4 284	–	–	–
Transfers to Stage 3	(4 802)	(1 082)	5 884	–	–
Remeasurement of loss allowance for expected credit losses	(18 447)	(69 299)	(332 143)	(17 159)	(437 048)
Recovery of provision for loans written off in previous periods	–	–	18 310	–	18 310
Changes to contractual cash flows due to modifications not resulting in derecognition	258	48	(14 990)	–	(14 684)
Usage of allowance	–	–	(1 515 364)	–	(1 515 364)
Unwinding of discount on present value of ECLs	–	–	460 569	481	461 050
Translation differences	(17 645)	(15 015)	(445 671)	(2 002)	(480 333)
At 31 December 2019	**252 164**	**74 999**	**3 816 081**	**8 870**	**4 152 114**

Analysis of changes in ECLs on finance lease during 2019 is as follows:

Finance lease	*Stage 1*	*Stage 2*	*Total*
Expected credit losses at 1 January 2019	**1 054**	**–**	**1 054**
New financial assets originated	6 878	–	6 878
Financial assets that have been derecognised due to repayment	(190)	(12)	(202)
Transfers to Stage 2	(216)	216	–
Remeasurement of loss allowance for expected credit losses	(333)	(48)	(381)
At 31 December 2019	**7 193**	**156**	**7 349**

(In thousands of UAH)

9. Loans to customers (continued)

Changes in expected credit losses on loans measured at amortised cost (continued)

Analysis of changes in ECLs on consumer loans to individuals during 2019 is as follows:

Consumer loans	Stage 1	Stage 2	Stage 3	Total
Expected credit losses at 1 January 2019	**209 648**	**67 998**	**1 236 923**	**1 514 569**
New financial assets originated	182 460	–	–	182 460
Financial assets that have been derecognised due to repayment	(108 673)	(7 512)	(36 529)	(152 714)
Transfers to Stage 1	3 067	(3 067)	–	–
Transfers to Stage 2	(10 489)	10 489	–	–
Transfers to Stage 3	(27 374)	(58 403)	85 777	–
Remeasurement of loss allowance for expected credit losses	(40 376)	51 796	164 351	175 771
Recovery of provision for loans written off in previous periods	–	–	5 613	5 613
Usage of allowance	–	–	(461 841)	(461 841)
Unwinding of discount on present value of ECLs	–	–	173 530	173 530
At 31 December 2019	**208 263**	**61 301**	**1 167 824**	**1 437 388**

Analysis of changes in ECLs on credit cards and overdrafts to individuals during 2019 is as follows:

Credit cards and overdrafts	Stage 1	Stage 2	Stage 3	Total
Expected credit losses at 1 January 2019	**87 022**	**36 067**	**534 546**	**657 635**
New financial assets originated	101 456	–	–	101 456
Financial assets that have been derecognised due to repayment	(5 981)	(581)	(5 807)	(12 369)
Transfers to Stage 1	3 748	(3 748)	–	–
Transfers to Stage 2	(3 122)	3 122	–	–
Transfers to Stage 3	(10 354)	(30 729)	41 083	–
Remeasurement of loss allowance for expected credit losses	74 310	56 650	123 338	254 298
Recovery of provision for loans written off in previous periods	–	–	4 423	4 423
Usage of allowance	–	–	(14)	(14)
Unwinding of discount on present value of ECLs	–	–	182 383	182 383
Translation differences	(15)	(1)	(713)	(729)
At 31 December 2019	**247 064**	**60 780**	**879 239**	**1 187 083**

Analysis of changes in ECLs on mortgage loans to individuals during 2019 is as follows:

Mortgage loans	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses at 1 January 2019	**7 167**	**1 216**	**887 878**	**623**	**896 884**
New financial assets originated	40	–	–	–	40
Financial assets that have been derecognised due to repayment	(526)	–	(2 693)	–	(3 219)
Transfers to Stage 1	819	(819)	–	–	–
Transfers to Stage 2	(38)	38	–	–	–
Transfers to Stage 3	(5 973)	(390)	6 363	–	–
Recovery of provision for loans written off in previous periods	26	1 536	(28 800)	490	(26 748)
Recovery of provision for loans written off in previous periods	–	–	7 108	–	7 108
Usage of allowance	(57)	–	(97 930)	–	(97 987)
Unwinding of discount on present value of ECLs	–	–	68 448	112	68 560
Translation differences	(93)	(6)	(111 622)	–	(111 721)
At 31 December 2019	**1 365**	**1 575**	**728 752**	**1 225**	**732 917**

(In thousands of UAH)

9. Loans to customers (continued)

Changes in expected credit losses on loans measured at amortised cost (continued)

Analysis of changes in ECLs on car loans to individuals during 2019 is as follows:

Car loans	Stage 1	Stage 2	Stage 3	Total
Expected credit losses at 1 January 2019	**212**	**4**	**156 546**	**156 762**
Financial assets that have been derecognised due to repayment	(64)	(1)	(161)	(226)
Transfers to Stage 1	3	(3)	–	–
Transfers to Stage 3	(151)	–	151	–
Remeasurement of loss allowance for expected credit losses	–	–	(3 457)	(3 457)
Recovery of provision for loans written off in previous periods	–	–	1 395	1 395
Usage of allowance	–	–	(3 816)	(3 816)
Unwinding of discount on present value of ECLs	–	–	12 250	12 250
Translation differences	–	–	(19 234)	(19 234)
At 31 December 2019	**–**	**–**	**143 674**	**143 674**

Analysis of changes in ECLs on corporate loans during the year ended 31 December 2018 is as follows:

Corporate loans	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses at 1 January 2018	**174 750**	**240 565**	**6 079 508**	**54 209**	**6 549 032**
New financial assets originated	89 534	–	–	–	89 534
Financial assets that have been derecognised due to repayment	(32 689)	–	(72 140)	(9 199)	(114 028)
Transfers to Stage 1	167 423	(207)	(167 216)	–	–
Transfers to Stage 2	(55 302)	55 302	–	–	–
Transfers to Stage 3	(1 118)	(34 227)	35 345	–	–
Remeasurement of loss allowance for expected credit losses	(130 687)	(101 992)	181 191	(19 090)	(70 578)
Recovery of provision for loans written off in previous periods	–	–	5 284	–	5 284
Changes to contractual cash flows due to modifications not resulting in derecognition	45	296	643	(714)	270
Usage of allowance	–	–	(713 235)	–	(713 235)
Unwinding of discount on present value of ECLs	–	–	489 329	3 198	492 527
Translation differences	(1 405)	(1 761)	(88 875)	(1 397)	(93 438)
At 31 December 2018	**210 551**	**157 976**	**5 749 834**	**27 007**	**6 145 368**

Analysis of changes in ECLs on finance lease during the year ended 31 December 2018 is as follows:

Finance lease	Stage 1	Total
Expected credit losses at 1 January 2018	**–**	**–**
New financial assets originated	1 054	1 054
At 31 December 2018	**1 054**	**1 054**

(In thousands of UAH)

9. Loans to customers (continued)

Changes in expected credit losses on loans measured at amortised cost (continued)

Analysis of changes in ECLs on consumer loans to individuals during the year ended 31 December 2018 is as follows:

Consumer loans	Stage 1	Stage 2	Stage 3	Total
Expected credit losses at 1 January 2018	**78 927**	**17 868**	**1 042 817**	**1 139 612**
New financial assets originated	193 299	–	–	193 299
Financial assets that have been derecognised	(7 194)	(880)	(5 640)	(13 714)
Transfers to Stage 1	1 491	(1 491)	–	–
Transfers to Stage 2	(3 058)	3 058	–	–
Transfers to Stage 3	(5 962)	(14 981)	20 943	–
Remeasurement of loss allowance for expected credit losses	(47 855)	64 424	97 748	114 317
Recovery of provision for loans written off in previous periods	–	–	3 259	3 259
Usage of allowance	–	–	(8 108)	(8 108)
Unwinding of discount on present value of ECLs	–	–	85 904	85 904
At 31 December 2018	**209 648**	**67 998**	**1 236 923**	**1 514 569**

Analysis of changes in ECLs on credit cards and overdrafts to individuals during 2018 is as follows:

Credit cards and overdrafts	Stage 1	Stage 2	Stage 3	Total
Expected credit losses at 1 January 2018	**40 289**	**10 134**	**383 195**	**433 618**
New financial assets originated	36 962	–	–	36 962
Financial assets that have been derecognised	(1 232)	(355)	(1 601)	(3 188)
Transfers to Stage 1	1 472	(1 472)	–	–
Transfers to Stage 2	(1 331)	1 331	–	–
Transfers to Stage 3	(3 990)	(10 973)	14 963	–
Remeasurement of loss allowance for expected credit losses	14 874	37 402	37 447	89 723
Recovery of provision for loans written off in previous periods	–	–	2 317	2 317
Usage of allowance	–	–	(5 288)	(5 288)
Unwinding of discount on present value of ECLs	–	–	103 644	103 644
Translation differences	(22)	–	(131)	(153)
At 31 December 2018	**87 022**	**36 067**	**534 546**	**657 635**

Analysis of changes in ECLs on mortgage loans to individuals during the year ended 31 December 2018 is as follows:

Mortgage loans	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses at 1 January 2018	**12 184**	**726**	**1 231 321**	**523**	**1 244 754**
New financial assets originated	2 616	–	–	–	2 616
Financial assets that have been derecognised	(130)	–	(9 238)	(93)	(9 461)
Transfers to Stage 1	53	(53)	–	–	–
Transfers to Stage 2	(548)	548	–	–	–
Transfers to Stage 3	(346)	(583)	929	–	–
Remeasurement of loss allowance for expected credit losses	(4 510)	591	(47 792)	144	(51 567)
Recovery of provision for loans written off in previous periods	–	–	6 295	–	6 295
Usage of allowance	(1 988)	–	(361 798)	–	(363 786)
Unwinding of discount on present value of ECLs	–	–	99 906	49	99 955
Translation differences	(164)	(13)	(31 745)	–	(31 922)
At 31 December 2018	**7 167**	**1 216**	**887 878**	**623**	**896 884**

(In thousands of UAH)

9. Loans to customers (continued)

Changes in expected credit losses on loans measured at amortised cost (continued)

Analysis of changes in ECLs on car loans to individuals during the year ended 31 December 2018 is as follows:

Car loans	Stage 1	Stage 2	Stage 3	Total
Expected credit losses at 1 January 2018	**1 112**	**36**	**153 746**	**154 894**
New financial assets originated	2	–	–	2
Financial assets that have been derecognised	(15)	(4)	(117)	(136)
Transfers to Stage 2	(1)	1	–	–
Transfers to Stage 3	(82)	(4)	86	–
Remeasurement of loss allowance for expected credit losses	(804)	(25)	(7 719)	(8 548)
Recovery of provision for loans written off in previous periods	–	–	2 517	2 517
Write-off of allowance upon write-off and sale of loans	–	–	(3 733)	(3 733)
Unwinding of discount on present value of ECLs	–	–	14 089	14 089
Translation differences	–	–	(2 323)	(2 323)
At 31 December 2018	**212**	**4**	**156 546**	**156 762**

As of December 31, 2019, loans to customers issued in 2019 amounted to UAH 17 897 613 thousand (44% of loans to customers as of December 31, 2019), the provision for such loans amounted to UAH 645 670 thousand (2018 – UAH 12 664 766 thousand (35%), provision for such loans amounted to UAH 629 410 thousand).

During 2019, UAH 9 601 374 thousand of customer loans (2018 – UAH 8 967 294 thousand), which were outstanding on the Bank's balance sheet as of January 1, 2019, were fully repaid; allowance for ECLs on such loans as at January 1, 2019 amounted to UAH 458 199 thousand (2018 – UAH 284 842 thousand).

The utilization of the provision for 2019 amounted to UAH 2 079 022 thousand, of which cash received on sales of loans amounted to UAH 365 761 thousand.

The amount of debt under loan contracts for financial assets that were written off during the year ended December 31, 2019 and for which the Bank continues to operate in debt collection is UAH 1,065,384 thousand.

The amount of undiscounted ECLs at initial recognition on POCI loans was as follows:

	2019	2018
Corporate loans	49 949	157 562
Mortgage loans to individuals	2	2
Total non-discounted expected credit losses at initial recognition of POCI	**49 951**	**157 564**

Modified loans

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

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

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification gains or loss.

	2019	2018
Loans to customers modified during the period		
Amortised cost before modification	868 306	822 578
Net modification (loss)/gain	(43 235)	9 067

(In thousands of UAH)

9. Loans to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- ► for securities lending and reverse repurchase transactions: securities;
- ► for corporate lending: charges over real estate property, inventory and trade receivables, deposits;
- ► for retail lending: property rights for movable and immovable property, deposits.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

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

As at 31 December 2019, loans were secured by customer deposits with the Bank with carrying amount of UAH 728,975 thousand (31 December 2018: UAH 381,586 thousand) (Note 15).

Credit quality of the loan portfolio

The loan portfolio quality is managed by using the Bank's internal credit ratings. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

While determining a corporate borrower's rating, the Bank uses rating calculated under internal rating model.

High rating has the following characteristics: expanding operating activity of a borrower, stable financial position (sufficient equity, low dependency of external sources of funding), high efficiency of business model. The entities with high rating are either the market leaders or have stable market position, highly effective management and organisational structure. The risk of loan quality deterioration is minimal, credit history is excellent.

Standard rating is assigned to borrowers with stable volumes of operating activity, with performance effectiveness at industry average. There is some dependency on external sources of funding. The risk of default is low. The entities with standard rating have stable market position at the regional and national level. These are entities with adequate management and organisational structure. Credit history is positive, with insignificant technical delays in repayment of borrowings.

Below standard rating is assigned to the borrowers with unstable or decreasing operational activities, low business efficiency, high dependency of external sources of funding, repayment of loan with cash inflows might be problematic and therefore the risk of default is high. Credit history can be characterized by existence of significant overdue payments. Market position is not stable, the decrease or loss of market share is possible.

Among other strategies, the Bank has adopted its own credit risk management strategy envisaging issuance of short term loans to the borrowers with below average ratings with subsequent resolution on extension of the loans subject to positive payment discipline of the borrower.

Analysis by credit quality of corporate loans outstanding as at 31 December 2019 is as follows:

As at 31 January 2019	Stage	High rating	Standard rating	Below standard rating	Impaired	Total
Loans to customers:						
- Corporate loans	Stage 1	6 792 174	5 739 448	4 179 668	–	**16 711 290**
	Stage 2	363 696	1 662 211	33 164	–	**2 059 071**
	Stage 3	–	–	–	1 565 618	**1 565 618**
	POCI	–	–	–	258 118	**258 118**
- Finance lease	Stage 1	88 684	242 691	263 443	–	**594 818**
	Stage 2	3 829	–	5 338	–	**9 167**
Total		**7 248 383**	**7 644 350**	**4 481 613**	**1 823 736**	**21 198 082**

(In thousands of UAH)

9. Loans to customers (continued)

Credit quality of the loan portfolio (continued)

Analysis by credit quality of corporate loans outstanding as at 31 December 2018 is as follows:

As at 31 January 2018	Stage	High rating	Standard rating	Below standard rating	Impaired	Total
Loans to customers:						
- Corporate loans	Stage 1	6 026 249	5 150 723	2 027 659	−	**13 204 631**
	Stage 2	78 193	3 027 467	11 948	−	**3 117 608**
	Stage 3	−	−	−	2 192 576	**2 192 576**
	POCI	−	−	−	277 759	**277 759**
- Finance lease	Stage 1	35 854	70 075	9 427	−	**115 356**
Total		**6 140 296**	**8 248 265**	**2 049 034**	**2 470 335**	**18 907 930**

Analysis by days past due of retail loans outstanding as at 31 December 2019 is as follows:

As at 31 January 2019	Стадія	Days past due							Total
		Not overdue	1-31	31-60	61-90	91-180	181-365	More than 365	
- Consumer loans	Stage 1	5 853 158	193 019	44	16	20	10	1	6 046 268
	Stage 2	13 173	20 574	22 909	6 664	−	−	−	63 320
	Stage 3	526	515	289	328	21 421	24 159	12 544	59 782
- Credit cards and overdrafts	Stage 1	4 420 334	861 188	62 111	55	77	38	50	5 343 853
	Stage 2	7 352	8 382	9 266	25 607	12 042	−	−	62 649
	Stage 3	719	404	208	178	13 061	19 801	7 555	41 926
- Mortgage loans	Stage 1	54 800	5 455	−	−	−	−	−	60 255
	Stage 2	39	697	95	3 983	−	−	−	4 814
	Stage 3	593	9	−	−	91	1 637	3 101	5 431
	POCI	−	−	−	−	8	−	91	99
Total		**10 350 694**	**1 090 243**	**94 922**	**36 831**	**46 720**	**45 645**	**23 342**	**11 688 397**

Analysis by days past due of retail loans outstanding as at 31 December 2018 is as follows:

As at 31 January 2018	Стадія	Days past due							Total
		Not overdue	1-31	31-60	61-90	91-180	181-365	More than 365	
- Consumer loans	Stage 1	5 239 710	151 486	154	20	13	2	−	5 391 385
	Stage 2	14 273	16 149	29 526	14 035	−	−	−	73 983
	Stage 3	501	343	211	185	22 670	11 649	3 406	38 965
- Credit cards and overdrafts	Stage 1	2 193 231	454 700	28 435	16	13	11	39	2 676 445
	Stage 2	6 097	5 839	7 643	10 953	3 309	−	−	33 841
	Stage 3	280	197	129	109	7 032	5 553	1 827	15 127
- Mortgage loans	Stage 1	83 707	5 141	−	−	−	−	−	88 848
	Stage 2	303	245	852	6	−	−	−	1 406
	Stage 3	245	328	−	12	103	913	13 419	15 020
	POCI	−	−	−	−	−	137	328	465
- Car loans	Stage 1	738	57	−	−	−	−	−	795
	Stage 2	18	69	−	−	−	−	−	87
Total		**7 539 103**	**634 554**	**66 950**	**25 336**	**33 140**	**18 265**	**19 019**	**8 336 367**

For credit cards the Bank determines significant increase in credit risk in case exposure is overdue for 35 days and default if exposure is overdue by 95 days.

(In thousands of UAH)

9. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2019, the Bank's 20 largest borrowers, with aggregate loan amount of UAH 9,437,473 thousand, represented 23% of the gross loan portfolio (31 December 2018: loans of UAH 10,343,501 thousand issued to 20 largest borrowers represented 28% of the gross loan portfolio).

The loan portfolio of the Bank by economic sectors, the credit risk of which has an impact on the credit quality, is as follows:

	2019	**2018**
Individuals	15 189 459	11 562 217
Trade and agency services	6 535 228	6 929 481
Food industry and agriculture	5 192 702	4 484 051
Property development	3 792 145	5 293 495
Machine building	2 367 340	2 310 612
Non-banking financial institutions	2 057 620	1 336 704
Mining and energy	1 927 966	959 522
Transport, communication and infrastructure	1 729 027	1 176 033
Metallurgy	515 169	507 521
Woodworking	472 853	929 239
Chemical	374 082	360 739
Other	393 413	766 955
Total loans to customers before allowance for expected credit losses	**40 547 004**	**36 616 569**

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

(In thousands of UAH)

9. Loans to customers (continued)

Concentration of loans to customers (continued)

The financial effect of collateral is presented by disclosing collateral values separately for:

- those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying amount of the asset ("over-collateralised assets"); and
- those financial assets where collateral and other credit enhancements are less than the carrying amount of the asset ("under-collateralised assets").

The effect of collateral as at 31 December 2019 is as follows:

	Over-collateralised assets		Under-collateralised assets	
	Carrying amount of assets net of allowance	**Fair value of collateral**	**Carrying amount of assets net of allowance**	**Fair value of collateral**
Corporate loans	16 316 738	28 277 573	4 277 359	1 821 069
Finance lease	602 229	1 068 020	1 756	1 463
Consumer loans	970	6 128	6 168 400	237
Credit cards and overdrafts	784	3 185	5 447 644	–
Mortgage loans	33 352	314 124	37 247	20 565
Car loans	–	49 440	–	–
Total	**16 954 073**	**29 718 470**	**15 932 406**	**1 843 334**

As of December 31, 2019, the effect of collateral on loans to customers includes the value of collateral in the form of commodities in circulation and goods taken into storage amounted to UAH 4,145,016 thousand for assets with excess collateral and UAH 265 929 thousand for assets with insufficient collateral.

The effect of collateral as at 31 December 2018 is as follows:

	Over-collateralised assets		Under-collateralised assets	
	Carrying amount of assets net of allowance	**Fair value of collateral**	**Carrying amount net of allowance**	**Fair value of collateral**
Corporate loans	11 134 739	19 440 108	7 657 835	4 898 963
Finance lease	98 412	190 104	16 944	16 515
Consumer loans	1 526	13 710	5 502 807	–
Credit cards and overdrafts	2 241	16 200	2 723 172	–
Mortgage loans	55 486	395 795	50 253	28 035
Car loans	882	66 816	–	–
Total	**11 293 286**	**20 122 733**	**15 951 011**	**4 943 513**

As of December 31, 2019, the net book value of collaterized loans to customers that are credit-impaired (Stage 3 and POCI) is UAH 1 930 974 thousand (2018: UAH 2 539 909 thousand) and the corresponding collateral received for the purpose of reducing potential losses on these loans is UAH 2 852 351 thousand (2018: UAH 3 504 318 thousand).

Analysis of finance lease receivables at 31 December 2019 is as follows:

	2019 рік	2018 рік
Up to 1 year	335 820	131 297
From 1 to 2 years	219 858	24 257
From 2 to 3 years	151 436	18 367
From 3 to 4 years	113 764	5 669
From 4 to 5 years	53 381	–
Gross investment in finance leases	**874 259**	**179 590**
Unearned future finance income on finance leases	(262 925)	(63 180)
Net investment in finance leases	**611 334**	**116 410**

(In thousands of UAH)

10. Property and equipment, investment property and intangible assets

	Premises	Leasehold improve-ments	Objects of art	Computers and other equipment	Capital investments in property and equipment	Total property and equipment	Intangible assets	Total
Cost or revalued amount at 31 December 2017	**1 206 020**	**83 138**	**17 005**	**908 380**	**3 452**	**2 217 995**	**612 534**	**2 830 529**
Accumulated depreciation and amortization	(371 104)	(55 259)	–	(537 837)	–	**(964 200)**	(312 531)	**(1 276 731)**
Carrying amount at 1 January 2018	**834 916**	**27 879**	**17 005**	**370 543**	**3 452**	**1 253 795**	**300 003**	**1 553 798**
Additions	8 880	22 614	–	254 084	35 214	**320 792**	176 128	**496 920**
Disposals/write-offs	(1 333)	(177)	–	255	(203)	**(1 458)**	–	**(1 458)**
Transfers to another category	–	(431)	–	–	431	**–**	–	**–**
Transfers from investment property	16 841	–	–	–	–	**16 841**	–	**16 841**
Depreciation and amortisation charge	(22 329)	(10 005)	–	(142 013)	–	**(174 347)**	(155 499)	**(329 846)**
Carrying amount at 31 December 2018	**836 975**	**39 880**	**17 005**	**482 869**	**38 894**	**1 415 623**	**320 632**	**1 736 255**
Cost or revalued amount at 31 December 2018	**1 135 897**	**103 312**	**17 005**	**1 035 255**	**38 894**	**2 330 363**	**785 938**	**3 116 301**
Accumulated depreciation and amortization	(298 922)	(63 432)	–	(552 386)	–	**(914 740)**	(465 306)	**(1 380 046)**
Carrying amount at 1 January 2019	**836 975**	**39 880**	**17 005**	**482 869**	**38 894**	**1 415 623**	**320 632**	**1 736 255**
Additions	17 035	95 061	–	292 663	37 126	**441 885**	109 354	**551 239**
Disposals/write-offs	(14 642)	(219)	–	(743)	–	**(15 604)**	–	**(15 604)**
Transfers to another category	120	157	–	(277)	–	**–**	–	**–**
Transfers from/(to) investment property	3 247	–	–	–	(41 911)	**(38 664)**	–	**(38 664)**
Revaluation	756	–	–	–	–	**756**	–	**756**
Depreciation and amortisation charge	(22 857)	(21 392)	–	(175 756)	–	**(220 005)**	(150 345)	**(370 350)**
Carrying amount at 31 January 2019	**820 634**	**113 487**	**17 005**	**598 756**	**34 109**	**1 583 991**	**279 641**	**1 863 632**
Cost or revalued amount at 31 December 2019	**1 143 275**	**197 111**	**17 005**	**1 262 548**	**34 109**	**2 654 048**	**789 897**	**3 443 945**
Accumulated depreciation and amortization	(322 641)	(83 624)	–	(663 792)	–	**(1 070 057)**	(510 256)	**(1 580 313)**
Carrying amount at 31 December 2019	**820 634**	**113 487**	**17 005**	**598 756**	**34 109**	**1 583 991**	**279 641**	**1 863 632**

(In thousands of UAH)

10. Property and equipment, investment property and intangible assets (continued)

As at 31 December 2019, property and equipment and intangible assets with cost or revalued amount of UAH 421 585 thousand were fully depreciated or amortised (31 December 2018: UAH 472 370 thousand). These assets are still used by the Bank.

As of December 1, 2019, an independent appraisal of its own buildings was conducted, which resulted in a revaluation of UAH 756 thousand by the Bank's management. The positive result from revaluation recognized in the Income statement is UAH 2 093 thousand, the negative result recognized in the statement of comprehensive income is UAH 1 337 thousand. When performing the revaluation certain judgments and estimates were applied by the appraiser in determination of the comparable premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income approach.

As at 31 December 2019, the carrying amount of premises and works of art would have been UAH 332 331 thousand (31 December 2018: UAH 329 734 thousand) had these assets been measured using the cost model. The amount reconciles to the carrying amount of the premises and works of art as follows:

	2019	**2018**
Premises at revalued amount in the statement of financial position	820 634	836 975
Revaluation reserve presented in equity, gross of tax	(491 114)	(510,052)
Premises at cost less accumulated depreciation and impairment	**329 520**	**326 923**
Works of art at revalued amount in the statement of financial position	17 005	17 005
Revaluation reserve on works of art presented in equity, gross of tax	(14 194)	(14 194)
Works of art at cost less accumulated depreciation and impairment	**2 811**	**2 811**
Total premises and works of art	**332 331**	**329 734**

Changes in carrying amount of investment property were as follows:

	2019	**2018**
Fair value of investment property at the beginning of the period	**71 876**	**149 347**
Sale	(55 689)	(60 181)
Transfer to owner-occupied premises	(3 247)	(16 841)
Transfer from capital investments to fixed assets	41 911	–
Transfer from property accepted as collateral	15 000	–
Fair value gains	26 576	2 561
Fair value losses	(2 118)	(3 010)
Fair value of investment property at the end of the period	**94 309**	**71 876**

The rental income received from investment property in 2019 was UAH 8 931 thousand (2018: UAH 9 324 thousand) (Note 25). The operating and maintenance expenses on investment property in 2019 were UAH 2 818 thousand (2018: UAH 2 209 thousand).

(In thousands of UAH)

11. Right-of-use assets

Movements in right-of-use assets for the year ended 31 December 2019 were as follows:

	Buildings and premises
Carrying amount at 1 January 2019	**246 482**
Additions	115 309
Reassessment of cash flows and lease term, and modifications of leases	33 634
Disposals	(4 544)
Depreciation	(126 168)
Carrying amount at 31 January 2019	**264 713**

Movements in right-of-use assets for the year ended 31 December 2018 were as follows:

	Buildings and premises
Carrying amount at 1 January 2018	**257 016**
Additions	91 305
Disposals	(4 951)
Depreciation	(96 888)
Carrying amount at 31 December 2018	**246 482**

The Bank has not incurred any expenses under short-term lease contracts subject to simplified recognition under IFRS 16 during 2019 (2018: UAH 1 219 thousand.) Expenses related to lease contracts for low-value items, to which the exemption under IFRS 16 related to the recognition for the year ended 31 December 2019 is applied, amount to UAH 5 923 thousand (2018: UAH 5 525 thousand.). There are no expenses related to variable lease payments not included in the estimate of lease liabilities for the years ended 31 December 2019 and 2018.

12. Other assets

	2019	2018
Financial assets		
Settlements on card operations	234 883	136 774
Receivables on transfers and payments	84 128	35 184
Accrued income and settlements	64 825	58 613
Settlements on cooperation agreements	31 110	31 501
Purchase of foreign currency	7 970	4 803
Derivative financial assets (Note 20)	460	12 802
Other financial assets	2 779	18 457
Allowance for impairment	(48 418)	(37 831)
Total financial assets	**377 737**	**260 303**
Non-financial assets		
Repossessed real estate collateral	183 644	231 985
Prepaid expenses, including for assets insurance	39 785	27 190
Prepayments for other taxes	28 465	25 004
Prepayments for property and equipment and intangible assets	16 882	73 334
Prepayments for services	11 531	11 551
Precious metals	164	162
Other non-financial assets	3 565	4 818
Allowance for impairment	(3 328)	(2 834)
Total non-financial assets	**280 708**	**371 210**
Total other assets	**658 445**	**631 513**

(In thousands of UAH)

12. Other assets (continued)

Movements in allowance for impairment of other financial assets were as follows:

	2019	2018
Allowance for impairment at 1 January	**37 831**	**39 913**
Charge to the allowance for impairment	16 279	4 316
Use of allowance	(4 267)	(6 247)
Recovery of allowance	2	31
Effect of changes in exchange rates	(1 427)	(182)
At 31 December	**48 418**	**37 831**

Movements in allowance for impairment of other non-financial assets were as follows:

	2019	2018
Allowance for impairment at 1 January	**2 834**	**2 840**
Charge to the allowance for impairment	595	248
Use of allowance	(43)	(244)
Recovery of allowance	(58)	(10)
At 31 December	**3 328**	**2 834**

13. Due to the National Bank of Ukraine

In December 2018, the Bank obtained from the National Bank of Ukraine a loan in amount of UAH 1 000 thousand bearing 20% p.a. with maturity on 3 January 2019. The Bank has no payables on the loan as at 31 December 2019 (as at 31 December 2018, the loan was carried at UAH 1 002 thousand). The loan is secured by government T-bills with the fair value of UAH 3 057 thousand (Note 31).

14. Due to banks

	2019	2018
Current accounts of other banks		
- Domestic	528 653	419 705
- OECD countries	–	60
Total current accounts of other banks	**528 653**	**419 765**
Term deposits of other banks		
- Domestic	328 508	277 687
Total term deposits of other banks	**328 508**	**277 687**
Loans received from other banks		
- Domestic	77 115	–
Total loans received from banks	**77 115**	**–**
Total amounts due to banks	**934 276**	**697 452**

As at 31 December 2019, placements of 10 largest banks of UAH 709 301 thousand accounted for 76% of total amounts due to banks (31 December 2018: UAH 539 287 thousand, or 77%).

(In thousands of UAH)

15. Customer accounts

	2019	2018
Legal entities		
- Current accounts	15 665 705	15 150 050
- Term deposits	6 307 584	8 020 526
Individuals		
- Current accounts	5 484 759	4 793 431
- Term deposits	15 294 545	11 816 146
Total customer accounts	**42 752 593**	**39 780 153**

As at 31 December 2019, deposits of the Bank's 10 largest customers totalling UAH 2 541 550 thousand represented 6% of amounts due to customers (31 December 2018: UAH 4 337 735 thousand, or 11%).

As at 31 December 2019, included in customer accounts were deposits of UAH 728 975 thousand (31 December 2018: UAH 381 586 thousand) held as collateral for loans to customers (Note 9) and credit related commitments with carrying amount of UAH 141 526 thousand (31 December 2018: UAH 76 498 thousand). In addition, UAH 686 232 thousand (31 December 2018: UAH 712 863 thousand) is held as collateral for commitments under import letters of credit, guarantees and promissory notes endorsements (Note 30).

Economic sector concentrations within customer accounts were as follows:

	2019	2018
Individuals	20 779 304	16 609 577
Trade and agency services	4 940 992	4 283 250
Mining and energy	4 448 397	3 768 988
Transport, communication and infrastructure	3 938 033	3 075 360
Metallurgy	1 991 654	3 162 719
Property development	1 402 253	2 337 605
Machine building	1 082 758	1 607 814
Non-banking financial institutions	903 102	608 709
Food industry and agriculture	602 323	334 619
Chemical	226 837	237 515
Woodworking	93 963	69 372
Other	2 342 977	3 684 625
Total customer accounts	**42 752 593**	**39 780 153**

16. Deposit certificates issued

The Bank does not have any outstanding deposit certificates as at 31 December 2019 (31 December 2018: deposit certificates with carrying amount of UAH 832 460 thousand).

17. Lease liabilities

Movements in lease liabilities for 2019 were as follows:

	Buildings and premises
Carrying amount at 1 January 2019	**267 402**
Additions	113 404
Reassessment of cash flows and lease term, and modifications of leases	33 634
Disposals	(5 020)
Interest expense	49 146
Lease payments made	(163 947)
Carrying amount at 31 January 2019	**294 619**

(In thousands of UAH)

17. Lease liabilities (continued)

Movements in lease liabilities for the year ended 31 December 2018 were as follows:

	Buildings and premises
Carrying amount at 1 January 2018	**252 569**
Additions	96 273
Disposals	(4 951)
Lease payments made	(76 489)
Carrying amount at 31 January 2018	**267 402**

Undiscounted lease payments under the leases of buildings and premises were as follows:

	Up to 1 month	1-3 months	3-6 months	6-12 months	More than 12 months	Total
2019	16 214	32 428	48 642	97 283	159 269	**353 836**
2018	11 601	23 203	34 804	69 609	184 960	**324 177**

18. Other liabilities

	2019	2018
Financial liabilities		
Amounts in settlements related to customer accounts	1 054 974	738 510
Payable under operations with plastic cards	441 458	137 354
Provision for commitments, guarantees and letters of credit (Note 30)	128 735	12 690
Derivative financial liabilities (Note 20)	17 042	6 721
Deferred income on credit lines	936	30 261
Other financial liabilities	6 566	1 613
Total financial liabilities	**1 649 711**	**927 149**
Non-financial liabilities		
Amounts payable to employees	420 696	333 736
Payable for services	46 683	78 946
Contributions to the Individuals Deposits Guarantee Fund	32 827	31 597
Other taxes payable	28 748	19 628
Allowance for other losses (Note 30)	3 529	3 697
Other non-financial liabilities	39 428	8 077
Total non-financial liabilities	**571 911**	**475 681**
Total other liabilities	**2 221 622**	**1 402 830**

19. Subordinated debt

In 2019, the Bank made a full repayment of the subordinated debt based on the decision of the National Bank of Ukraine.

(In thousands of UAH)

20. Derivative financial instruments

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities.

As at 31 December 2019, the Bank had the following contracts:

	Notional amount at fair value of assets receivable	Notional amount at fair value of liabilities payable	Positive fair value of assets	Negative fair value of liabilities
Forward currency contracts				
Placement of UAH / attraction of USD	116 479	(119 006)	42	(2 569)
Placement of UAH / attraction of EUR	159 545	(172 933)	–	(13 388)
Placement of USD / Attraction of PLN	–	(9)	–	(9)
Attraction of UAH / placement of USD	13 680	(13 598)	88	(6)
Attraction of USD / placement of EUR	528 721	(528 528)	330	(137)
Total forward currency contracts	**818 425**	**(834 074)**	**460**	**(16 109)**
Forward contracts on securities				
To sell securities	38 379	(39 312)	–	(933)
Total forward contracts on securities	**38 379**	**(39 312)**	**–**	**(933)**

As at 31 December 2018, the Bank had the following contracts:

	Notional amount at fair value of assets receivable	Notional amount at fair value of liabilities payable	Positive fair value of assets	Negative fair value of liabilities
Forward currency contracts				
Placement of UAH / attraction of USD	105 057	(101 848)	3 396	(187)
Placement of UAH / attraction of EUR	239 010	(242 492)	64	(3 546)
Attraction of UAH / placement of EUR	649 139	(639 925)	9 342	(128)
Total forward currency contracts	**993 206**	**(984 265)**	**12 802**	**(3 861)**
Forward contracts on securities				
To sell securities	79 510	(82 370)	–	(2 860)
Total forward contracts on securities	**79 510**	**(82 370)**	**–**	**(2 860)**

(In thousands of UAH)

21. Share capital and reserves

As at 31 December 2019, the Bank's approved and authorised share capital comprised 14 323 880 ordinary shares with a nominal value of UAH 230 per share. All shares have equal voting rights. As at 31 December 2019, all shares were fully paid and registered.

Nature and purpose of reserves

Revaluation reserve for property and equipment

Revaluation reserve for property and equipment is used to reflect the increase in fair value of premises and works of art, and its decrease, but to the extent this reduction relates to increasing the value of the same asset previously recognised in equity.

Revaluation reserve for securities

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

Bank's reserve fund

The Bank's reserve fund is created under the Charter and the laws of Ukraine up to reaching 25 percent of regulatory capital at the beginning of each year. The amount of deductions to the reserve fund is not less than 5 percent of the annual income of the Bank. The reserve fund is created to cover general banking risks, including future losses and other unforeseen losses in all asset items and off-balance sheet liabilities.

22. Segment analysis

The information on main banking segments of the Bank as at 31 December 2019 is set out below:

2019	**Corporate banking**	**Retail banking**	**Distressed assets management**	**Investment banking**	**Unallocated**	**Total**
Segment assets	**21 547 081**	**12 471 389**	**167 395**	**16 216 434**	**5 034 919**	**55 437 218**
including:						
Loans to customers, net	21 190 040	11 684 327	12 112	−	−	**32 886 479**
− loans to customers, gross	25 063 727	14 327 220	1 156 057	−	−	**40 547 004**
− allowance	(3 873 687)	(2 642 893)	(1 143 945)	−	−	**(7 660 525)**
Other financial statements items	357 041	787 062	155 283	16 216 434	5 034 919	**22 550 739**
Segment liabilities	**22 131 619**	**21 375 374**	**8 718**	**624 181**	**2 229 949**	**46 369 841**
including:						
Customer accounts	21 973 289	20 779 304	−	−	−	**42 752 593**
Other financial statements items	158 330	596 070	8 718	624 181	2 229 949	**3 617 248**

(In thousands of UAH)

22. Segment analysis (continued)

The information on profit and loss of the reportable operating segments of the Bank for 2019 is set out below:

2019	Corporate banking	Retail banking	Distressed assets management	Investment banking	Unallocated	Total
Interest income	2 842 080	3 770 806	4 779	1 157 610	6 685	**7 781 960**
Interest expense	(1 289 317)	(1 132 859)	–	(13 909)	(55 102)	**(2 491 187)**
Transfers	(249 431)	85 507	(50 952)	(987 741)	1 202 617	**–**
Net interest income	**1 303 332**	**2 723 454**	**(46 173)**	**155 960**	**1 154 200**	**5 290 773**
Net fee and commission income	367 294	620 312	207 542	104 863	446 333	**1 746 344**
Trading income	66 536	78 128	–	123 036	–	**267 700**
Deprecation	(63 323)	(239 909)	(9 138)	(4 282)	(53 698)	**(370 350)**
(Operating expenses) and other income/(expenses)	(747 709)	(2 085 393)	(197 728)	(49 597)	(477 583)	**(3 558 010)**
Provisions for contingencies	214 170	(558 576)	129 851	1 528	(2 429)	**(215 456)**
Segment result	**1 140 300**	**538 016**	**84 354**	**331 508**	**1 066 823**	**3 161 001**
Income tax expense	(201 035)	(94 852)	(14 871)	(58 445)	(188 081)	(557 284)
Net profit for the reporting period	**939 265**	**443 164**	**69 483**	**273 063**	**878 742**	**2 603 717**

The information on main banking segments of the Bank as at 31 December 2018 is set out below:

2018	Corporate banking	Retail banking	Distressed assets managemen t	Investment banking	Unallocate d	Total
Segment assets	**18 969 753**	**8 888 955**	**349 115**	**17 403 746**	**4 253 622**	**49 865 191**
including:						
Loans to customers, net	18 782 855	8 320 949	140 493	–	–	27 244 297
− loans to customers, gross	23 697 624	10 508 204	2 410 741	–	–	36 616 569
− allowance	(4 914 769)	(2 187 255)	(2 270 248)	–	–	(9 372 272)
Other financial statements items	186 898	568 006	208 622	17 403 746	4 253 622	22 620 894
Segment liabilities	**23 261 224**	**16 722 937**	**19 814**	**427 545**	**3 115 802**	**43 547 322**
including:						
Customer accounts	23 170 576	16 609 577	–	–	–	39 780 153
Other financial statements items	90 648	113 360	19 814	427 545	3 115 802	3 767 169

(In thousands of UAH)

22. Segment analysis (continued)

The information on profit and losses of the reportable operating segments of the Bank for 2018 is set out below:

2018	Corporate banking	Retail banking	Distressed assets management	Investment banking	Unallocated	Total
Interest income	2 301 499	2 521 707	29 988	1 438 187	74 173	6 365 554
Interest expense	(1 395 088)	(814 438)	–	(141 661)	(100 292)	(2 451 479)
Transfers	436 794	223 360	(76 209)	(1 277 305)	693 360	–
Net interest income	**1 343 205**	**1 930 629**	**(46 221)**	**19 221**	**667 241**	**3 914 075**
Net fee and commission income	166 447	577 371	238 842	109 796	413 043	1 505 499
Trading income	80 271	50 719	49	276 220	–	407 259
Depreciation	(61 098)	(202 184)	(11 957)	(2 086)	(52 521)	(329 846)
(Operating expenses) and other income/(expenses)	(590 171)	(1 643 663)	(280 640)	(47 119)	(350 676)	(2 912 269)
Provisions for contingencies	38 534	(404 164)	90 955	9 846	11 539	(253 290)
Segment result	**977 188**	**308 708**	**(8 972)**	**365 878**	**688 626**	**2 331 428**
Income tax expense	(135 348)	(42 758)	1 243	(50 677)	(95 380)	(322 920)
Net profit for the reporting period	**841 840**	**265 950**	**(7 729)**	**315 201**	**593 246**	**2 008 508**

The respective operating segments were formed according to the Bank's approved business development and management strategy.

The information concerns services rendered within segments and is presented to the management of the Bank responsible for decision making for the purpose of resources allocation and segment performance assessment.

For the purpose of internal management reporting, the transactions of the Bank are split into the following segments:

Corporate business: this business segment includes serving current accounts of self-employed individuals and legal entities, attraction of deposits, granting credit lines in "overdraft" form, serving card accounts, granting loans and other types of finance as well as foreign exchange and trade finance transactions.

The corporate business segment consists of the following sub-segments: LCC (large corporate customers with annual turnover no less than UAH 1 000 000 thousand (2018: UAH 400 000 thousand) or the Bank's insiders according to the NBU's requirements), MCC (medium-size corporate clients with annual turnover from UAH 125 000 thousand to 1 000 000 thousand (2018: from UAH 80,000 thousand to 400,000 thousand) or the limit of asset transactions per client from UAH 25 000 thousand (2018: at least UAH 16 000 thousand), SCC (small and micro corporate clients with annual turnover up to UAH 125 000 thousand (2018: from UAH 80 000 thousand) or the limit of asset transactions per client within UAH 25,000 thousand (2018: UAH 16 000 thousand), SC (state-owned companies with a share of state or communal ownership not less than 10% of the charter capital).

Retail banking: provision of banking services to individuals. This segment includes the same types of banking services as the segment of corporate banking servicing as well as the services of opening and maintenance of accounts of individuals, including the accounts for personal usage, current and saving accounts, attraction of deposits, servicing of credit and debit cards under salary projects, mortgage and car lending and targeted lending in commercial networks.

NPLs management: this business segment includes the workout of corporate, retail loans and securities having the following evidence of impairment:

- individual assessments of impairment;
- payment delay (from 180 days of principal amount delay for retail and 30 days for corporate clients);
- other evidence of impairment according to the internal assessments by the management.

This business segment renders services of restructuring and past-due debt collection.

(In thousands of UAH)

22. Segment analysis (continued)

Investment business: Investment banking. This segment covers financial instruments trade, transactions on the inter-bank market, transactions on capital markets, transactions with securities, foreign exchange and banknotes for the purpose of income gaining.

Unallocated items: this segment covers asset and liability management centre (is a main regulator of transfer pricing in the Bank and includes the transactions aimed at liquidity support of the Bank's activity); Head Office (this segment includes fixed assets, corporate rights, deferred tax assets, advances and receivables related to administrative and economic activity of the Bank); and the Processing Centre (this segment includes informational and technical support to payment card settlements).

Capital expenditure is not included into the segment information reviewed by the Management Board. Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Revenues for each individual country are not reported to the chief operational decision maker as they are mainly represented by revenues from Ukraine, including revenues from off-shore companies of Ukrainian customers, based on the domicile of the customer. Revenues from other countries do not exceed 10% of total revenues of the Bank. Revenues include interest and commission income.

The Bank has no customers who account for 10% or more of the total revenues.

23. Interest income and expense

	2019	**2018**
Interest income calculated using the effective interest rate		
Loans to customers	6 539 506	4 909 735
Securities that are measured at fair value through other comprehensive income and deposit certificates classified to cash and cash equivalents	1 020 740	1 283 907
Due from other banks	102 705	130 990
	7 662 951	**6 324 632**
Other interest income		
Finance leasing to corporate clients	86 946	10 182
Securities that are measured at fair value through profit or loss	32 063	30 740
Total interest income	**7 781 960**	**6 365 554**
Interest expense		
Deposits	(1 762 097)	(1 759 547)
Current accounts	(651 557)	(448 077)
Lease liabilities	(49 146)	(45 167)
Due to other banks	(18 959)	(10 543)
Due to NBU	(5 371)	(2)
Subordinated debt	(3 237)	(52 832)
Issued deposit certificates	(820)	(3 002)
Issued Eurobonds	–	(132 230)
Other borrowngs	–	(79)
Total interest expense	**(2 491 187)**	**(2 451 479)**
Net interest income	**5 290 773**	**3 914 075**

Information on interest income and expenses from transactions with related parties is set out in Note 32.

(In thousands of UAH)

24. Fee and commission income and expense

	2019	2018
Payment cards	765 478	584 984
Servicing loans, including under cooperation agreements	536 376	436 945
Settlement transactions with customers	478 780	505 494
Conversion operations	238 247	237 823
Cash deposits and withdrawals	174 702	135 936
Documentary operations	57 407	59 106
Fiduciary activities	5 486	6 875
Other	25 870	21 516
Fee and commission income	**2 282 346**	**1 988 679**
Payment cards	(431 574)	(362 550)
Agency agreements	(35 595)	(64 890)
Settlement transactions	(38 161)	(30 100)
Purchase and collection of cash	(17 963)	(13 709)
Servicing loans	(5 883)	(5 184)
Documentary operations	(5 578)	(5 477)
Fiduciary activities	(902)	(851)
Other	(346)	(419)
Fee and commission expense	**(536 002)**	**(483 180)**
Net fee and commission income	**1 746 344**	**1 505 499**

Information on fee and commission income and expenses from transactions with related parties is set out in Note 32.

25. Other income

	2019	2018
Penalties received	83 282	69 809
Income from disposal of property and equipment	34 397	11 744
Other rental income	16 493	14 538
Rental income from investment properties (Note 10)	8 931	9 324
Dividends received	7 918	6 599
Gains from revaluation of property, equipment and non-current assets	2 377	–
Other income	11 449	10 365
Total other income	**164 847**	**122 379**

26. Operating expenses

	2019	2018
Salary, employee benefits and compulsory contributions to State funds	2 442 440	1 856 794
Depreciation and amortisation (Note 10)	370 350	329 846
Maintenance of premises and equipment	199 343	169 319
Advertising, entertainment expenses	143 234	134 799
Contributions to Individuals Deposits Guarantee Fund	128 264	121 785
Amortization of assets represented by the rights to use (Note 11)	126 168	96 888
Communication services	107 906	77 509
Audit and consulting services	104 070	71 424
Non-performing loans settlement expenses	84 757	117 540
Rent of premises	80 008	70 594
Security services	39 168	29 369
Staff training	28 434	19 366
Decrease in value of the Bank’s property	24 037	53 920
State duties and taxes, other than income tax	23 213	25 631
Other	195 860	194 771
Total operating expenses	**4 097 252**	**3 369 555**

(In thousands of UAH)

26. Operating expenses paid (continued)

Included in salary, employee benefits and compulsory contributions to State funds was the unified social tax in the amount of UAH 358 285 thousand (2018: UAH 267 957 thousand).

Lease of premises includes expenses under short-term lease contracts subject to exemption on recognition under IFRS 16 in 2018 in the amount of UAH 1 219 thousand, and expenses related to agreements on lease of low value items subject to exemption on recognition in 2019 in the amount of UAH 5 923 thousand (2018: UAH 5 525 thousand (Note 11).

27. Income taxes

Income tax expense was comprised of the following:

	2019	**2018**
Current tax expense	578 695	274 255
Deferred tax expense	(21 411)	48 665
Income taxes expense for the reporting period	**557 284**	**322 920**

The Bank's income for 2019 is taxable at the rate of 18% (2018: 18%). The reconciliation between the expected and the actual income tax expense is provided below:

	2019	**2018**
Income before income tax	**3 161 001**	**2 331 428**
Theoretical tax benefit at the applicable statutory rate	568 980	419 657
- Non-taxable income	(871)	(4 148)
- Non-deductible expenses	1 511	1 311
- Expenses recognised only in tax accounting	–	(22 338)
- Change in unrecognised deferred tax asset	–	(71 562)
- Other non-temporary differences	(12 336)	–
Income tax expense for the year	**557 284**	**322 920**

The differences between the national and IFRS taxation result in specific temporary differences arising between the carrying amounts of some assets and liabilities for the purposes of financial reporting and their tax bases. The tax effect of changes in such temporary differences shall be accounted for at the income tax rates expected to be applied in the period of realization of such differences.

(In thousands of UAH)

27. Income taxes (continued)

Deferred tax assets and liabilities as at 31 December 2019 and 2018 and their movements for the respective years are as follows:

	31 December 2018	Credited/ (charged) to other comprehensive income	Credited/ (charged) to income statement	31 December 2019
Tax effect of deductible and taxable temporary differences				
Expected credit losses on loans and commitments to extend loans	2 950	–	20 857	23 807
Securities at fair value through other comprehensive income	5 434	(32 280)	–	(26 846)
Property and equipment and investment property	(24 020)	72	554	(23 394)
Estimated net deferred tax liability	**(15 636)**	**(32 208)**	**21 411**	**(26 433)**
Net deferred tax liability	**(15 636)**	**(32 208)**	**21 411**	**(26 433)**

	31 December 2017	Effect of application of IFRS 9 (Note 4)	Credited/ (charged) to other comprehensive income	Credited/ (charged) to income statement	31 December 2018
Tax effect of deductible and taxable temporary differences					
Allowances for loan impairment and commitments to extend loans	2 425	66 389	–	(65 864)	2 950
Securities at fair value through other comprehensive income	(15 210)	5 173	20 644	(5 173)	5 434
Property and equipment and investment property	13 205	–	–	(37 225)	(24 020)
Tax losses carry forward	11 965	–	–	(11 965)	–
Estimated net deferred tax asset / (liability)	**12 385**	**71 562**	**20 644**	**(120 227)**	**(15 636)**
Unrecognised deferred tax asset	–	(71 562)	–	71 562	–
Net deferred tax asset / (liability)	**12 385**	**–**	**20 644**	**(48 665)**	**(15 636)**

(In thousands of UAH)

28. Risk management

Introduction

Risk is inherent to banking and it is managed through the process of ongoing identification, measurement and control, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability, and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk Management Process

The risk management policy, monitoring and control are conducted by a number of specialised bodies and units within the Bank. The unit most actively involved in such management is the Risk Management Division of the Bank subordinated to the Deputy Chairman of the Management Board on Risks (CRO). The risk Management Division of the Bank is reporting and subordinated to the Supervisory Board of the Bank as the risk management system participant.

Supervisory Board of the Bank

The Supervisory Board of the Bank has the highest degree of authority with respect to the risk management of the Bank, and is empowered through the Bank's Charter to approve any transactions on behalf of the Bank for amounts in excess of UAH 3,000 million.

Management Board

The Management Board of the Bank is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board of the Bank delegates its powers with respect to the overall asset and liability management to the Assets and Liabilities Management Committee of the Bank, authorities on operational risk management – to the Committee on Operational Risk Management of the Bank and approves the composition of these Committees. In addition, the Management Board of the Bank is responsible for development and preliminary approval of the Bank's credit policy. Final approval of credit policy is within the competence of the Supervisory Board. The Supervisory Board agrees upon the Credit Council decisions on projects of lending to the Bank's related individuals with limit credit risk more than 1% of regulatory capital, calculated on the next date before the decision.

Credit Council of the Bank

The Credit Council of the Bank approves loans issued with the maximum credit exposure of UAH 3,000 million and sets limits on interbank deals. A representative of the shareholder is a member of the Credit Council of the Bank. The decisions taken by the Credit Council of the Bank in terms of projects which maximum credit exposures exceeding UAH 300 million shall become valid if four positive votes are in place, two being of the Credit Council's members – the shareholder representatives. The decisions made by the Credit Council in terms of projects which maximum credit exposures UAH 50 – 300 million shall become valid if four positive votes are in place, one being of the Credit Council's – the representative of the shareholder). The Council meets twice a week.

Credit Committee of the Bank

The Credit Committee is responsible for the decisions on restructuring and issue of loans with a maximum credit exposure of UAH 30 million. Also, the Credit Committee of the Bank approves issuance of loans which bear no credit risk covered by cash collateral. Meetings of the Committee are held several times in a week, as required.

Assets and Liabilities Management Committee of the Bank

The Assets and Liabilities Management Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for monitoring of the interest rate, currency and liquidity risks of the Bank.

Operational Risk Management Committee of the Bank

Operational Risk Management Committee of the Bank is responsible for operational risk management with the aim to decrease operational losses, banking processes, systems and technologies improvement, approval and implementation of measures aimed at assurance of going concern of the Bank.

For the purpose of operative management and reactions identified operational risks and managing factors of operational risks, the Bank has established five subcommittees based on the Operational Risk Management Committee.

Subcommittee "Personnel"

Subcommittee "Personnel" analyses matters on intentional and unintentional actions of personnel, errors made by personnel, qualification and personnel sufficiency assessment etc.

28. Risk management (continued)

Introduction (continued)

Subcommittee "Processes"

Subcommittee "Processes" analyses matters of processes organization, quality of communications, existing processes effectiveness and of the required optimization.

Subcommittee "External factors"

Subcommittee "External factors" analyses incidents of intentional actions of third parties, liquidation of repercussions of force majeure and intentional damage of the Bank's reputation.

Subcommittee "Systems"

Subcommittee "Systems" analyses IT systems quality issues, common understanding of IT risks and development of balanced decisions as to IT risks with consideration the specifics and interests of the business units of the Bank.

Subcommittee "Informational security"

Subcommittee "Informational security" considers matters of development of IT security management system, development of IT risks management culture, IT incidents management.

At each meeting, the Operational Risk Management Committee ("the ORMC") reviews the standard quarterly reports on operational risk events recorded in the reporting period, on the implementation of the ORMC decisions, on the effectiveness of the ICS based on the quarterly Key Control Indicator ("KCI") monitoring, on the results of the KPIs annual monitoring, and approves the KPIs list as well as their threshold values for the next year. It approves the results of regular stress testing of operational risk, and annual self-assessment of operational risk by the heads of the JSC FUIB structural units, and approves the amount of risk appetite for operational risk for a year.

The Operational Risk Management Committee also makes decisions on the administration of the realized operational risk events, exercises control over the efficiency of the decisions made by ORMC Subcommittee, and evaluates the functioning efficiency of the:

- IT security management system;
- Fraud risk management system;
- Continuity operation system;
- Third-party risk management system;

The ORMC approves the results of the annual Assessment of negative factors impact on the Bank processes (BIA) and approves the results of the annual practical testing of the HO ICS, and the results of the distant training on the key mandatory distant courses.

Risk Management Division of the Bank

The Risk Management Division is responsible for the development of credit risk management methodologies, procedures and reporting allowing the Bank to perform quantitative assessment of credit, interest, currency, operational and liquidity risks. This business units within the risk management chain are responsible for implementation of procedures related to risk management, execute current control of the above risks on a permanent basis and control the execution of the decisions of the Bank's Credit bodies, the Bank's Assets and Liabilities Management Committee the Operational Risk Management Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical and expert models. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Bank also runs worst case scenarios that would arise should extreme events, which are unlikely to occur, do, in fact, occur.

Risk monitoring and control are primarily performed based on the limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of the risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. The information compiled from all the businesses is examined and processed in order to analyse, control and early identify the risks. This information is presented and explained to the Management Board of the Bank, Assets and Liabilities Management Committee of the bank, Operational Risk Management Committee of the Bank, Credit Council of the Bank and the head of each respective business division. The report includes the information on the aggregate credit exposure, credit metric forecasts, limit exceptions, liquidity and interest rate risks and risk profile changes, information on operational risk.

(In thousands of UAH)

28. Risk management (continued)

Introduction (continued)

On a monthly basis, the detailed reporting on liquidity, currency, interest and operational rate risks, industry, and customers is prepared. The management assesses the appropriateness of the allowance for expected credit losses on a monthly basis.

Risk mitigation

As a part of its overall financial risk management process, for the purpose of interest, currency, credit and liquidity risks management the Bank uses a system of limits and restrictions that ensures that actual risk measures are at the levels that do not exceed the Bank's tolerance to those risks.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

To mitigate market risks the Bank may use derivatives to a limited extent.

Credit risk

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

The exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. The exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes guarantees and letters of credit available to its customers which may require that the Bank make payments on their behalf. They expose the Bank to similar risks as loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives before the effect of mitigation through the use of master netting or collateral agreements, is shown in their carrying amounts as accurately as possible.

If recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in future as a result of changes in values.

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

Credit quality of financial assets

The credit quality of financial assets is managed by using both external and the Bank's internal credit ratings. The credit quality by class of asset for loan-related statement of financial position lines, based on the external ratings and the Bank's credit rating system is presented in Note 7, Note 8 and Note 9.

Impairment assessment

The allowance for expected credit losses is calculated based on the following: if for a financial instrument there are no evidence of increase in credit risk since origination, the ECL allowance is based on the 12 months' expected credit loss (12mECL); if there is a significant increase in credit risk since origination or a financial instrument has been determined as impaired, the assessment is based on credit losses expected to arise over the life of a financial instrument (the lifetime expected credit loss or LTECL).

28. Risk management (continued)

Credit risk (continued)

The Bank has established a methodology of identifying evidence of impairment and increase in credit risk since origination of a financial instrument and determined the required criteria on termination of such evidence. The Bank analyses the loan portfolio (carried at amortised cost or at fair value through other comprehensive income) to identify and terminate evidence of impairment and increase in credit risk since origination of a financial instrument on a monthly basis.

Based on this methodology, the Bank groups loans as follows (Stages):

- Stage 1: for financial instruments without evidence of impairment or increase in credit risk, the ELC allowance is based on 12mECL (on a portfolio basis). Stage 1 includes financial instruments at initial recognition, loans having no evidence of increase in credit risk since origination of financial instruments for which the credit risk has improved and they have been reclassified from Stage 2.
- Stage 2: for financial instruments with evidence of increase in credit risk, the ECL allowance is based on lifetime ECL (allowance can be assessed on both individual basis and portfolio basis). Stage 2 includes financial instruments, for which evidence of increase in credit risk since origination were identified, or financial instruments for which the credit risk has improved and they have been reclassified from Stage 3.
- Stage 3: for financial instruments with evidence of impairment, the ECL allowance is based on lifetime ECL (allowance can be assessed on both individual basis and portfolio basis).
- POCI - Purchased or originated credit impaired financial assets that are credit impaired on initial recognition. At initial recognition, the amount of financial instrument lifetime ECL in included in calculation of a credit-adjusted EIR. Subsequently, the Bank recognises in profit or loss at each reporting date the amount of changes in the expected credit losses on such financial instruments for the lifetime as the gain or impairment loss.

Significant increase in credit risk and termination of evidence of increased credit risk

In determining whether there is a significant increase in the credit risk of a financial instrument, the Bank considers reasonable and verified information that is relevant and accessible without excessive cost or effort, including both quantitative and qualitative information, as well as analysis based on the Bank's historical experience, expert credit quality assessment.

To assess a significant increase in credit risk, the Bank identifies whether there has been a significant increase in credit risk as compared to the probability of default since the initial recognition of a financial instrument.

The key considerations in the analysis of a significant increase in credit risk include the identification of: whether payments of the principal amount or interest on the loan are overdue for more than 30 days (for legal entities and individuals, except for credit cards for retail clients – 35 days) and 3 days (for banks).

Additional evidence of a significant increase in the credit risk of a financial instrument is, in particular, the following observable data:

- deterioration of the financial status of a borrower-legal entity, which resulted in decrease in the internal rating by 3 points;
- the Bank's restructuring of the loan on the terms of repayment re-scheduling which the Bank does not consider to be a deterioration in the creditor's terms, but which may indicate probable difficulties in fulfilment of an agreement in the future;
- identification of indicators of probable increase in credit risk determined as part of the "early warning signals" procedure;
- a decrease in the bank's internal rating by 2 points for resident banks;
- a decrease in international rating (according to a rating agency's bulletin, such as Standard & Poor's, Moody's, FitchRating) by 3 points or a recall of international rating for non-resident banks.

Termination of all of the above evidence of a significant increase in credit risk and fulfilment of contractual obligations by the client for at least 3 months after the elimination of all evidences is considered a criterion that the credit risk has decreased to such a level that a financial instrument may be reclassified to Stage 1.

28. Risk management (continued)

Credit risk (continued)

Impairment (default) and termination of evidence of impairment

In assessing the occurrence of a default event on the Bank borrower's obligations, the qualitative and quantitative indicators developed within the Bank are taken into account.

The key considerations in the analysis of loan impairment include the identification of whether payments of the principal amount or interest on the loan are overdue for more than 90 days (for legal entities and individuals) and 7 days (for banks).

Additional evidence of a credit impairment of a financial instrument are, in particular, the following observable data:

- a borrower's or issuer's significant financial difficulties;
- the Bank's restructuring of loan on the terms which the Bank would not consider in other circumstances (i.e. with a deterioration in the creditor's terms);
- probability of a borrower's bankruptcy or liquidation;
- probability of the Bank's taking of such actions as sale of collateral (if any) or the forgiveness/sale of the loan at a discount;
- for resident banks, the public recognition of a bank insolvent and imposing the temporary administration;
- a decrease in international rating (according to a rating agency's bulletin, like Standard & Poor's, Moody's, Fitch Rating) to default rating for non-resident banks.

Evidence of default termination is the elimination of all the above evidence of impairment and fulfilment of contractual obligations by the client for at least 6 months after the elimination of all evidence of default.

Lifetime ECL allowance

For Stage 2, Stage 3 and POCI loans, the Bank calculates an allowance expected credit losses for over the lifetime of the financial instruments either on a portfolio basis or on an individual basis.

The Bank determines the amount of allowance for expected loan losses separately for each significant loan (the Bank determines the significance threshold separately for each type of lending - corporate lending, retail lending and interbank transactions) on an individual basis. The items considered when determining the allowance amounts include the feasibility of the counterparty's business plan, its ability to improve the performance once a financial difficulty has arisen, projected receipts and the realisable value of collateral, and the timing of the expected cash flows.

The Bank determines the ECL allowance on financial instruments provided to customers, each of which is not individually significant, in a portfolio basis. Expected credit losses are determined taking into account the following information: loss in a portfolio on a 12-month horizon in the prior periods, current economic environment, the time period until a possible loss in future.

12mECL

For Stage 1 loans, the Bank calculates the allowance based on 12-month expected loan losses, on a portfolio basis. To calculate the allowance, the Bank classifies the portfolio of financial instruments to groups with similar characteristics (for example, segment, customer rating, type of credit product, etc.). Expected credit losses are determined taking into account the following information: loss in a portfolio on a 12-month horizon in the prior periods, current economic environment, the time period until a possible loss in future.

Input data for ECL assessment

The key inputs for ECL assessment calculated on a portfolio basis, are:

- probability of default (PD);
- loss given default (LGD);

These figures are derived from internal statistic models and other historical data. The probability of default (PD) is an estimate at a specific date calculated on the basis of the Bank's statistical data and evaluated using valuation tools adapted to different categories of counterparties. If counterparties facing a credit risk migrate between rating levels, this result in a change in the assessment of the respective probability of default.

(In thousands of UAH)

28. Risk management (continued)

Credit risk (continued)

Accumulated probability of default over the lifetime of a financial instrument is the probability that a financial instrument will exposure to default over its lifetime. This probability is calculated for a group of homogeneous assets. The probability of default is based on the Bank's historical data.

LGD rate is an amount of probable loss in the event of default. The Bank assesses the LGD based on information on the collation rates of counterparty-defaulters. The collection amount is calculated on the basis of the discounting of cash flows using the effective interest rate as a discount factor.

The ECL allowance is reviewed by the credit risk management divisions to ensure its alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed based on the methods applied for loans; when the loss is considered probable, provisions are recorded against other credit related commitments.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to discharge its payment obligations when due in the course of usual economic activity and under stress circumstances. To limit this risk, the management has ensured diversified funding sources in addition to the Bank's core deposit base, manages assets in compliance with its liquidity principles and monitors future cash flows and liquidity on a daily basis.

The Bank, with the view to ensuring proper discharge of both its own and clients' obligations, has implemented the policy aimed at maintaining the liquid assets at the level sufficient to cover any unplanned withdrawal of a part of the client deposits placed with the Bank as a precaution against further deterioration in the economic situation, specifically, through formation of so called "liquidity cushion". To assess the adequacy of the secondary liquidity cushion, the Bank uses the methodology of calculating the minimum required level of secondary liquidity for 3 stress outflow scenarios: light, medium and heavy. The scenarios are based on the Bank's own customer funds outflow statistics. Based on the liquidity risk stress testing results as at 31 December 2019, a secondary liquidity cushion, created by the bank, covers the stress outflows under 3 business scenarios. The liquidity risk is measured by the Bank by using the gap analysis and forecasts of the expected future cash flows during a 1-year term.

In addition, the liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the NBU as listed in the table below. Instant Liquidity Ratio (N4) and Current Liquidity Ratio (N5) have been abolished by the NBU on 2 September 2019. Also on 15 February 2018, the NBU approved a new prudential ratio for Ukrainian banks - the Liquidity coverage ratio (LCR), which should be maintained at the level of not less than 100%.

As at 31 December 2019, these ratios were as follows:

Ratio	2019, %	2018, %
N4 "Instant Liquidity Ratio" (cash and balances on correspondent accounts / liabilities repayable on demand) (minimum required by the NBU – 20%)	–	68,66
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	–	77,91
N6 "Short-term Liquidity Ratio" (certain assets with original maturity up to 1 year / liabilities with original maturity up to 1 year including off-balance sheet commitments) (minimum required by the NBU – 60%)	107,75	101,33
LCR in total for all currencies (minimum required by the NBU - 100%)	169	161
LCR in foreign currencies (minimum required by the NBU - 100%)	185	148

(In thousands of UAH)

28. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2019. The table shows the not discounted liabilities repayable under the contract. The exception is trade derivatives repaid by the delivery of the underlying asset, which are presented as the amounts receivable and payable by the remaining terms of maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

At 31 December 2019	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 12 months**	**Total**
Due to banks	934 358	–	–	–	–	**934 358**
Due to customers	27 738 094	5 518 985	6 321 523	3 417 325	405 606	**43 401 533**
Gross settled derivative financial instruments:						
- amounts payable	587 730	–	–	–	–	**587 730**
- amounts receivable	(570 688)	–	–	–	–	**(570 688)**
Other financial liabilities	1 632 669	–	–	–	–	**1 632 669**
Total undiscounted financial liabilities	**30 322 163**	**5 518 985**	**6 321 523**	**3 417 325**	**405 606**	**45 985 602**

At 31 December 2018	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 12 months**	**Total**
Due to the National Bank of Ukraine	1 003	–	–	–	–	**1 003**
Due to banks	697 452	–	–	–	–	**697 452**
Due to customers	27 622 774	4 533 918	5 010 006	2 732 943	245 257	**40 144 898**
Deposit certificates issued	7 004	786 958	39 133	–	–	**833 095**
Gross settled derivative financial instruments:						
- amounts payable	86 230	–	–	–	–	**86 230**
- amounts receivable	(79 509)	–	–	–	–	**(79 509)**
Other financial liabilities	920 428	–	–	–	–	**920 428**
Subordinated debt	4 615	8 784	13 697	27 246	577 438	**631 780**
Total undiscounted financial liabilities	**29 259 997**	**5 329 660**	**5 062 836**	**2 760 189**	**822 695**	**43 235 377**

The table below shows the contractual expiry of the Bank's financial commitments and contingencies.

	Up to 1 month	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 12 months**	**Total**
2019	262 298	551 416	457 861	528 183	363 943	**2 163 701**
2018	484 445	548 822	629 354	217 954	245 447	**2 126 022**

Financial commitments and contingences include guarantees, letters of credit and credit limits on overdrafts, with the expected draw-down at any time starting from the reporting date till the date of contractual expiry. The Bank expects that not all of the contingent liabilities or commitments will be drawn before the expiry of the commitments.

(In thousands of UAH)

28. Risk management (continued)

Liquidity risk and funding management (continued)

The table below provides an analysis of assets and liabilities by final contractual maturity of assets and liabilities as of December 31, 2019 (amounts shown at carrying amount):

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash and cash equivalents	9 671 645	–	–	–	–	**9 671 645**
Due from banks	161 021	708	602 544	303 527	64	**1 067 864**
Securities at fair value through profit or loss	–	–	39 311	–	–	**39 311**
Securities at fair value through other comprehensive income	1 247 931	536 216	1 468 259	1 358 654	4 279 760	**8 890 820**
Loans to customers	9 250 276	3 115 124	4 138 939	8 717 441	7 664 699	**32 886 479**
Other financial assets	377 737	–	–	–	–	**377 737**
Total financial assets	**20 708 610**	**3 652 048**	**6 249 053**	**10 379 622**	**11 944 523**	**52 933 856**
Commitments						
Due to banks	934 276	–	–	–	–	**934 276**
Due to customers	27 607 067	5 331 051	6 147 094	3 276 183	391 198	**42 752 593**
Lease liabilities	–	–	–	55 194	239 425	**294 619**
Other financial liabilities	1 649 711	–	–	–	–	**1 649 711**
Total financial liabilities	**30 191 054**	**5 331 051**	**6 147 094**	**3 331 377**	**630 623**	**45 631 199**
Liquidity gap arising from financial instruments	**(9 482 444)**	**(1 679 003)**	**101 959**	**7 048 245**	**11 313 900**	**7 302 657**

Included in “Customer accounts” are term deposits of individuals. Pursuant to the Ukrainian legislation, the Bank is obliged to repay such deposits upon the depositor’s demand (Note 15). Management of the Bank believes that majority of term deposits of individuals will not be withdrawn till the date of maturity, thus customer accounts are disclosed by contractual maturity. Total amount of deposits of individuals as at 31 December 2019 is UAH 15 294 545 thousand (2018: UAH 11 816 146 thousand).

Term deposits of individuals	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 12 months**	**Total**
2019	2 244 275	4 202 576	5 329 351	3 164 030	354 313	15 294 545
2018	1 949 478	3 569 122	3 879 619	2 241 029	176 898	11 816 146

(In thousands of UAH)

28. Risk management (continued)

Liquidity risk and funding management (continued)

The table below shows the analysis of carrying amounts of assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2018:

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash and cash equivalents	9 040 607	–	–	–	–	**9 040 607**
Due from banks	42 221	725 909	647 360	17 135	7 822	**1 440 447**
Securities at fair value through profit or loss	1 898	–	8 689	41 491	41 122	**93 200**
Securities at fair value through other comprehensive income	2 902 202	1 426 772	1 583 803	2 444 437	1 003 300	**9 360 514**
Loans to customers	5 664 172	4 153 059	3 651 533	6 804 755	6 970 778	**27 244 297**
Other financial assets	260 303	–	–	–	–	**260 303**
Total financial assets	**17 911 403**	**6 305 740**	**5 891 385**	**9 307 818**	**8 023 022**	**47 439 368**
Commitments						
Due to the National Bank of Ukraine	1 002	–	–	–	–	**1 002**
Due to banks	697 452	–	–	–	–	**697 452**
Due to customers	27 566 261	4 446 745	4 904 997	2 638 981	223 169	**39 780 153**
Deposit certificates issued	6 989	786 604	38 867	–	–	**832 460**
Lease liabilities	–	–	–	–	267 402	**267 402**
Other financial liabilities	927 149	–	–	–	–	**927 149**
Subordinated debt	4 615	–	–	–	483 530	**488 145**
Total financial liabilities	**29 203 468**	**5 233 349**	**4 943 864**	**2 638 981**	**974 101**	**42 993 763**
Liquidity gap arising from financial instruments	**(11 292 065)**	**1 072 391**	**947 521**	**6 668 837**	**7 048 921**	**4 445 605**

The maturity analysis does not reflect the historical stability of current liabilities. Their realisation historically took place within the period exceeding the one indicated in the table above. These balances are included in the table above as the amounts with the maturity dates in the period of up to 1 month.

The Bank's ability to repay its liabilities depends on its ability to attract the equivalent amount of assets within the same period of time. The current volume of liquid assets will enable the Bank to operate in a stable manner even under a situation when there may be a partial withdrawal of clients' deposits from the Bank and in case of further deterioration of the economic situation.

The management of the Bank believes that in spite of a substantial portion of the customers' demand accounts, the diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

(In thousands of UAH)

28. Risk management (continued)

Market risk

Market risk – non-trading

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, exchange rates and other prices. The Bank manages its exposures to market risk for non-trading portfolios. Non-trading positions are managed and monitored using the sensitivity analysis.

Interest rate risk

Interest rate risk is a potential menace of losses incurrence, decrease in income or decrease in cost of capital of the Bank as a result of unfavourable changes in interest rates in the market. The risk appears primarily as a result of differences in maturities of assets and liabilities of the Bank by terms of sensitivity to changes in interest rates. Thus, the interest rate risk is the result of the unbalanced structure of statement of financial position by assets and liabilities by residual term to re-pricing date that are sensitive to changes in interest rates.

To assess its interest risk the Bank uses gap analysis of interest-bearing assets and liabilities, performs analysis of sensitivity of interest-bearing assets and liabilities to changes in interest rates.

Interest risk control is performed in accordance with the report of spread and margin changes.

The Bank assesses interest rate risk by scenario of parallel shift of yield curve towards the increase in interest rates by 200 bpp in major currencies (UAH, USD, EUR). As at 31 December 2019, the Bank was exposed to interest rate risk, whose realisation may impact net interest income and equity within 1-year horizon – a possible decrease by UAH 4 016 thousand (31 December 2018: a decrease by UAH 56,331 thousand). Had there been increase of yield to maturity by 1 pp, revaluation reserve for securities in equity would be lower by UAH 78,513 thousand as at 31 December 2019 (31 December 2018: by UAH 32,529 thousand.

The Bank assesses the above level of the interest rate risk as acceptable and controllable, which is not to affect significantly the Bank's yield and stable financial position. Interest rates are set by the Tariff Commercial Committee of the Bank taking into consideration transfer interest rates and cost of risks set by the Bank's Assets and Liabilities Management Committee. In accordance with the internal policies of the Bank, the delegation of authority regarding the change of interest rates is established. The control over transaction effectiveness with interest-bearing instruments is performed by the Tariff Commercial Committee of the Bank on a monthly basis.

Currency risk

Currency risk is the risk connected with the impact of foreign exchange rates fluctuation on the value of financial instruments.

The Bank performs currency risk assessment using Value-at-Risk assessment methodology (VaR) taking into consideration recommendations of International Convergence of Capital Measurement and Capital Standards, June 2006 and Revision to Basel II market risk framework, December 2010. VaR allows to assess maximum possible extent of losses with set confidence level for a certain period of time.

The Bank performs VaR calculation using historical modelling method so as to assess the currency risk in normal and stressed conditions of financial market development. VaR calculation is based on 251 days disregarding historical data on market currency rates; the calculation period during which the Bank would be probably able to close open foreign currency positions is 10 days and one-sided confidence level is 99%.

When determining the currency risk, the estimated VaR is multiplied by the sum of number "3" and mark-up in the amount "1" in accordance with Basel recommendations.

Disregarding the fact that VaR allows to accept a currency risk assessment, it is necessary to consider the following weaknesses of the method:

- the use of past currency and banking metals exchange rates does not allow to fully estimate possible currency and banking metals rates fluctuations in the future;
- the use of 10-days calculation period stipulates that all open positions in foreign currencies and banking metals may be closed within 10 trading days. This estimation may inaccurately reflect the currency risk value in the periods of diminishing market liquidity whereby the period of positions closure by the Bank may increase;
- the use of 99% one-sided confidence level does not allow to estimate the volume of losses expected with 1% probability;
- VaR calculation is performed based on open positions of the Bank in foreign currencies and banking metals as at the end of the day and may not reflect the risk accepted by the Bank during the day.

(In thousands of UAH)

28. Risk management (continued)

Currency risk (continued)

The results of currency risk calculation using VaR method as at 31 December are as follows:

Index	2019	2018
Currency risk without diversification consideration		
USD	24 566	8 789
EUR	28 615	8 997
RUB	1 369	8 985
other currencies	4 912	4 803
Total currency risk without diversification	**59 462**	**31 574**
Diversification effect	(10 542)	(24 903)
Currency risk with diversification consideration	**48 920**	**6 671**

The above data is calculated based on internal management accounts of the Bank based on the operational financial statements prepared in accordance with IFRS.

Assets and Liabilities Committee of the Bank examines the results of currency risk assessment on a monthly basis.

Operational risk

The Operational Risk Management System is effective from 2011 and it is integrated into the Bank's overall risk management system. The Bank calculates the value of accepted operational risk – "risk appetite" – on an annual basis. Risk appetite is approved by the Operational Risk Management Committee ("the ORMC") and is taken into account when budgeting (for 2019 the risk appetite of UAH 10 million was approved). The Supervisory Board each quarter monitors the Bank compliance with the set "risk appetite". If there emerge any significant operational risk events, an immediate notification to the Management Board and Supervisory Board is provided for, as well as a detailed investigation of their reasons is made and measures to avoid those events recurrence in the future are taken.

The system of operational risk management includes, in particular:

- Common operational risks classifier and Internal operational risk events database;
- Weekly consolidation of operational risk events occurred across the Bank received from the Risk officers of its structural units;
- Quarterly monitoring of key risk indicators (KRIs).
- Annual self-assessment of operational risk;
- Quarterly stress testing of operational risk in accordance with the requirements of the National Bank of Ukraine;
- Annual calculation of the risk appetite and capital adequacy to cover the operational risk in accordance with the Basel 3 recommended approach.

All the registered operational risk events are subject to a detailed review and assessment of adverse consequences, and the events requiring additional management decisions or development of additional mitigation measures are considered by ORMC Subcommittee or the Operational Risk Management Committee.

The Bank accumulates external operational risk events to work out its stress test scenarios. To obtain a uniform assessment of the level of operational risk, a comparative analysis of the results of different approaches is carried out (the resulting risk level is assessed according to the scale: low, medium, high).

The Bank pays a special attention to managing the IT security and fraud risks, in which respect the management established zero tolerance and introduced separate reporting for the ORMC and the Supervisory Board.

Information and legal risk are managed under the Operational Risk Management System.

To ensure continuous operations, the Bank carries out a hands-on testing of the Business Continuity Plan and Back to Normal Operation Plan on an annual basis.

Also, to control the quality of outsourcing, the Bank has a Third-party risk management system that enables timely identification and minimization of risks of cooperation with counterparties.

The efficiency of the Operational Risk Management System is evidenced by the results of 3-tier Internal control system (current control, risk-management control, and internal audit). The internal control system also includes three tiers of protection:

- Tier 1: business units and support units
- Tier 2: risk-management units and Compliance control Department
- Tier 3: Internal audit Department

(In thousands of UAH)

28. Risk management (continued)

Operational risk (continued)

The Bank organizes annual training of personnel on risk management (with special focus on fraud risk and information security, requirements to business continuity operation system), and the rules of the internal control system functioning.

29. Fair value measurements

Fair value of financial assets and liabilities not carried at fair value

Set out below is the comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried at amortised cost in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2019			2018		
	Carrying amount	**Fair value**	**Unrecognised gains/(losses)**	**Carrying amount**	**Fair value**	**Unrecognised gains/(losses)**
Financial assets						
Cash and cash equivalents	9 671 645	9 671 645	–	9 040 607	9 040 607	–
Due from banks						
Accrued interest income on current accounts and overnight deposits with banks	–	–	–	31	31	–
- Term deposits with banks	1 067 864	1 067 864	–	1 440 416	1 440 416	–
Loans to customers						
- Corporate loans	20 594 097	20 611 971	17 874	18 792 575	18 641 201	(151 374)
- Finance lease	603 985	690 085	86 100	115 355	73 948	(41 407)
- Consumer loans	6 169 370	6 169 370	–	5 504 332	5 504 332	–
- Credit cards and overdrafts	5 448 428	5 448 428	–	2 725 413	2 725 413	–
- Mortgage loans	70 599	66 213	(4 386)	105 740	97 791	(7 949)
- Car loans	–	–	–	882	514	(368)
Other financial assets	377 737	377 737	–	260 303	260 303	–
Financial liabilities						
Due to the National Bank of Ukraine	–	–	–	1 002	1 002	–
Due to banks						
- Current accounts of banks	528 653	528 653	–	419 765	419 765	–
- Term deposits of banks	328 508	328 508	–	277 687	277 687	–
- Loans from banks	77 115	77 115	–	–	–	–
Due to customers						
- legal entities	21 973 289	21 980 523	(7 234)	23 170 576	23 173 439	(2 863)
- individuals	20 779 304	20 925 030	(145 726)	16 609 577	16 639 523	(29 946)
Deposit certificates issued	–	–	–	832 460	832 460	–
Subordinated debt	–	–	–	488 145	410 330	77 815
Other financial liabilities	1 649 711	1 649 711	–	927 149	927 149	–
Total unrecognised change in unrealised fair value			**(53 372)**			**(156 092)**

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying amount

For the financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

(In thousands of UAH)

29. Fair value measurements (continued)

Financial assets and financial liabilities carried at amortised cost

For quoted debt issued the fair values are calculated based on quoted market prices at reporting date. For those instruments where quoted market prices are not available, and for those ones for which fair value differs from carrying amount, namely loans to customers, due from banks, balances with the National Bank of Ukraine, due to banks, customer accounts, deposit certificates, other financial assets and liabilities, a discounted cash flow model is used based on a current market rates offered for similar financial instruments with similar provisions, similar credit risk and maturity.

Financial instruments recorded at fair value or fair value of which is disclosed

All the assets and liabilities whose fair value is measured or disclosed in the financial statements are classified by fair value sources hierarchy level presented below on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which all inputs which have a significant effect on the recorded fair value belong to the lowest hierarchy level and are directly or indirectly based on market data; and
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value belong to the lowest hierarchy level and are not observable on the market.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

		Fair value measurement using			
31 December 2019	**Date of valuation**	**Level 1:**	**Level 2:**	**Level 3:**	**Total**
Assets measured at fair value					
Government debt securities	31 December 2019	−	7 716 834	−	**7 716 834**
Forward currency contracts	31 December 2019	−	460	−	**460**
Deposit certificates of the National Bank of Ukraine	31 December 2019	−	1 206 240	−	**1 206 240**
Property and equipment – premises	01 December 2019	−	−	820 634	**820 634**
Works of art	01 December 2016	−	−	17 005	**17 005**
Investment property	01 December 2019	−	−	94 309	**94 309**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2019	9 671 645	−	−	**9 671 645**
Due from banks	31 December 2019	−	1 067 864	−	**1 067 864**
Loans to customers	31 December 2019	−	−	32 986 067	**32 986 067**
Shares	31 December 2019	−	−	7 057	**7 057**
Other financial assets	31 December 2019	−	−	377 277	**377 277**
Liabilities measured at fair value					
Other financial liabilities	31 December 2019	−	17 042	−	**17 042**
Liabilities for which fair values are disclosed					
Due to banks	31 December 2019	−	934 276	−	**934 276**
Due to customers	31 December 2019	−	−	42 905 553	**42 905 553**
Other financial liabilities	31 December 2019	−	−	1 632 669	**1 632 669**

(In thousands of UAH)

29. Fair value measurements (continued)

Assets and liabilities at fair value

		Fair value measurement using			
31 December 2018	**Date of valuation**	**Level 1:**	**Level 2:**	**Level 3:**	**Total**
Assets measured at fair value					
Government debt securities	31 December 2018	–	8 410 768	–	**8 410 768**
US Government debt securities	31 December 2018		27 576		**27 576**
Forward contracts	31 December 2018	–	12 803	–	**12 803**
Deposit certificates of the National Bank of Ukraine	31 December 2018	–	1 008 313	–	**1 008 313**
Property and equipment – premises	01 December 2018	–	–	836 975	**836 975**
Works of art	01 December 2016	–	–	17 005	**17 005**
Investment property	01 December 2018	–	–	71 876	**71 876**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2018	9 040 607	–	–	**9 040 607**
Due from banks	31 December 2018	–	1 440 447	–	**1 440 447**
Loans to customers	31 December 2018	–	–	27 043 199	**27 043 199**
Shares	31 December 2018	–	–	7 057	**7 057**
Other financial assets	31 December 2018	–	–	247 500	**247 500**
Liabilities measured at fair value					
Forward currency contracts	31 December 2018	–	6 721	–	**6 721**
Liabilities for which fair values are disclosed					
Due to the National Bank of Ukraine	31 December 2018	–	1 002	–	**1 002**
Due to banks	31 December 2018	–	697 452	–	**697 452**
Due to customers	31 December 2018	–	–	39 812 962	**39 812 962**
Deposit certificates issued	31 December 2018	–	–	832 460	**832 460**
Subordinated debt	31 December 2018	–	410 330	–	**410 330**
Other financial liabilities	31 December 2018	–	–	920 428	**920 428**

The following is the description of the determination of fair value for the financial instruments which are recorded at fair value using the valuation techniques. These incorporate the Bank’s estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

The derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using the present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

(In thousands of UAH)

29. Fair value measurements (continued)

Securities

The securities valued using a valuation technique or pricing models primarily consist of unquoted debt securities. These securities are valued using discounted cash flows models which sometimes only incorporate the data observable in the market, such as interest rates, and at other times use both observable and non-observable data. The non-observable inputs to the models include the assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry in which the investee operates.

Premises, works of art and investment property

The basis for their work is the sales comparisons approach, which is further confirmed by the income approach. When performing the revaluation certain judgments and estimates were applied by the appraiser in determination of the comparable premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income approach.

During 2019 and 2018, the Bank did not transfer any financial assets or financial liabilities between fair value hierarchy levels

30. Contingencies and commitments

Litigation

The Bank is a party to a litigation with one borrower. The Bank obtained court decision regarding the repayment of the loan from this borrower, which was enforced and the loan was repaid. Subsequent to that, the borrower filed counterclaim seeking to invalidate the previous court decision and obtain payment from the Bank in amount of UAH 571.3 million. As of December 31, 2019, there is a risk that the court decision will not be taken in favor of the Bank.

Tax and other regulatory compliance

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

Refer to Note 36 for additional disclosure of tax risks.

Capital expenditure commitments

As at 31 December 2019, the Bank had capital expenditure commitments in respect of purchase of equipment of UAH 15 485 thousand (31 December 2018: UAH 24 161 thousand). The Bank’s management has already allocated the necessary resources in respect of these commitments. The Bank’s management believes that the future income and funding will be sufficient to cover these commitments and any similar commitments.

(In thousands of UAH)

30. Contingencies and commitments (continued)

Credit related commitments

The guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the risk of the clients' defaults or inability to perform the contracts with third parties. The Bank manages its risk of loss by requiring a significant proportion of guarantees to be secured with deposits in the Bank. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of the customers authorising third parties to draw drafts on the Bank up to a stipulated amount under the specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than direct borrowings.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to the credit risk on commitments to extend credit, the Bank is potentially exposed to loss. However, due to its revocable nature the Bank is able to refuse to issue the loans, guarantees or letters of credit to the customer due to the deterioration of the customer's solvency.

The total outstanding contractual amount of undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash needs, as these financial instruments may expire or terminate without being funded.

The letters of credit issued by the Bank are as follows:

	2019	2018
Confirmed import letters of credit	312 212	122 055
Non-confirmed import letters of credit	69 316	90 323
Cash collateral (Note 15)	(359 936)	(209 202)
Total letters of credit	**21 592**	**3 176**

As at 31 December 2019, provision for letters of credit amounted to UAH 99 thousand (2018: UAH 91 thousand).

The guarantees issued are as follows:

	2019	2018
Guarantees and promissory notes	1 782 173	1 913 644
Cash collateral (Note 15)	(326 296)	(503 661)
Guarantees and promissory notes less cash collateral	**1 455 877**	**1 409 983**

As at 31 December 2019, provision for guarantees and avals amounted to UAH 128 636 thousand (2018: UAH 12 599 thousand).

The amount of not drawn revocable commitments to extend credit issued by the Bank as at 31 December 2019 was UAH 15 760 023 thousand (31 December 2018: UAH 9 884 813 thousand). The management considers the commitments to extend credit as revocable due to the fact that the Bank can stop further financing of the client or early cancel the credit limit funds based on the agreements providing for a wide range of the trigger events for early cancellation of credit limits. Such events include, inter alia, a deterioration in the financial position of the client, a reduction in cash flows to a customer's current accounts, loss of collateral or a significant decrease in its fair value, decisions of the regulatory authorities affecting the Ukrainian monetary market.

(In thousands of UAH)

30. Contingencies and commitments (continued)

Credit related commitments (continued)

Movements in the provision for credit-related commitments, guarantees and letters of credit during 2019 were as follows:

Commitments, guarantees and letters of credit	Stage 1	Stage 2	Stage 3	Total
Expected credit losses at 1 January 2019	**12 690**	**–**	**–**	**12 690**
New commitments, guarantees and letters of credit	3 483	–	–	3 483
Repaid commitments, guarantees and letters of credit	(4 622)	(710)	–	(5 332)
Transfers to Stage 2	(712)	712	–	–
Transfers to Stage 3	(5 384)	–	5 384	–
Changes in expected credit risk estimation	(221)	–	124 920	124 699
Foreign currency exchange differences	(412)	(2)	(6 391)	(6 805)
At 31 December 2019 (Note 18)	**4 822**	**–**	**123 913**	**128 735**

Movements in allowance for other losses during 2019 were as follows:

	2019
Other expected credit losses at 1 January 2019	**3 697**
Translation differences effect	(168)
At 31 December 2019 (Note 18)	**3 529**

Movements in the provision for credit-related commitments, guarantees and letters of credit during 2018 were as follows:

Commitments, guarantees and letters of credit	Stage 1
Expected credit losses at 1 January 2018	**11 395**
New commitments, guarantees and letters of credit	6 182
Repaid commitments, guarantees and letters of credit	(3 087)
Changes in expected credit risk estimation	(1 536)
Foreign currency exchange differences	(264)
At 31 December 2018 (Note 18)	**12 690**

Movements in allowance for other losses during 2018 were as follows:

	2018
Other expected credit losses at 1 January 2018	**2 987**
Charge to provision for commitments, guarantees and letters of credit during the reporting period	727
Translation differences effect	(17)
At 31 December 2018 (Note 18)	**3 697**

(In thousands of UAH)

30. Contingencies and commitments (continued)

The analysis of credit quality of credit related commitments, guarantees and letters of credit as of December 31, 2019 were as follows:

As at 31 december 2019	Rate	Stage 1	Stage 2	Stage 3	Total
Letters of Credit provided by the Bank					
Corporate clients	High rating	199 082	–	–	**199 082**
Corporate clients	Standard rating	5 912	–	–	**5 912**
Corporate clients	Below the standard rating	176 534	–	–	**176 534**
Guarantees provided					
Corporate clients	High rating	966 313	–	–	**966 313**
Corporate clients	Standard rating	341 692	–	–	**341 692**
Corporate clients	Below the standard rating	38 239	–	–	**38 239**
Corporate clients	Impaired	–	–	425 261	**425 261**
Banks	From A- to A+	7 168	–	–	**7 168**
Banks	unrated	3 500	–	–	**3 500**

The analysis of credit quality of credit related commitments, guarantees and letters of credit as of December 31, 2018 were as follows:

Станом на 31 грудня 2018 року	Стадія	Стадія 1	Стадія 2	Стадія 3	Всього
Letters of Credit provided by the Bank					
Corporate clients	High rating	176 261	–	–	**176 261**
Corporate clients	Standard rating	19 028	–	–	**19 028**
Corporate clients	Below the standard rating	17 089	–	–	**17 089**
Guarantees provided					
Corporate clients	High rating	947 624	–	–	**947 624**
Corporate clients	Standard rating	417 667	–	–	**417 667**
Corporate clients	Below the standard rating	380 721	–	–	**380 721**
Corporate clients	Impaired	–	–	153 420	**153 420**
Banks	From A- to A+	7 712	–	–	**7 712**
Banks	unrated	6 500	–	–	**6 500**

Corporate clients are rated using an internal rating model (Note 9). The credit rating of financial institutions is based on the rating of Fitch agencies.

31. Financial assets pledged as collateral

As at 31 December 2019 the Bank pledged no assets. As at 31 December 2018, the Bank pledged securities at fair value through other comprehensive income with a carrying amount of UAH 3 057 thousand as collateral against the loan from the National Bank of Ukraine in the amount of UAH 1 000 thousand.

32. Related party transactions

For the purposes of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

In the normal course of business, the Bank enters into transactions with significant shareholders, companies under common control and other related parties. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions.

(In thousands of UAH)

32. Related party transactions (continued)

The outstanding balances as at 31 December 2019 and as at 31 December 2018 and income and expenses for 2019 and 2018 were as follows:

As at and for the year ended 31 December 2019	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers	–	918 214	379	23
(UAH - interest rate, % p.a.)	–	*(17,32)*	*(43,24)*	*(42,76)*
(USD, EUR - interest rate, % p.a.)		*(7,79)*	-	-
Allowance for loan impairment	–	(66 976)	(13)	(1)
Other assets	3	2 091	12	1
Liabilities				
Due to customers	(4 682)	(7 983 507)	(164,631)	(134,939)
(UAH - interest rate, % p.a.)	–	*(11,03)*	*(14,03)*	*(16,75)*
(USD, EUR - interest rate, % p.a.)		*(0,35)*	*(3,20)*	*(2,92)*
Other liabilities	–	(19 083)	(6)	(18)
Credit related commitments				
Revocable commitments to extend credit	–	82 219	955	574
Guarantees and avals	–	155 312	–	–
Letters of credit	–	352 926	–	–
Income/(expense)				
Interest income	–	106 419	62	4
Interest expense	–	(464 026)	(3 360)	(7 811)
Commission income	181	454 290	266	10 271
Fee and commission expense	–	(1 385)	–	–
Other proceeds	–	958	5	19
Charge to provision for commitments, guarantees and letters of credit	–	21	–	–
Allowance for loan impairment	–	88 586	(7)	(1)
Operational and other expenses	–	(21 212)	(874)	–

As at and for the year ended 31 December 2018	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers	–	1 441 263	251	5
(interest rate, % p.a.)	–	*(9,18)*	*(45,08)*	*(42,60)*
Allowance for loan impairment	–	(162 971)	(5)	–
Other assets	3	2 094	14	–
Commitments				
Due to customers	(127)	(10 652 205)	(90 207)	(134 776)
(interest rate, % p.a.)	–	*(9,85)*	*(3,22)*	*(5,52)*
Deposit certificates issued	–	(786 604)	(6 988)	–
Other liabilities	(1)	(2 434)	(4)	(16)
Credit related commitments				
Revocable commitments to extend credit	–	30 592	654	433
Guarantees and avals	–	285 085	–	–
Letters of credit	–	178 027	–	–
Income/(expense)				
Interest income	–	267 205	42	4
Interest expense	–	(869 304)	(3 575)	(6 777)
Commission income	140	520 093	210	4 989
Other proceeds	–	352	6	18
Charge to provision for commitments, guarantees and letters of credit	–	8	–	–
Allowance for loan impairment	–	85 670	(3)	–
Operational and other expenses	–	(142)	(845)	–

Interest rate on loans to management of 43.24% (2018 – 45.08%) represents interest rate on credit cards and overdrafts after grace period.

(In thousands of UAH)

32. Related party transactions (continued)

The allowance for loan impairment in respect of loans to related parties has been assessed on both individual and collective basis.

Furthermore, as at 31 December 2019 there are loans to two companies, which are not related, with net carrying value of UAH 1 833 027 thousand (2018: loans to two companies, which are not related, with net carrying value of UAH 2 672 866 thousand). These loans are not overdue. As at 31 December 2019 and as at 31 December 2018 collateral under these loans was provided by related parties. Also, other source of repayment of these loans (other than collateral realisation) are proceeds from the related parties. Gross carrying amount of these loans as at 31 December 2019 is UAH 1,848,508 thousand (2018: UAH 3,126,045 thousand). The recognized expected credit losses for these loans are UAH 15,481 thousand as at 31 December 2019 (2018: UAH 453,179 thousand).

Aggregate amounts lent to and repaid by related parties during 2019 were as follows:

	Parent company	Entities under common control	Management	Other related parties
Amounts lent to related parties during the year	−	9 091	311	22
Amounts repaid by related parties during the year	−	(644 182)	(189)	(4)
Foreign exchange and other changes	−	112 042	6	−

Aggregate amounts lent to and repaid by related parties during 2018 were as follows:

	Parent company	Entities under common control	Management	Other related parties
Amounts lent to related parties during the year	−	322 673	146	4
Amounts repaid by related parties during the year	−	(1 797 845)	(40)	−
Foreign exchange and other changes	−	(75 948)	(1)	−

In 2019, the remuneration of members of the Management Board comprised salaries of UAH 81 618 thousand (2018: UAH 70 725 thousand), compulsory contributions to the State funds of UAH 2 460 thousand (2018: UAH 1 715 thousand) and allowance for additional remuneration payment of UAH 126 051 thousand (2018: UAH 135 861 thousand). In 2019, the remuneration to members of the Supervisory Board comprised UAH 18 719 thousand (2018: UAH 3 726 thousand).

In addition, as at 31 December 2019 and as at 31 December 2018 the Bank is operating under the Plan of Measures to bring the maximum credit risk ratio for transactions with related parties to compliance with the regulatory requirements. The plan provides for the gradual adjustment of the H9 standard to the normative values set by the National Bank by 31 December 2020. During 2019 the Bank implemented a Contingency Plan significantly ahead of plan.

33. Earnings per share

Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period without regard to shares repurchased. The Bank does not have converted preferred shares, thus diluted earnings per share is equal to basic earnings per share.

	2019	2018
Income for the reporting period	2 603 717	2 008 508
Weighted average number of ordinary shares outstanding during the period	14 323 880	14 323 880
Earnings per share, basic and diluted (in hryvnias per share)	**181.77**	**140.22**

(In thousands of UAH)

34. Changes in liabilities related to financial activity

Changes in cash flows from financing activities in the statement of cash flows for the year ended 31 December 2019 and 2018 were as follows:

	Eurobonds issued	Other borrowed funds	Subordinated debt	Lease liabilities
Carrying amount at 31 December 2017	**1 915 014**	**11 193**	**489 656**	**252 569**
Repayment	(1 844 078)	(10 883)	–	(76 489)
Foreign currency exchange differences	(76 258)	(249)	–	–
Other	5 322	(61)	(1 511)	91 322
Carrying amount at 31 December 2018	**–**	**–**	**488 145**	**267 402**
Repayment	–	–	(482 300)	(163 947)
Other	–	–	(5 845)	191 164
Carrying amount at 31 December 2019	**–**	**–**	**–**	**294 619**

The “Other” line includes the effect of accrued but not paid interest on Eurobonds issued, other borrowed funds and subordinated debt. The Bank classifies the paid interest as cash flows from operating activities.

35. Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank’s capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank. The Bank considers the total capital under management to be the total regulatory capital. The amount of the capital that the Bank manages is UAH 7 914 882 thousand as at 31 December 2019 (31 December 2018: UAH 5 282 255 thousand).

The primary objectives of the Bank’s capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise the shareholders’ value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and risks associated with its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amounts of dividend payments to the shareholders, return the capital to the shareholders or issue capital securities. No changes were made in the objectives, policies and processes since the previous years.

NBU capital adequacy ratio

The NBU requires from all banks to maintain a capital adequacy ratio of 10% of risk-weighted assets calculated allowing for the risk, estimated under the Ukrainian accounting rules. As at 31 December 2019 and 2018, the Bank’s capital adequacy ratio on that basis was as follows:

	2019	2018
Main capital	4 590 896	3 759 198
Additional capital	3 331 042	1 530 113
Reduction according to the regulations of the National Bank of Ukraine	(7 056)	(7 056)
Total capital	**7 914 882**	**5 282 255**
Risk-weighted assets	**37 308 695**	**32 324 099**
Capital adequacy ratio	**21,21%**	**16,34%**

The regulatory capital consists of the main capital, which comprises paid-in registered share capital, share premium, reserves created in accordance with the Ukrainian legislation less net book value of intangible assets and losses of current and prior years decreased by the amount of accrued income overdue for more than 30 days net of the provision for overdue accrued interest. In addition, the main capital is decreased for the amount by which uncovered credit risk exceeds the prior and current year income. The other component of the regulatory capital is additional capital, which includes standard provisions for interbank and customer loans, property revaluation reserve, current year profit decreased by the amount of accrued income overdue for more than 30 days net of the provision for overdue accrued interest, long-term subordinated debt, retained earnings of prior years decreased for the amount of the uncovered credit risk.

(In thousands of UAH)

35. Capital (continued)

As at 31 December 2019 and 2018, the Bank was compliant with the regulatory requirements to capital.

The NBU performs stress testing on a regular basis to check compliance with the regulatory requirements under certain stress test assumptions. If results of the stress test show that required capital adequacy could fall below the required level in the future, the NBU might require an increase of regulatory capital above the minimum regulatory requirements.

As at 31 December 2019 and 2018, the Bank's capital adequacy ratio calculated in accordance with the Basel I requirements was as follows:

	2019	2018
Tier 1 capital		
Share capital	3 294 492	3 294 492
Share premium	101 660	101 660
Reserve fund	1 475 430	1 475 430
Retained earnings	3 616 578	996 305
Total tier 1 capital	**8 488 160**	**5 867 887**
Tier 2 capital		
Asset revaluation reserves	579 217	449 982
Eligible subordinated debt	–	292 887
Total tier 2 capital	**579 217**	**742 869**
Total capital	**9 067 377**	**6 610 756**
Capital adequacy ratio at the reporting date		
Risk-weighted assets	40 330 966	37 650 032
Total capital	9 067 377	6 610 756
Capital adequacy ratio (%)	**22,48%**	**17,56%**

36. Subsequent events

No significant events occurred between the balance sheet and these financial statements dates.

Signed on behalf of the Management Board on 12 March 2020

S.P. Chernenko (Chairman of the Management Board)

K.O. Shkoliarenko (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

Part I. Management report

Nature of business

JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK” (the Bank or FUIB) was established on 20 November 1991 and commenced operations in April 1992. The Bank provides a full range of banking services, including taking deposits and granting loans, investing in securities, transferring payments in Ukraine and abroad, exchanging currencies, issuing and processing of payment cards.

The Bank is a member of Individuals Deposits Guarantee Fund starting from 2 September 1999 (registration certificate No. 102 dated 6 November 2012), which operates according to the Law of Ukraine No. 2740-III “On Individuals Deposits Guarantee Fund". The Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual (31 December 2018: UAH 200 thousand).

As at 31 December 2019 the Bank’s shareholders are “SCM FINANCE” (92.3% of share capital), SCM HOLDINGS LIMITED (Cyprus) (7.7% of share capital) (as at 31 December 2018 the Bank’s shareholders are “SCM FINANCE” (92.2% of share capital), SCM HOLDINGS LIMITED (Cyprus) (7.7% of share capital) and an individual (0.1% of share capital)). The ultimate controlling party of the Bank is a Ukrainian citizen, Mr. R.L. Akhmetov.

The Bank’s legal address is: 4 Andriivska Street, Kyiv, Ukraine. As at 31 December 2019, the Bank had 6 regional centers and 202 branches throughout Ukraine (31 December 2018: 6 regional centers and 175 branches throughout Ukraine).

FUIB is a universal bank that has been operating in the Ukrainian financial market for more than 27 years and serves large and medium enterprises, small and medium companies and private individuals.

FUIB is included in the group of the largest banking institutions of the country according to the classification of the National Bank of Ukraine. The Bank is among TOP-10 Ukrainian banks in terms of key financial indicators, such as volume of assets, equity, loan portfolio, amounts from corporate clients, private individuals and others.

According to the Law of Ukraine “On banks and banking activity” and on the basis of licenses and written permissions granted by the National Bank of Ukraine FUIB is engaged in the following activities:

- accepting deposits from legal entities and private individuals;
- opening and maintaining current accounts of banks and clients;
- placing attracted funds on its own behalf and at its own risk;
- providing guarantees, sureties and other obligations from third parties;
- providing custody services, renting safe-deposits for valuables and documents;
- issuing, buying, selling and servicing checks, promissory notes and other negotiable payment instruments;
- issuing payment cards and processing card transactions;
- carrying out foreign currency operations;
- carrying out securities purchase and sale transactions on its own behalf and on behalf of clients;
- issuing its own securities;
- investing in statutory funds and shares of other legal entities;
- performing depositary activity and inscribed securities register keeping.

In 2019, the Ukrainian government continues to pursue a comprehensive structural reform agenda aiming at the removal of the existing imbalances in the economy, public finance and governance, fighting corruption, reforming judiciary system with the ultimate goal to secure conditions for the economic recovery in the country. Stabilization of the Ukrainian economy in the foreseeable future depends on success of actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions.

According to the results of 2019 economic activity in Ukraine remained at a fairly high level - GDP growth is estimated at 3.3%, which is almost the same as in 2018 of 3.4%. At the same time, the drivers of this growth have changed. As a whole, the growth of the aggregate index of production of goods and services by major economic activities slowed down to 1.6% in 2019 (in 2018 this indicator amounted to 3.6%), and in the last months of the year it even declined. First of all, this was due to the difficult situation in the industry, where production fell by 1.8% compared to 2018 after a three-year increase (in 2018, an increase of 1.6% was observed). Despite the next record for grain harvest, agricultural growth slowed down substantially (1.1% in 2019, 8% in 2018). Instead, high domestic demand generated strong growth in construction (20% in 2019 and 8.5% in 2018) and a number of service industries.

In terms of the financial market, banks are showing high returns for the second consecutive year. For the 12 months of 2019, solvent banks of Ukraine generated UAH 59.6 billion of net profit, which is 2.7 times more comparing to the same period of the last year (UAH 22.3 billion). According to the National Bank of Ukraine, banks revenues for January-December 2019 increased by 19.5% to UAH 244.4 billion, while expenses increased by 1.4% to UAH 184.8 billion. At the same time, banks twice cut their provisioning allowance (from UAH 23.8 billion to UAH 11.8 billion). The most significant drivers of such shifts were interest income - UAH 154.3 billion, commission income - UAH 62.1 billion, the revaluation result from sales and purchases agreements - UAH 16.2 billion. FUIB became the best in terms of profitability among private equity banks and was ranked the 3rd in the overall Ukrainian rating of banks according to the NBU.

The corporate loan portfolio of the Bank as of 1 January 2020 amounted to UAH 25 358 million, which is UAH 303 million (+ 1.2%) more comparing to 01.01.2019. The largest share in the structure of the corporate loan portfolio by economic sectors belongs to loans to trade enterprises (25.8%), food and agriculture (20.5%), construction companies (15.0%).

The largest increase was demonstrated by the portfolio of mining and energy enterprises, which increased by UAH 968 million. The largest decrease was demonstrated by the portfolio of construction and real estate enterprises, which decreased by UAH 1 501 million.

As at the end of 2019 loans to individuals amounted to UAH 15 189 million, which is UAH 3 627 million (+ 31.4%) more comparing to the balances as at the end of 2018.

Interest income on the Bank's credit operations in 2019 amounted to UAH 6 626 million, which is UAH 1 706 million (+ 34.7%) more than in 2018. The share of the loan portfolio in the structure of interest income was 85% (2018: 77%).

Since 2014, the Bank was not able to carry out its operating activities in the Crimea and certain areas of the Donetsk and Lugansk regions and was forced to relocate its activities from these regions. After the annexation of the Crimea, the Bank has closed all of its 10 branches in the area. Additionally, the Bank closed 42 branches that were located in regions outside the control of the Government of Ukraine in Donetsk and Lugansk regions.

Further development of banking system depends not only on business environment but also on the Ukrainian economy as a whole.

Management bodies and corporate governance

During 2019, the Supervisory Board of the bank has performed its duties directed to protecting the rights of depositors, other creditors and the Bank’s shareholders’, and within its authority limits defined by the Bank’s Statute and Ukrainian legislation, directed and controlled the activities of the Bank’s Management Board. The Supervisory Board of the Bank participated in all important and strategic decisions according to its authority limits and after conducting deep analysis of the events and the situation in the banking sector.

In 2019, the Management Board of the Bank provided information to the Supervisory Board on a regular basis and reported timely and comprehensively on: the strategy and business plan implementation, the Bank's performance, changes in regulatory requirements, execution of risk management policy and strategy, functioning of the internal control system etc. Thus, the Supervisory Board of the Bank continuously performed oversight and advisory functions after in-depth analysis and taking into account all relevant facts.

The Supervisory Board of the Bank in its activity is guided by the laws of Ukraine "On Banks and Banking activity", "On Joint Stock Companies", by other laws and regulations of Ukraine, by regulations of the National Bank of Ukraine, by the Charter of the Bank, by the General Shareholders’ Meeting decisions as well as by the Bank's regulation "On the Supervisory Board of the JOINT-STOCK COMPANY" FIRST UKRAINIAN INTERNATIONAL BANK ".

The Members of the Supervisory Board as at the end of the year 2019 are presented below:

Members of the Supervisory Board

Popov Oleg Mikolayovych	Chairman of the Supervisory Board
Kurilko Sergiy Evgenievich	Member of the Supervisory Board
Dugadko Anna Oleksandrivna	Member of the Supervisory Board
Katanov George Bogomilov	Member of the Supervisory Board
Povazhna Margarita Victorivna	Member of the Supervisory Board
Susan Gail Buyske	Member of the Supervisory Board
Stalker Catherine Elizabeth Ann	Member of the Supervisory Board – an independent director
Ansis Grasmanis	Member of the Supervisory Board – an independent director
Mihov Valentin Lyubomirov	Member of the Supervisory Board – an independent director

The Management Board meetings agenda in the year 2019 usually included consideration of the following: main events to cover in the report to the Supervisory Board of the Bank; results of monthly, quarterly, semi-annual and annual performance of the Bank; approval of new branches opening and selection of premises for them; internal audit reports on the Bank's structural divisions and business processes inspection; risk management effective system implementation status; standard quarterly risk management reports (on risk appetite indicators, on interbank placements and investment securities transactions, prudential ratios compliance for relevant periods of the year 2019, including adherence to compliance risk tolerance limits, etc.); reporting on the Bank's regulatory audit status; monthly review of clients' complaints; social engineering; periodic review of the Bank's IT management reports; list of related parties monthly review and approval; internal regulations review and approval, as well as preliminary consideration of issues submitted for the Supervisory Board approval.

The Members of the Management Board as at the end of the year 2019 are presented below:

Members of the Management Board	
Chernenko Sergiy Pavlovych	Chairman of the Board;
Shkolyarenko Konstantin Oleksandrovych	Deputy Chairman of the Board – CFO;
Mahdych Serhii Borysovych	Deputy Chairman of the Board;
Kosenko Natalia Feliksivna	Deputy Chairman of the Board;
Zagorodnikov Arthur Germanovych	Deputy Chairman of the Board;
Skalozub Leonid Pavlovych	Deputy Chairman of the Board;
Sebastian Rubaj	Deputy Chairman of the Board;
Eremenko Fedot Evgeniyovych	Deputy Chairman of the Board – CRO;

For its corporate governance the Bank is guided by the Corporate Governance Code of JOINT STOCK COMPANY «FIRST UKRAINIAN INTERNATIONAL BANK» adopted by Extraordinary General Meeting of Shareholders on 27 November 2018. The Code is publicly available at https://about.pumb.ua/management

Before adopting the Corporate Governance Code of JOINT STOCK COMPANY «FIRST UKRAINIAN INTERNATIONAL BANK» on 27 November 2018 the Bank was guided by the following main corporate governance principles:

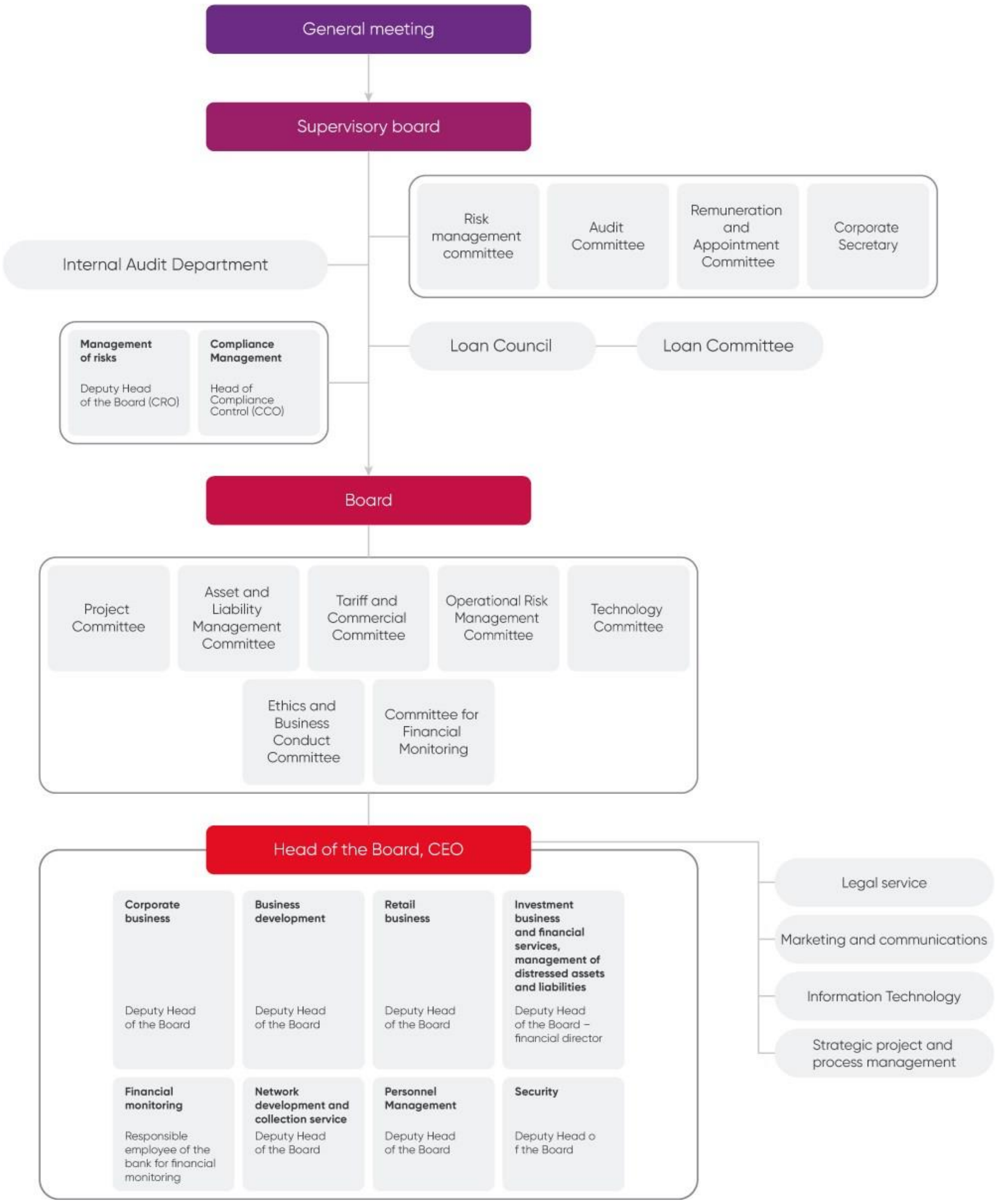
- honesty, integrity and respect in relations with owners (shareholders) and investors as well as constant readiness to provide adequate protection for their interests and maximize their wealth;
- avoidance of unreasonably complex and excessively costly procedures to exercise the rights of the Bank's shareholders, while complying with the Ukrainian legislation and the Charter of the Bank.;
- equal treatment of all shareholders, including open communications with minority ones;
- identify strategic objectives of the Bank and control their implementation;
- implementation of high-quality and effective management system of the Bank;
- accountability of the Management Board to the General Shareholders Meeting and to the Supervisory Board of the Bank, which controls the activities of the Management Board;
- setting standards, rules and practices of corporate behavior for all employees of the Bank and the procedures of informing on misconduct, including fraud or corruption, according to the Bank's Code of Conduct that reflects key principles and standards of the Bank;
- effective management of compliance and other risks which the Bank faces including conflict of interests in order to protect the interests of its depositors, clients, counterparties, owners (shareholders) and employees in accordance with the Bank's implemented internal procedures;
- transparency of the Bank's activity which is ensured by timely disclosure of accurate, objective and relevant information on the activities undertaken;
- responsibility which is about the Bank recognizing the rights of all interested parties assigned by the current legislation of Ukraine and the Bank's focus on the mutually beneficial cooperation with these parties to ensure financial stability and development of the Bank.

The Bank has defined and operates a transparent corporate governance structure that provides:

- general management at the highest level by the General Shareholders Meeting;
- regulation and control by the Supervisory Board of the Bank with the delegation of some of its powers to the Supervisory Board committees or working groups established in accordance with the current legislation, the Charter of the Bank and other internal documents and decisions of the Supervisory Board, which act on the basis of the regulation approved by the Supervisory Board;
- operational activity is managed by the Management Board with the delegation of some of its powers to the Management Board committees established in accordance with the current legislation, the Charter of the Bank and other internal documents and decisions of the Management Board, which act on the basis of the regulation approved by the Management Board;
- segregation of duties among all departments of the Bank using the model of three lines of defense to create the Bank's risk management system, which should provide ongoing risk analysis to make timely and adequate management solutions to mitigate risks and reduce the associated losses.

The Bank's shareholders, the General Meeting, the Supervisory Board, the Management Board are also among the corporate governance structure together with the Corporate Secretary as the person responsible for the Bank's interaction with shareholders and fulfilling other functions in the field of corporate governance.

The current Corporate governance model provides a high level of organizational set up which is supported by the bank's impeccable reputation on the market. At the core of FUIB activity are effective functions of control and risk management as well as timely response to legislative changes:



Management's objectives and strategies for achieving them

The Bank strives to remain one of the leading players in the Ukrainian banking market, above all in service quality, innovations and technology, while providing the best in industry economic effect for shareholders in terms of business value appreciation and return on invested capital.

FUIB is a universal bank of national scale that offers leading financial products and services to both legal entities and private individuals.

FUIB conducts a transparent business and values its reputation.

FUIB's main principle is client orientation and in-depth understanding of their needs, as well as building a business structure in accordance with the best international standards.

In accordance with the Development Strategy, the Bank is going to take measures to improve the business management system and increase the efficiency of business processes. An important component of internal changes will be the upgrading of the Bank's staff skills. The implementation of the Bank's internal improvement projects aims to support the development of commercial activities, reduce operating costs and provide tight control over different risks.

FUIB's main objective is to become the Bank of First Choice to our clients. To ensure achieving this goal FUIB has a clear vision of development paths, clear strategy, professional team, impeccable reputation, strong brand and shareholder support.

The main directions of development within the Development Strategy are:

- Focus on building an efficient and sustainable banking model
- Concentration on two main client segments: corporate and retail
- Diversification of funding base by sources and loan portfolio by major borrowers and industries
- Ensuring high liquidity ratios
- Risk control and keeping the level of provision costs at planned levels with the help of rigorous borrowers' selection
- Implementation of the best banking services standards

FUIB is an innovative bank, ready to outperform the market for technology. The Bank introduces new products and processes in customer service, using both traditional and alternative channels for providing financial products and services. At the same time FUIB improves quality of the service and develops individual solutions for customers, which will increase the market share in each of the product and customer segments. Such development is aimed at achieving the business objectives set out by the Development Strategy and supporting changes to the management model that require the introduction of new modern mechanisms and a qualitatively different level of management information.

Expenditures for development in 2019 are aimed at implementation of the Bank's approved Development Strategy on the Ukrainian banking market.

The main criteria for the Bank's success are to fulfill the planned targets: by the number of clients actively engaged in operations with the Bank, on customer satisfaction with banking services, the share of bad debts in loan portfolio, return on equity and net profit.

The Bank regularly carries out operational monitoring of the objectives implementation and introduces the best banking practice standards to put them into action.

Risks and resources

Resources

The Bank's customers are a significant number of individuals and entities from various industries. Payment cards business plays an important role in expanding the client base.

The Bank is a principal member of the international payment systems Visa and MasterCard and operates its own processing center, which serves a large number of cards from other domestic banks. The presence of a widely-developed network of own ATMs and the Bank's affiliation with the financial and industrial group contribute to attracting a large number of enterprises for servicing salary projects.

Resource base of FUIB is diversified by sources of attraction (clients' funds, funds from the National Bank of Ukraine by means of refinancing, funds attracted on international markets, funds from domestic banks, etc.) and by major counterparties, client deposit portfolio - by major depositors, and funds of legal entities - by types of economic activity. This diversification mitigates sensitivity to liquidity risk.

In 2019, total customer accounts increased by 7.5%, amounts due to individuals increased by 25.1% and amounts due to corporate clients decreased by 5.2%. As a result, the share of corporate accounts in total amounts outstanding to the customers decreased from 58.2% to 51.4%, while the share of retail accounts increased from 41.8% to 48.6%.

The Bank fulfills its obligations to creditors on time and in full. In 2019 subordinated debt was repaid. This reduced the debt burden on the Bank.

FUIB is a universal bank. The main share of loan portfolio belongs to corporate clients. The share of retail business is one third from the total customer's loan portfolio. Short-term loans prevail in the loan portfolio as well as loans to finance current activity. Diversification of corporate loan portfolio of the Bank by type of economic activity is acceptable.

Taking into account the currency structure of customer accounts and attraction of funds on international markets, about one third of the clients' loan portfolio was loans provided in freely convertible currencies. In terms of borrowers with currency loans the vast majority is among the largest legal entities borrowers. The absence of foreign currency inflows from certain borrowers increases the Bank's sensitivity to currency and credit risks. Loans from Top-20 largest borrowers constitute 23% of the total loan portfolio before allowance for expected credit losses. Currently the client loan portfolio is diversified by major borrowers. The concentration of loans in relation to the Tier 1 capital, which varies depending on the change in the volume and structure of regulatory capital, was due to the devaluation of the national currency in 2014, taking into account the currency structure of the loans to the largest borrowers.

The quality of the loan portfolio is acceptable. As at 31 December 2019 the share of legal entities loans with Class 10 and loans to individuals with Class 5 (assessed in accordance with Resolution No. 351 of the National Bank of Ukraine) was 17.9%.

Significant amount of funds was directed into expected credit losses allowances that ultimately covered 18.9% of the loan portfolio in order to mitigate credit risk sensitivity.

Significant amount of funds on customer current accounts increases the Bank's sensitivity to liquidity risk. Diversification of the resource base by major lenders reduces the Bank's sensitivity to liquidity risk. The quality of the resource base is acceptable.

Operating efficiency during the reporting period was high. The Bank generates a stable positive cash flow both on interest-bearing assets and on commissions and trading activities. Profitable performance of the Bank during the reporting period was moreover fortified by successful collections of previously written off bad debts.

FUIB capital adequacy ratio and Equity structure is acceptable. According to the asset quality review conducted by the National Bank of Ukraine there is no capital shortage as at 1 January 2019. The Bank's capital adequacy exceeds the normative ratio prescribed by the NBU and the Ukrainian banking system average (FUIB capital adequacy ratio N2 = 21.21%, normative – 10%, the Ukrainian banking system average – 19.66%).

Taking into account the structure of the Bank's liabilities by maturity, the amount and share of highly liquid assets is significant.

Investments in government bonds and deposit certificates of the National Bank of Ukraine comprise 62% of highly liquid assets. The funds on the correspondent account with the NBU are maintained to the extent necessary for servicing clients' operations and fulfillment of the Bank's obligations. The majority of funds on nostro accounts are placed with non-resident investment class banks.

FUIB's liquidity indicators are acceptable. At the end of 2019, the Bank's liquidity ratios were above the required levels set by the National Bank of Ukraine:

- (N6) "Short-term Liquidity Ratio – 107.75 %, minimum required by the NBU – 60%;
- Liquidity Coverage Ratio (LCR) for all currencies – 169 %, minimum required by the NBU – 60%;
- Liquidity Coverage Ratio (LCR) in foreign currencies – 185 %, minimum required by the NBU – 50%.

In 2020, the Bank plans to finance its activities, the adequacy of working capital and liquidity by:

- increasing attractions from corporate customers;
- increasing funds from private individuals.

The Bank invests funds or acquire certain assets under the FUIB Growth Strategy. Financing is carried out through internal procedures with funds received from operating activities or profit reinvestment.

Total investment of the Bank in its fixed and intangible assets in 2019 amounted to UAH 429 million. Plan by the end of 2022 – more than USD 1.8 billion.

As at 31 December 2019, the Bank had capital expenditure commitments stipulated in the contracts for equipment purchase in the amount of UAH 15.5 million. The Bank's management has already allocated the necessary resources to fulfill the obligations. The Bank's management believes that future net income and financing will be sufficient to meet these and other similar obligations.

Plans for expansion or improvement of fixed assets and the reasons for their implementation are also carried out in accordance with the FUIB Growth Strategy and are financed through internal sources. Investment plans include expansion of branches network, ATMs, POS-terminals, investment in IT – in order to implement effective changes in business processes.

FUIB adheres to the high standards in the provision of decent and safe working conditions for employees and development of their professional skills. FUIB carries out its activities, observing the principles of conscientious working practices and respecting human rights.

The Bank's employees include economists and financiers, people of intellectual and creative professions, people who work in offices, branches and sales outlets. Employees are our Bank's main asset, the key to sustainable development of the financial institution.

A Collective Agreement which guarantees the protection of the rights and interests of each FUIB employee is in effect in the Bank. Everyone has equal rights and opportunities regardless of gender, race, age, place of residence, religion and political beliefs.

In 2019, FUIB traditionally invested in the improvement of workplace safety, preservation of employees' life and health. The Bank conducted laboratory studies of workplaces for the presence of harmful factors, preliminary and periodic medical examinations of employees, financed the inspection of buildings to identify potential danger of the facility, conducted examination of newly opened branches compliance with fire safety rules, the pre-trip medical examination of drivers of vehicles and much more.

Development of the employees is one of the main strategic directions. The Bank trains its employees remotely at trainings, seminars, master classes and workshops. By raising the level of knowledge and skills, our colleagues can implement more complex projects and tasks, thereby strengthening their competencies and developing the Bank.

For beginners, the Bank offers training that allows to adapt quickly and to fulfill their new responsibilities easily. For professionals, in order to discover their potential, it is possible to select training programs and inspiring projects together with the superior.

For the new technology fans, the Bank implements the IT Drive project. Employees of the Information Technology Department initiate and implement the ideas aimed at improvement of the internal processes and the experience of customers in using the Bank products.

Managers of the Bank are trained in the “School of Management”, from mastering the basic skills of the manager to managing changes and projects.

Those employees who have something to share with others can be trained in the “Institute of Internal Coaching”. They can develop and conduct trainings for the colleagues.

The Bank has a Code of Conduct that reflects the basic principles of corporate conduct and ethical standards for employees of FUIB. The Code of Conduct is based on the principles of honesty and integrity and defines minimum requirements for the behavior of a Bank employee. The Code of Conduct of FUIB is intended to help each employee to get an idea of the ideology and system of values of the Bank, its corporate culture, established ethical norms of employee behavior, the manner of communication with colleagues, clients and partners, solve complex ethical situations, to prevent a situation of conflict of interests arising during the work process. The Bank expects all employees and representatives of the Bank to be guided by the highest standards of personal and professional integrity in all aspects of their activities and comply with all relevant laws, rules, practices and principles of the Bank. Under no circumstances should employees jeopardize the reputation of the Bank as well as the principles of integrity, even if it may grant the Bank with potential benefits. When starting to work at FUIB, each employee is responsible for their behavior, including compliance with the laws, this Code of Conduct, corporate principles and internal documents of the Bank.

When implementing innovative technologies into business processes and customer service, FUIB supports “green” standards and makes its contribution to the preservation of the environment.

Not only are self-service online systems convenient for customers and profitable for business, but they are also beneficial to the environment. Thus, Internet banking “FUIB online 2.0” offers savings in term of customer’s time and money and instead of visiting standard offices it offers a wide range of online services without leaving home. This in turn reduces the load on the Bank. Overall, this is a significant economy of natural resources and energy that would be required for the organization and operation of branches.

Everyday FUIB employees make efforts to preserve the environment: apply principles of the “Green Office”: save energy resources, save paper, optimally use the equipment and procedures for electronic document management, collect waste paper and participate in other environmental initiatives.

In 2019, the Bank continued to replace traditional illuminants with energy-saving ones and to apply electricity saving policies. Application of new energy-saving technologies in office premises reduces electricity and water consumption. There is an active environmental initiative for collecting paper for recycling and disposal of other recyclable materials. In addition, FUIB handed over for recycling to other organizations all hazardous and non-hazardous waste of the Bank for the year.

In 2019, First Ukrainian International Bank is actively developing corporate volunteering. Our employees participate in environmental and social initiatives. FUIB employees took part in ecological volunteer clean-ups, participate in a large-scale nationwide action of SCM Group. With their own hands they make the life of their cities better, clean parks, squares and playgrounds from garbage. On the eve of the International Children's Day, FUIB employees together with their families participate in a charitable “Chestnut Run”, which is held in the central streets of Kyiv. FUIB team was one of the most numerous teams of the run. All funds collected within the framework of the project are transferred to charity. FUIB's football team participates in the charitable futsal tournament “Cup of Hope”, which is organized by the club "Football For All" and a charitable foundation for assistance for children with cancer "Crab". All funds collected were transferred to charity. FUIB has been supporting children from orphanages for ten years. The Bank carries out charitable promotions to collect essential supplies and cash donations for the children of specialized child care centers in different regions of Ukraine. Fifth consecutive year FUIB has been participating in the Donor Day. The collected blood was transferred to small patients, suffering from oncological diseases. Fourth consecutive year FUIB has been participating in the Lots of Socks campaign. The bank's employees express their support for people with Down syndrome; they take part in a flash mob with colored socks and collect financial aid for the activities of the All-Ukrainian charitable organization “Down Syndrome”. It finances the work of the Center for Early Development and the implementation of programs for the development of children with Down syndrome.

Anti-Corruption Program

Compliance Control Division of FUIB carries out monitoring of the compliance with the principles of conscientiousness when providing services for customers, bank secrecy, protection of a database, compliance of the offered product with customer's order. Compliance Control Division also monitors the veracity, completeness, objectivity and timeliness of information provided by the bank in accordance with laws and regulations for public authorities, partners, clients and the public.

The Bank provides the society with truthful and accurate information about its processes, products and services. FUIB constantly improves business transparency. The Bank timely discloses complete and reliable information, including information about its financial position and economic indicators. Thus, shareholders and investors can make informed decisions and customers have the necessary information about their financial partner.

The Bank implements the Procedure for declaration of external activities of the personnel. It is established there that employees shall necessarily inform the bank about their external activities. This information is analyzed and it is determined whether or not conflict of interest exists between the employee, the bank, its customers and counterparties. Furthermore, the Bank implements the “Procedure for delivery and receipt of gifts and invitations”.

The Bank implements Anti-monopoly Compliance Policy, the main purpose of which is to prevent the occurrence of violations in the field of competition law on the part of responsible divisions of the Bank.

In 2016 FUIB adopted the “Anti-Corruption Program of PJSC FUIB” and updated it in 2019. It establishes a set of rules, standards and procedures for identifying, counteracting and preventing corruption and is applied in all areas of the bank's activities.

A transparent system of corporate management has been implemented in FUIB. In 2019 there were no findings of the facts of prosecution of employees in connection with corruption.

Ethics and Business Conduct Committee, which is comprised of the top managers of the bank, was created and operates in the bank. The Committee ensures the implementation in FUIB of uniform standards and principles of the SCM businesses in the field of corporate ethics and business conduct.

Risks

Risk is inherent to banking and it is managed through the process of ongoing identification, measurement and control, subject to risk limits and other controls. The process of risk management is critical to the Bank’s continuing profitability, and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank’s strategic planning process.

The risk management policy, monitoring and control are conducted by a number of specialised bodies and units within the Bank. The unit most actively involved in such management is the Risk Management Division of the Bank subordinated to the Deputy Chairman of the Management Board on Risks (CRO) and reporting to the Supervisory Board, Management Board, Credit Council of the Bank, Assets and Liabilities Management Committee, Operational Risk Management Committee

The Bank’s risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical and expert models. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Bank also runs worst case scenarios that would arise should extreme events, which are unlikely to occur, do, in fact, occur.

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

The exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. The exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

Liquidity risk is the risk that the Bank will be unable to discharge its payment obligations when due in the course of usual economic activity and under stress circumstances. To limit this risk, the management has ensured diversified funding sources in addition to the Bank's core deposit base, manages assets in compliance with its liquidity principles and monitors future cash flows and liquidity on a daily basis.

To ensure its ability to fulfill clients' and own obligations, the Bank has implemented a policy aimed at maintaining the liquid assets at a level sufficient to cover any unexpected withdrawal of a part of the client deposits placed with the Bank as a precaution against further deterioration in the economic situation, specifically, through formation of so called "liquidity cushion". To assess the adequacy of the secondary liquidity cushion, the Bank uses the methodology of calculating the minimum required level of secondary liquidity for 3 stress outflow scenarios: light, medium and heavy. The scenarios are based on own customer accounts outflow statistics. According to the results of stress testing of liquidity risk as of December 31, 2019, a secondary liquidity cushion, formed by the Bank, covers stress outflows under 3 business scenarios. To assess liquidity risks, the Bank uses a gap analysis and a forecast of up to 1 year cash flows.

In addition, the liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the NBU. At as 2019 year end, the Bank has safety margin on most economic NBU ratios.

Interest rate risk is a potential menace of losses incurrence, decrease in income or decrease in value of the Bank's capital as a result of unfavourable changes in interest rates in the market. The risk appears primarily as a result of differences in maturities of assets and liabilities of the Bank by terms of sensitivity to changes in interest rates. Thus, the interest rate risk is the result of the unbalanced structure of statement of financial position by assets and liabilities by residual term to re-pricing date that are sensitive to changes in interest rates.

The Bank assesses interest rate risk by scenario of parallel shift of yield curve towards the increase in interest rates by 200 bpp in major currencies (UAH, USD, EUR). As at 31 December 2019, the Bank was exposed to interest rate risk, whose realisation may impact net interest income within 1-year horizon – a possible decrease by UAH 4,016 thousand (31 December 2018: a possible decrease by UAH 56,331 thousand).

The Bank assesses the above level of the interest rate risk as acceptable and controllable, which will not affect significantly the Bank's yield and stable financial position.

Currency risk is the risk associated with the impact of foreign exchange rates fluctuation on the value of financial instruments.

The Bank performs currency risk assessment using Value-at-Risk assessment methodology (VaR) taking into consideration recommendations of International Convergence of Capital Measurement and Capital Standards, June 2006 and Revision to Basel II market risk framework, December 2010. VaR allows to assess maximum possible extent of losses with set confidence level for a certain period of time.

The Bank performs VaR calculation using historical modelling method so as to assess the currency risk in normal and stressed conditions of financial market development. VaR calculation is based on 251 days disregarding historical data on market currency rates; the calculation period during which the Bank would be probably able to close open foreign currency positions is 10 days and one-sided confidence level is 99%.

The results of currency risk calculation using VaR method as at 31 December are as follows:

Index	**2019**	**2018**
Currency risk without diversification consideration		
USD	24 566	8,789
EUR	28 615	8,997
RUB	1 369	8,985
other currencies	4 912	4,803
Total currency risk without diversification	**59 462**	**31,574**
Diversification effect	(10 542)	(24,903)
Currency risk with diversification consideration	**48 920**	**6,671**

The above data is calculated based on internal management accounts of the Bank which are based on the operational financial statements prepared in accordance with IFRS.

Assets and Liabilities Committee of the Bank examines the results of currency risk assessment on a monthly basis.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank. The Bank considers the total capital under management to be the total regulatory capital. The amount of the capital that the Bank manages is UAH 7,914,882 thousand as at 31 December 2019 (31 December 2018: UAH 5,282,255 thousand).

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets computed based on the Ukrainian accounting rules. As at 31 December 2019 and 2018, the Bank's capital adequacy ratio on this basis was as follows:

	2019	**2018**
Main capital	4 590 896	3,759,198
Additional capital	3 331 042	1,530,113
Withdrawals	(7 056)	(7,056)
Total equity	**7 914 882**	**5,282,255**
Risk-weighted assets	**37 308 695**	**32,324,099**
Capital adequacy ratio	**21,21%**	**16.34%**

As at 31 December 2019, the Bank was compliant with the regulatory requirements to capital.

As at 31 December 2019 and 2018, the Bank's capital adequacy ratio calculated in accordance with the Basel I requirements was as follows:

	2019	**2018**
Tier 1 capital		
Share capital	3 294 492	3 294 492
Share premium	101 660	101 660
Reserve fund	1 475 430	1 475 430
Retained earnings/ (accumulated deficit)	3 616 578	996 305
Total tier 1 capital	**8 488 160**	**5 867 887**
Tier 2 capital		
Asset revaluation reserves	579 217	449 982
Eligible subordinated debt	–	292 887
Total tier 2 capital	**579 217**	**742 869**
Total equity	**9 067 377**	**6 610 756**
Capital adequacy ratio at 31 December		
Risk-weighted assets	40 330 966	37 650 032
Total equity	9 067 377	6 610 756
Capital adequacy ratio (%)	**22,48%**	**17,56%**

The existing risk management system evolves along with the growth of the Bank and is based, among other, on the experience of overcoming major systemic crises in 1999, 2004, 2008, 2014. The management believes that at the current stage the mature system of risk management has been formed, which allows to effectively eliminate both current and strategic challenges.

As a part of its overall financial risk management process, for the purpose of interest, currency, credit and liquidity risks management the Bank uses a system of limits and restrictions that ensures that actual risk measures are at the levels that do not exceed the Bank's tolerance to those risks. The Bank actively uses collateral to reduce its credit risks.

The Bank does not utilise hedge accounting defined in IFRS 9. To mitigate market risks the Bank may use derivatives to a limited extent including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as net gains/(losses) from financial derivatives.

Shareholders and related parties relationships

In the normal course of business, the Bank enters into transactions with significant shareholders, companies under common control and other related parties. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions. The outstanding balances as at 31 December 2019 and income and expenses for 2019 were as follows:

As at and for the year ended 31 December 2019	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers	–	918 214	379	23
(UAH - interest rate, % p.a.)	–	*(17,32)*	*(43,24)*	*(42,76)*
(USD, EUR - interest rate, % p.a.)		*(7,79)*	-	-
Allowance for loan impairment	–	(66 976)	(13)	(1)
Other assets	3	2 091	12	1
Liabilities				
Due to customers	(4 682)	(7 983 507)	(164,631)	(134,939)
(UAH - interest rate, % p.a.)	–	*(11,03)*	*(14,03)*	*(16,75)*
(USD, EUR - interest rate, % p.a.)		*(0,35)*	*(3,20)*	*(2,92)*
Other liabilities	–	(19 083)	(6)	(18)
Credit related commitments				
Revocable commitments to extend credit	–	82 219	955	574
Guarantees and avals	–	155 312	–	–
Letters of credit	–	352 926	–	–
Income/(expense)				
Interest income	–	106 419	62	4
Interest expense	–	(464 026)	(3 360)	(7 811)
Commission income	181	454 290	266	10 271
Fee and commission expense	–	(1 385)	–	–
Other proceeds	–	958	5	19
Charge to provision for commitments, guarantees and letters of credit	–	21	–	–
Allowance for loan impairment	–	88 586	(7)	(1)
Operational and other expenses	–	(21 212)	(874)	–

Interest rate on loans to management of 43.24% represents interest rate on credit cards and overdrafts after grace period.

In 2019, the remuneration of members of the Management Board comprised salaries of UAH 81 618 thousand (2018: UAH 70 725 thousand), compulsory contributions to the State funds of UAH 2 460 thousand (2018: UAH 1 715 thousand) and allowance for additional remuneration payment of UAH 126 051 thousand (2018: UAH 135 861 thousand). In 2019, the remuneration to members of the Supervisory Board comprised UAH 18 719 thousand (2018: UAH 3 726 thousand).

Furthermore, as at 31 December 2019 loans to two companies, which are not related, with net carrying value of UAH 1 833 027 thousand (2018: loans to two companies, which are not related, with net carrying value of UAH 2 672 866 thousand). These loans are not overdue. As at 31 December 2019 and as at 31 December 2018 collateral under these loans were provided by related parties. Also, other source of repayment of these loans (except of collateral realisation) are proceeds from the related parties. Gross carrying amount of these loans as at 31 December 2019 is UAH 1,848,508 thousand (2018: UAH 3,126,045 thousand). The recognized expected credit losses for these loans are UAH 15,481 thousand as at 31 December 2019 (2018: UAH 453,179 thousand).

Performance results and further growth

Banks result

In 2019, the Bank's activities were characterised by the following trends.

As at 31 December 2019, Bank’s total assets were UAH 55,437 million, which is UAH 5,572 million (+ 11.2%) more than in previous year (31 December 2018 - UAH 49,865 million).

Corporate loan portfolio before deducting expected credit losses increased by UAH 303 million (+1.2%) to UAH 25,358 million. Expected credit losses on the corporate loans decreased by UAH 1,987 million (-32.3%) to UAH 4,159 million.

Retail loan portfolio before deducting ECL increased by UAH 3,627 million (+31.4%) and amounted to UAH 15,189 million. Expected credit losses on the retail loans increased by UAH 275 million (+8.5%) to UAH 3,501 million.

The Bank’s assets had the following structure:

1. Loans to customers – 59.3% (31 December 2018 – 54.6%);
2. Cash on hand, Balances with NBU and Due from other banks – 19.4% (31 December 2018 – 21.0%);
3. Securities portfolio – 16.1% (31 December 2018 – 19.0%);
4. Property and equipment, Investment property, Intangible assets and Right-of-use assets – 4.0% (31 December 2018 – 4.1%);
5. Other assets – 1.2% (31 December 2018 – 1.3%).

In 2019, Bank's total equity grew by UAH 2,749 million (+43.5%) and as at 31 December 2019 equaled UAH 9,067 million.

The operating income of the Bank before deducting charge for allowance for impairment in 2019 was UAH 7,474 million, which is higher by UAH 1,519 million (+25.5%) than in 2018.

During 2019, the Bank received UAH 5,290 million of net interest income, which is UAH 1,377 million more than during 2018 (or +35.2%):

- due to growth of loan portfolio and its credit quality improvement;
- as a result of active work with distressed portfolio.

In 2019, the Bank's net commission income was UAH 1,746 million, which is UAH 241 million (+ 16.0%) more than in 2018.

Gains from dealing operations and other income decreased by UAH 54 million (-10.3%) to UAH 474 million.

In 2019, the Bank's operating expenses increased by UAH 728 million (+21.6%) and reached UAH 4,097 million. In 2019, the Bank continued implementation of strategic business development projects.

In 2019, charge for allowance for impairment decreased by UAH 38 million (- 14.9%) to UAH 215 million.

Therefore, the Bank's net income for the year 2019 was UAH 2,604 million which is +29.6% more than previous year result (UAH 2,009 million).

Bank's assets

The main active vectors of FUIB operations traditionally were loans and government securities. Total amount of loans before deducting expected credit losses rose by UAH 3,930 million (+10.7%) up to UAH 40,547 million as at 31 December 2019. Expected credit losses on loans decreased by UAH 1,712 million (-18.3%) to UAH 7,661 million.

Lending operations. The Bank's lending activities were carried out in accordance with Ukrainian legislation, restriction established by the NBU under refinancing loans and the Bank's internal regulations.

At 31 December 2019, corporate loan portfolio was UAH 25,358 million, which is UAH 303 million (+1.2%) more than in previous year. Loans to trading and agency companies (25.8%), food industry and agricultural (20.5%), building companies (15.0%) represent the major share in the Bank's loan portfolio by industry sector with mining and energy industry portfolio demonstrating the biggest growth by UAH 968 million and construction and real estate industry showing the biggest decline by UAH 1,501 million.

At 2019 year end, retail lending portfolio was UAH 15,189 million, which is UAH 3,627 million (+31.4%) bigger than 31 December 2018.

The Bank's interest income on loans to customers (including financial lease) was UAH 6,686 million in 2019, which is by UAH 1,702 million (+34.7%) more than in 2018. Relative share of income on loans to customers (including financial lease) in the interest income structure was 85% (2018: 77%).

Securities transactions. At 31 December 2019, the Bank's securities portfolio was UAH 12,130 million, which is by UAH 476 million (+4.1%) more than in 2018.

Total amount of Ukrainian Government debt securities in the Bank's investment portfolio reached UAH 7,716 million, it's by UAH 694 million (-8.3%) less than as at 1 January 2019.

In 2019, interest income on securities transaction was UAH 1,053 million and decreased by UAH 262 million(-19.9%) compared to 2018. At the end of 2019, share of interest income on securities transaction in total interest income was 14.0% (2018: 21%).

The Investment business department carried out securities transactions in accordance to fixed limits.

Interbank operations. At 31 December 2019, due from other banks was UAH 3,806 million, which is by UAH 1,790 million less than in 2018 (-32%).

In 2019, interest income on interbank operations was UAH 103 million (1.3% of total interest income) and decreased by UAH 28 million (-22%) compared to 2018.

Total assets structure was characterised by an increase in share of loans to customers (from 54.6% to 59.3%).

Bank's liabilities

The Bank's total liabilities grew by UAH 2,787 million, or +6.4% to UAH 46,334 million at 31 December 2019.

Customer accounts. In 2019, customer accounts increased by UAH 2,972 million (+7.5%), relative share in total liabilities structure increased from 91.3% to 92.2% in comparison with 2018. Corporate customer accounts decreased by UAH 1,197 million (-5.2%) and were UAH 21,973 million. Retail customer accounts increased by UAH 4,169 million (+25.1%) and reached UAH 20,779 million. As a result, relative share of corporate customer accounts in total liabilities decreased from 58.2% to 51.4%, retail – increased from 41.8% to 48.6%.

Borrowings. At 2019 year end, due to other banks increased by UAH 236 million (+34.0%) and was equal to UAH 934 million. The Bank fully redeemed its subordinated debt.

At the beginning of 2019, the Bank management has set the following key performance indicators: net profit before allowances and taxes, Net profit and NPS (Net promoter scope).

All key indicators were met at the end of the year:

- **Net profit** planned at UAH 2,462 million, in fact – UAH 2,604 million.
- **NPS (Net promoter scope)** planned at 66.5%, in fact 71%.

NPS (Net promoter scope) loyalty index, the generally accepted world metric that allows measuring client loyalty in banking and a lot of other industries by asking one simple question.

The classic NPS loyalty index is calculated based on the customer's answers to a question and in our case, it sounded: "How likely that you will recommend using FUIB's services to your friend and colleagues? Use a scale from 0 to 10, where 0 - definitely would not recommend, and 10 - I will definitely recommend".

The Bank's achievements in 2019.

- FUIB holds the leading position in the annual rating of "50 leading Ukrainian banks", by Financial Club publication:
    - FUIB Chairman Sergiy Chernenko became one of the three the strongest bankers of the Best Top Manager nomination;
    - Sebastian Rubaj, FUIB's Deputy Chairman on the Retail Business, was named the Best Retail Banker of 2019;
    - FUIB received "Gold" in the nomination "Servicing of private individuals at the branch" for the highest level of service;
    - In the nomination "Internet banking" FUIB took the 4th place, and in the nomination "Mobile banking" - it was among the TOP-5;
    - The second place was won by the Bank in the "Overdraft" nomination. FUIB received the honorable third place for "cash collection". In three nominations – "Cash loan", "Classic Deposit" and "Premium Banking" FUIB was among the TOP-5, and in the nominations "Card loans", "Salary Projects", "Savings Deposit" and "Corporate clients servicing" - among the TOP-10.
- Independent credit rating agency "Credit-Rating" announced an increase in the long-term credit rating of the First Ukrainian International Bank to the level uaAAA. The rating forecast – stable. The agency also confirmed the reliability rating of the bank's deposits at the level of "5" (highest reliability).
- The First Ukrainian International Bank has entered TOP-10 banks of quality rating management reputation "Reputation Activists".
- According to "Prostobank Awards" rating of "Prostobank Consulting" company, FUIB's credit card "VSEMOZHU" confirmed its TOP-2 ranking of the best retail banking products in category "Credit Cards".
- At once, three FUIB's products became leaders in rating of FinAwards 2019 from the leading financial portals of Ukraine - Minfin.ua and Finance.ua. Loan product "VSEYASNO" became the leader among online requests. Loan product "VSEYASNO" received the "Best cash loan" award. And the Bank's card "VSEMOZHU" became the leader among card's online requests.
- First Ukrainian International Bank entered to TOP-3 banks rating in accordance to Minfin financial portal who granted largest volume of loans to private individuals for 11 months of 2019.
- FUIB entered TOP-20 rating of most reliable Ukrainian banks. Banks reliability rating conducted by New Time publication with investment company Dragon Capital.
- According to the annual PaySpace Magazine Awards-2019, Internet Banking of First Ukrainian International Bank (FUIB) is recognized as one of the best in the segment. Internet banking received silver for the second consecutive year in the nomination "Best Internet banking in Ukraine".
- FUIB was included in TOP-3 rating of "BUSINESS" magazine (2019) in the nomination "Best Bid for Entrepreneurs", and the Bank's service "Currency Bidding" was included in TOP-50 of Financial Industry Innovation according to "BUSINESS" magazine (2019).
- The Bank was ranked 1st in the nomination "Best Bank for Accountants" in the national "Accountant Choice" Award conducted by LIGA:ZAKON (2019).
- "FUIB Online for entrepreneurs" was ranked among TOP-20 "Business Online Banking" within CIS and Caucasus banks according to the International Association "SME Banking Club" (2019).

FUIB continues to develop innovative services and take care of convenience and comfort of its customers.

In 2019, FUIB has released a new card for any payments – VSEKARTA, which is able to combine / replace any salary, social, pension, personal cards of the client into one card. This card is recognized as the best card on the market according to FinAwards 2020.

The Bank realised the possibility of making installments for any purchases on the credit card "VSEMOZHU" in the VIBER messenger that facilitated the financial calculations of the population.

FUIB has renewed the production of exclusive metal-ceramic cards for VIP clients based on MasterCard World Elite in Ukraine.

In 2019, the Bank launched a pilot on customer servicing at the Bank's branches on smartphones, which has improved and accelerated the service on branches.

FUIB has joined the system of remote identification of citizens for providing BankID administrative services by the National Bank of Ukraine.

The FUIB online mobile application continues to change for the benefit of our customers. Thus, in 2019 the Bank introduced the possibility of payment for various services, such as utilities, for Internet, TV, cell phone costs etc. Push notifications have also been added for convenience of customers notification.

One of the priorities of FUIB is the development of products and services for small and medium enterprises.

FUIB's mission is to provide clients with high quality banking products, perfect and constantly improving service and an individual approach. FUIB is constantly improving its business processes, implementing the latest technological solutions, improving the level of service and quality of products.

FUIB constantly strives to improve services quality provided to its customers.

Part II. Corporate management report

1) Purpose of the Bank

The main objective of the Bank is to achieve the position of a modern, versatile, competitive bank in Ukraine, a leader in providing banking services, which will satisfy the needs of our clients in modern banking and financial instruments.

In order to increase profits and business efficiency, the Bank will continue to support and develop retail and small businesses, increase a customer base, build long-lasting customer relationships, expand the Bank's network, as well as reengineer, automate, enhance stability and proceed with business processes optimization.

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

The Corporate Governance Code of Joint Stock Company "FIRST UKRAINIAN INTERNATIONAL BANK was approved by the decision of the General Meeting of Shareholders on 27.11.2018 and is aimed to regulate the principles of corporate governance in the Bank in accordance with the requirements of the legislation of Ukraine and according to the Charter of the Bank.

The Corporate Governance Code is published on the Bank's official website – https://about.pumb.ua/management

In the course of its business activity, the Bank adheres to and implements the basic principles of corporate governance, such as:

1. honesty, integrity and respect in relations with owners (shareholders) and investors, as well as a constant willingness to ensure their interests proper protection and their wealth maximization;

2. avoidance of unreasonably complicated and excessive cost procedures for exercising the rights of the Bank's shareholders, while complying with the requirements of the legislation of Ukraine and the Bank's Charter;

3. equal treatment of all shareholders, including fair dealing with minority shareholders;

4. definition of strategic goals of the Bank's activity and control over their implementation;

5. introduction of a high-quality and effective Bank management system;

6. accountability of the Management Board to the General Meeting of Shareholders and the Supervisory Board of the Bank, which supervises the activities of the Management Board;

7. defining standards, rules and norms of corporate conduct for all employees of the Bank, as well as procedures for informing on misconduct, including fraud or corruption, in accordance with the Code of Corporate Ethics, which reflects the key principles and standards of the Bank's work;

8. effective management of compliance risk and other risks to which the Bank is exposed in its activities, as well as situations of conflict of interests in order to protect the interests of its depositors, clients, counterparties, owners (shareholders) and employees in accordance with the internal procedures implemented in the Bank;

9. transparency of the Bank's activity, which is ensured by timely disclosure of accurate, objective as well as material information about the Bank's activity;

10. responsibility, meaning that the Bank recognizes the rights of all interested persons set out by the legislation of Ukraine, as well as the Bank's commitment to mutually beneficial cooperation with such persons in order to ensure the development and financial stability of the Bank.

The Bank has steadily adhered to the principles of corporate governance and the Corporate Governance Code during 2019. There were no significant violations of the Corporate Governance Code requirements.

3) Information on the majority shareholders (including those exercising control over the Bank), their compliance with the statutory requirements and changes in their structure during the year.

As at 31 December 2019 the majority shareholders of the Bank are:

1. “SCM FINANCE” LIMITED LIABILITY COMPANY (hereinafter SCM FINANCE LLC), which directly owns the Bank's ordinary registered shares of 92.342249%;

2. “SYSTEM CAPITAL MANAGEMENT” PRIVATE JOINT STOCK COMPANY, which indirectly owns ordinary registered shares of the Bank in the amount of 93.342249%.

3. Rinat Akhmetov, who indirectly owns 100% of the Bank's ordinary registered shares and is the ultimate beneficial owner.

The majority shareholders fully comply with the statutory requirements.

SCM FINANCE LLC, as a shareholder of the Bank, received a written permission from the National Bank of Ukraine (hereinafter referred to as the NBU) to increase its substantial participation in the Bank as of January 6, 2006 # 1.

The minority stake of the shareholder Bandura G.A. of 0.099% was withdrawn on 22 January 2019 as a result of the squeeze out procedure, i.e. obligatory sale of shares by shareholders at the request of a person (persons acting jointly) who owns the dominant controlling stake.

4) Information on the General Meeting of Shareholders of the Bank and the general description of the adopted decisions.

Ordinary and extraordinary General Meetings of the Bank's shareholders were held during the reporting period.

General (annual) Meeting of Shareholders (hereinafter - Annual GMS) was organized at the initiative of the Bank's Supervisory Board in accordance with its decision from 21.03.2019 and held on 24.04.2019. The Annual GMS agenda included the following issues:

1. On election of the Secretary and the Counting Committee of the Meeting.
2. On approval of the Bank's annual report for the year 2018.
3. On reviewing the Bank's Supervisory Board report for 2018 and approval of the results of its review.
4. On reviewing the conclusions of the external auditors of the Bank's 2018 Annual Report and approving the results of their review.
5. On the Bank's profit distribution for 2018.
6. On determining the main activities of the Bank for 2019.
7. On approval of the report on the remuneration of the members of the Bank's Supervisory Board for 2018.
8. On determining the amount of remuneration for a member of the Bank's Supervisory Board.

Proposers on the agenda: None.

By the decision of the Annual General Meetings of the Bank's shareholders (GMS), the Secretary and the composition of the Counting Committee of the Meeting were elected and the Chairman and the Secretary of the Meeting were authorized to sign the Protocol of the Annual GMS. In addition, the Annual GMS discussed the approval of the Bank's 2018 Annual Activity Report and the Supervisory Board's 2018 report. Annual GMS reviewed and approved the conclusions of the Bank's external auditor - Ernst & Young Audit Services LLC with respect to the Bank's 2018 Annual Report without any remarks and additional measures, distributed the Bank's profit, directing part of it to cover the losses of previous years, determined the main activities for the year 2019. Also, by the decision of the Annual General Meetings of the shareholders the report on the remuneration of the members of the Supervisory Board of the Bank for 2018 was approved and the amount of remuneration to the member of the Supervisory Board of the Bank Mrs. Dugadko G.O. was determined. The results of the Annual General Meetings of the shareholders were concluded in Protocol No. 81 from 24.04.2019.

Extraordinary General Meeting of Shareholders (hereinafter referred to as Extraordinary GMS) was held at the initiative of the Bank's Supervisory Board in accordance with its decision of 01.08.2019 and held on 12.09.2019. The quorum of the Extraordinary GMS was 92.342249%. The agenda of the Extraordinary GMS included the following issues:

1. On the election of members of the Counting Committee, the decision to terminate their powers. On the procedure for signing the minutes of the Meeting.

2. Amendments to the Charter of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" by its presentation and approval in the new version.

3. On approval of the Regulation on the General Meeting of Shareholders of JSC "FIRST UKRAINIAN INTERNATIONAL BANK" in the new version.

4. On approval of the Regulation on the Supervisory Board of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" in the new version.

5. On approval of the Regulation on the Management Board of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" in the new version.

Proposers on the agenda: None.

By the decision of the Extraordinary General Meeting of Shareholders (GMS), the Secretary and the composition of the Counting Commission of the Extraordinary GMS were elected and the Chairman and the Secretary of the Meeting were authorized to sign the Protocol of the Extraordinary GMS and to legally notarize their signatures. Also decisions were made to bring the Bank's Charter and regulations of the governing bodies of the Bank in compliance with the current legislation. The results of the Extraordinary General Meeting of Shareholders were concluded in Protocol No. 82 of 12.09.2019.

5) Information about any restrictions on the rights of participation and voting of the Bank's shareholders at the General Meeting.

The Bank's charter does not impose any restrictions on the rights to participate and vote at the General Shareholders Meeting for holders of ordinary registered shares of the Bank, except for the restrictions provided by the legislation of Ukraine.

The Bank provides the shareholders of the Bank with the opportunity to familiarize themselves with the documents necessary for the adoption of the agenda at the General Meeting of Shareholders, in a way established by the Law of Ukraine "On Joint Stock Companies".

6) Procedure for appointment and dismissal of Bank's officials.

The election and termination of the powers of the members of the Supervisory Board of the Bank is decided by the General Meeting of Shareholders. In accordance with the requirements of the Law of Ukraine "On Joint Stock Companies", the election of the members of the Supervisory Board is held by cumulative voting. The termination of powers and election of the Chairman of the Board of the Bank is held by a simple majority of votes of the shareholders who registered for in the general meeting and are the owners of voting shares.

The appointment and termination of authority / dismissal of the Chairman and members (including the Vice-Chairmen) of the Bank's Management Board is within the exclusive competence of the Bank's Supervisory Board. The decision is made by a simple majority of the members of the Supervisory Board who attend the meeting and have the right to vote. In the event of an equal distribution of votes of the members of the Supervisory Board, the Chairman of the Supervisory Board has the final vote in the decision making process.

7) Powers of the Bank's officials.

The powers of the Bank's officials are set out in the Charter of the Bank, the Regulations on the Supervisory Board and the Bank's Management Board, which are available free of charge on the Bank's official website at: https://about.pumb.ua/management.

As written in the Bank's Order, the members of the Management Board allocated their official and functional responsibilities according to the directions of the Bank's activity.

8) Information on the composition of the Bank's Supervisory Board and its change during the year, including its committees, as well as information on meetings held with a general description of the decisions taken.

The Supervisory Board of the Bank is a collegial body of the Bank, which oversees the activities of the Management Board of the Bank and protects the rights of depositors, other creditors and shareholders of the Bank within the competence defined by the Charter of the Bank and legislation of Ukraine.

In its activity, the Bank's Supervisory Board is guided by the laws of Ukraine "On Banks and Banking activity", "On Joint Stock Companies", regulatory acts of the National Bank of Ukraine, the Bank's Charter, decisions of the General Meeting, as well as the Regulation "On the Supervisory Board of the FIRST UKRAINIAN INTERNATIONAL BANK”.

The members of the Supervisory Board of the Bank are elected from among the shareholders of the Bank, their representatives and independent members of 9 (nine) persons.

During 2019, the Supervisory Board worked in the composition elected on 27.11.2018 by the extraordinary General Meeting of Shareholders of the Bank, namely:

- Popov Oleg Mikolayovych, Chairman of the Board of the Bank;
- Kurilko Sergiy Evgenievich, Member of the Board of the Bank;
- Dugadko Ganna Oleksandrivna, Member of the Board of the Bank;
- Katanov George Bogomilov, Member of the Board of the Bank;
- Povazhna Margarita Victorivna, Member of the Board of the Bank;
- Susan Gail Buyske, Member of the Bank;
- Stalker Catherine Elizabeth Ann, Member of the Board - Independent Director;
- Ansis Grasmanis, Member of the Board of the Bank - Independent Director;
- Mihov Valentin Lyubomirov, Member of the Board of the Bank - Independent Director.

The approved composition of the Supervisory Board is optimal and sufficient for the Board of the Bank to exercise its powers.

All members of the Supervisory Board meet the qualification requirements for goodwill and professional competence, have significant managerial and professional experience, understanding of financial analysis and risk aspects of the Bank.

Independent directors meet the statutory requirements for their independence.

The members of the Supervisory Board jointly have the knowledge, skills and experience necessary for the Board to exercise its authority in all areas of the Bank's activity, enabling professional discussion of the issues decided.

The decision of the Board of the Bank from 18.12.2018 approved the distribution of powers among the members of the Supervisory Boards.

Members of the Bank's Board are constantly improving their knowledge and skills by participating in professional events such as the Annual Banking Forum, the NBU Independent Directors' School, thematic seminars, conferences, and more.

The Bank annually evaluates the activities of the Supervisory Board. Based on the results of the evaluation in 2019, the activity of the Supervisory Board was recognized as effective.

During 2019, the Bank's Supervisory Board made important and fundamental decisions. The main attention was focused on ensuring the functioning of the internal control system, control over the effectiveness of the risk management system, implementation of the approved development strategy of the Bank aimed at improving the profitability and competitiveness of the Bank.

In 2019, there were 24 meetings of the Supervisory Board, of which 5 were held by direct attendance and 19 by teleconferences.

Within its competence, the Supervisory Board made decisions on the following issues:

- on approval of the Bank's Development Strategy and the budget of the Bank, including the budgets of the control units;
- on the organization of the General Meeting of Shareholders of the Bank;
- on approving decisions to provide financing to Bank-related entities;
- to establish branches of the Bank, change their location and name, approve regulations on the activity of branches;
- to define and approve the organizational structure of the Bank;
- on the establishment of the Bank's structural units and the approval of internal regulations on such structural units;
- to select property appraisers to evaluate the value of the Bank's property and assets, approve the terms of the agreement with such appraisers, and determine the amount of payment for their services;
- on joining and exiting associations;
- to approve regulations on the Bank's activities;
- on appointment and dismissal of the Vice-Chairmen of the Bank's Management Board, approval of the terms of employment contracts with them, determination of the amount of their remuneration, including incentives and compensation;
- on appointment of the Chief Compliance Officer (CCO) and approval of its performance indicators for 2019 (KPI);
- to approve the results of the annual assessment of the compliance of the members of the Supervisory Board, the Management Board and other Bank executives with the qualification requirements set by the NBU to the bank executives;
- on risk management, namely, reviewing the risk reports inherent in the Bank's activities and standard compliance control reports, setting and reviewing limits, observing internal bank risk limits, reviewing the impact of stress tests on the Bank's capital, approving internal regulations on risk management, the level of risk compliance in the results of the conducted audits, the review of the results of the NBU inspection on the issues of risk management system evaluation and approval of measures taking into account the NBU's recommendations and other important issues;
- on the internal audit, namely, the approval of the selection criteria of the participants in the selection of the auditing entities for the statutory audit of the financial statements, the election of an external auditor, approval of the terms of the contract with him and establishing the amount of payment for his services, consideration of recommendation letter for the results of the audit of the Bank's financial statements for 2018, the review of the reports on the results of the internal audit activity, the control over the implementation of the Plan of Measures by the Consequences of the Conclusion, the approval of policies and internal regulations of internal audit, the results of self-assessment of the Department of internal audit for 2018 and other issues within the competence of the Supervisory Board.

The Bank's Management Board regularly provided information to the Bank's Supervisory Board and timely and comprehensively reported to it on the state of implementation of the strategy and implementation of the Bank's business development plan, results of the Bank's activity, capital management, changes in regulatory requirements, implementation of risk management strategy and policy, functioning of the internal control system. etc. Thus, the Supervisory Board constantly performed its supervisory and advisory functions after an in-depth analysis and consideration of all relevant facts.

In accordance with the decision of the Bank's Supervisory Board, the following Supervisory Board committees shall function as of 01.01.2019:

Audit Committee;
Risk Management Committee;
Remuneration and Appointments Committee.

Activities of the Audit Committee for 2019.

During 2019, the Audit Committee (hereinafter referred to as the AC) worked as follows:

- Anis Grassmanis, Committee Chairman;

- Valentin Mihov, member of the committee;

- Margarita Victorivna Povazhna, member of the committee.

The AC conducts its activities on the basis of the “Regulation on the Supervisory Board Committee of FUIB JSC on Audit”.

In accordance with the functions assigned, during 2019, the AC served as an advisory body to the Supervisory Board on control and regulation of the Bank's activities in the field of financial reporting, external and internal audit, internal control. The AC supervised the financial statements of the Bank and the Banking Group, for which JSC FUIB is responsible, including the proper disclosure of material management judgments made in the preparation of the financial statements, and oversaw the activities of external and internal auditors and evaluated their effectiveness.

The main areas of focus of the AC in 2019 were:

- supervising, discussing and ensuring the accuracy of the financial statements, including the audit report for the year ended 31 December 2018, taking into account the assessment of the implementation of the new International Financial Reporting Standards – IFRS 9 "Financial Instruments" and IFRS 16 "Leases";
- maintaining relationships with external auditors, including oversight of the audit firm's compliance with the principles of independence and objectivity, periodic analysis of audit and non-audit services provided to the Bank;
- organizing a competition among auditing entities to provide the Bank with statutory audit services for the financial statements for 2019 and 2020;
- monitoring the activities of the Bank's internal audit unit and supporting its role in the corporate governance structure;
- evaluating the effectiveness of the Bank's internal control system and ensuring that management deficiencies are promptly eliminated by external, internal auditors and regulatory authorities.

During the reporting period, the Committee held 9 meetings, of which 5 were regular meetings with direct participation and 4 extraordinary ones were held in the form of teleconferences.

The Committee considered the following issues:

- on financial statements:
  - the draft financial statements of the Bank for the year ended 31 December 2018 have been considered and discussed with the external auditor Ernst & Young Audit Services LLC;
  - changes to accounting policies and new standards (IFRS 9 and IFRS 16), which were applied to prepare the Bank's financial statements for the year ended 31 December 2018, were discussed with the Deputy Chairman of the Management Board - Chief Financial Officer of the Bank I.O. Kozhevin and Chief Accountant O.O. Poleschuk;
  - the results of the internal audit of the accounting organization and preparation of the Bank's accounting were considered.
- on internal control:
  - the management reports of the Bank on the results of monitoring of key control indicators for the IV quarter of 2018 and I-III quarters of 2019 were considered;
  - a general assessment of the effectiveness of the Bank's Internal Control System as of 01.01.2019 was considered, which was performed by the Internal Audit Department on the basis of its work for 2018, and a summary report of the Bank's management on the implementation of the Internal Control System's monitoring activities on a quarterly basis monitoring reports on key control indicators;
  - the information was considered on the status of implementation of the action plan, which was designed to eliminate the deficiencies in the Bank's activities, identified by the National Bank of Ukraine during the planned comprehensive inspection of the Bank in 2018;
  - the status of implementation of the action plan was considered, which was designed to address the deficiencies in financial monitoring identified by the National Bank of Ukraine during the planned thematic review in May 2018, which were reflected in a written warning sent to the Bank by the National Bank of Ukraine on 07.12.2018.
- on external audit:
  - a change in the terms of the contract with the external auditor was considered regarding the audit of the Bank's financial statements for 2018 in connection with the increase in the volume of services (carrying out the assets quality review of the Bank in the framework of banks and the banking system of Ukraine stability assessment in 2019 and additional volume of audit procedures in connection with the Bank's decision on the early adoption of IFRS 16 "Lease");
  - a meeting was held with partner and senior manager of external auditing firm Ernst & Young Audit Services LLC to discuss the results of the audit of the financial statements for 2018, including the issue of compliance with the principles of independence and objectivity by the audit firm (comments from members regarding the independence of the external auditor);
  - a meeting was held with a partner and senior manager of the external audit firm Ernst & Young Audit Services LLC, who audited the financial statements of the Bank and the Banking Group for 2018, to discuss the deficiencies of internal controls presented in the Management Letter on the basis of the audit;
  - Management information was considered on the implementation of the plan of measures to eliminate the deficiencies identified by the external auditor, which were outlined in the Management Letter of the external auditor Ernst & Young Audit Services LLC based on the audit results of the Bank and Banking Group financial statements for 2017 and 2018;
  - the selection criteria for candidates to participate in the competition of audit entities to provide the Bank with the statutory audit of financial statements for 2019 and 2020, as well as proposals regarding the procedure for conducting this competition, were developed and recommended to the Supervisory Board for approval;

- candidates were selected for participation in the competition of auditing entities to provide the Bank with the statutory audit of financial statements for 2019 and 2020 and the report to the Supervisory Board was provided on the results of the selection procedure with recommendations for candidates;
- In December 2019, a meeting was held with the new external auditor of the Bank, represented by a partner and senior manager of the audit firm PJSC "KPMG Audit", regarding the planning of the audit of the financial statements for 2019, including the issue of compliance with the principles of independence and objectivity of the audit firm. (There were no comments from members of the Committee on the independence of the external auditor).

• on internal audit:

- monitoring and verification was conducted of the effectiveness of the Bank's Internal Audit Department (IAD), which included evaluating results of the work of Director of IAD, providing recommendations to the Supervisory Board on approving the amount of remuneration of the Director and IAD employees (including approval of the Internal Audit Department's Permanent List since 01.04.2019 and decisions on setting remuneration for the director and employees of the IAD based on the achievement of the goals set for 2018);
- proposals were prepared for the Director and IAD employees goals setting for 2019;
- conducted an analysis and discussion of the Internal Audit Department's reports on the results of its audits and reports on the operations of the IAD for the fourth quarter of 2018 (including the results of the evaluation of the effectiveness of the Bank's Internal Control System as of 01.01.2019) and 1-3Q 2019;
- the report was considered on the Internal Audit Department Concept on development implementation, the Program for ensuring and improving the quality of internal audit for 2017-2019 (based on the results for 2018);
- the information was considered on implementation of the external expert's recommendations on the results of the independent external assessment of internal audit quality, which was conducted in 2017 (in the part of actions planned for 2018);
- the results of the Internal Audit Department's 2018 self-assessment have been considered;
- recommendations to the Supervisory Board of the Bank regarding amendments to the Internal Audit Department's Activity Plan for 2019 and to the Internal Audit Department's Budget for 2019 were provided;
- the draft Strategic Plan of the Internal Audit Department for 2020-2022, the Activity Plan for 2020 and the budget of the Internal Audit Department for 2020 were reviewed and recommendations were made to the Supervisory Board for their approval.

Activities of the Risk Management Committee for 2019.

During 2019, the Risk Management Committee (hereinafter referred to as the RMC) consisted of the following:

- Susan Gail Buyske, Committee Chair;
- Ansis Grasmanis, committee member;
- Ganna Dugadko, member of the committee;
- Margarita Victorivna Povazhna, member of the committee;
- George Katanov, committee member;
- Sergiy Kurilko, Member of the Committee.

The Risk Management Committee operates its activity on the basis of the “Regulation on the Supervisory Board Committee of FUIB JSC on risk management”.

Within the scope of the functions delegated by the Supervisory Board Risk Management Committee acted during the year as an advisory body to the Supervisory Board on:

- supervision of the risk management function in the Bank,
- providing guidance to the Supervisory Board on the risks faced by the Bank for each type of risk: credit, liquidity risk, market, interest rate, currency, operational (including covered by insurance),
- providing guidance to the Supervisory Board in determining the risk appetite and the set of limits corresponding to such risk appetite.
- compliance with the legislation and the Code of Business Conduct.

During the reporting period, the RMC held 6 meetings, of which 5 were regular, held by direct participation and 1 was extraordinary, held in the form of a teleconference.

The following issues were considered at the RMC meetings:

• review of standard risk management reports;
• model risk management: changes in risk models and assessment of their quality, practical approaches used by the Bank;
• consideration of standard financial reports regarding compliance risk and its level;
• the results of the Bank's diagnostics, as required by the NBU;
• a report on the implementation of the requirements of the NBU (Resolution No. 64) on building an effective Risk Management System for the Bank;

- status of implementation of the Stress testing plan in 2019;
- results of quarterly capital stress testing;
- KPI approval of the Deputy Chairman of the Risk Management Board (CRO) and Acting Chief Compliance Officer (CCO);
- RGAR performance in 2018 on risk management;
- compliance development plan for 2019. KPI approval and review for the Chief Compliance Officer (CCO);
- approval of CRO and CCO job descriptions;
- information on operating expenses for the internal control and risk management system in 2018-2019;
- quarterly reports on the implementation of the action plan to bring the N9 standard to the NBU regulatory requirements;
- information on dealing with related parties;
- approval of regulatory documents on risk management and compliance:
- the status of the NBU's inspection in terms of compliance of the Bank's Risk Management System with the NBU Regulation No. 64;
- the results of the Bank's annual self-assessment of bank risks for 2020;
- consideration of the new requirements of the NBU (Regulation No. 97) on bad assets management process organization in banks of Ukraine and approval of a plan of measures for implementation of the requirements of Regulation No. 97;
- reports on the implementation of previous decisions of the Risk Management Committee. Quarterly Reports of the Supervisory Board of the FUIB JSC on Risk Management.

Activities of the Remuneration and Appointments Committee.

During 2019, the Remuneration and Appointment Committee (hereinafter referred to as the Committee) consisted of:

- Catherine Stalker, Committee Chairman;
- Valentin Mihov, member of the committee;
- Oleg Mikolayovych Popov, member of the committee.

The Committee operates on the basis of the "Regulation on the Supervisory Board Committee of FUIB JSC on remuneration and appointments".

Within the functions assigned by the Supervisory Board, the Committee acted as an advisory body during the year to the Supervisory Board to determine and make recommendations to the Bank's Supervisory Board for vacancies in the Management Board, to periodically evaluate the members of the Management Board for compliance with the qualifications and to report to the Supervisory Board on this matter, carried the function of overseeing the development and periodic review of the Bank's (internal) policies on remuneration, remuneration principles and criteria etc.

During the reporting period, the Committee held 7 meetings, of which 5 were regular meetings with direct participation and 2 extraordinary ones held in the form of teleconferences.

The Committee considered the following issues:

- approval of the Committee's work plan for 2019;
- election of the Secretary of the Committee;
- approval of the “Regulation on the Remuneration and Appointments Committee”;
- approval of the Regulation “On remuneration of the members of the Supervisory Board of FUIB JSC”;
- approval of the Regulation "On the process of "Annual evaluation of the activity of the members of the Management Board of JSC FUIB and the Management Board of JSC FUIB in general";
- approval of the appointment of the Head of Compliance Control Department (CCO);
- approval of appointments of the Deputy Chairmen of the Management Board of the Bank, terms of employment contracts;
- creation of personnel reserve for the positions of the members of the Management Board of the Bank;
- change of the budget for remuneration of the Bank's employees for 2019 and the principles of revision of salaries;
- principles for reviewing the salaries of the Bank's employees in 2020;
- key competencies of the staff in support of the Bank's strategy implementation;
- performance evaluation (KPIs) of the members of the Bank's Management Board and approval of annual bonuses based on the results of activities in 2018;
- approval of general banking KPIs and goals for the Chairman and members of the Board of the Bank for 2019;
- assessment of the reputation of the members of the Bank's Management Board;
- discussion of the results of the study of loyalty and staff engagement for 2018. Hudson reports and eNPS survey results;
- review of salaries for individual members of the Bank's Management Board;
- approval of the Report on remuneration of the members of the Management Board of the Bank;
- status of critical vacancies of the Bank, plan of measures for closing vacancies;
- quarterly staff turnover status of the Bank;
- goals for bank staff turnover for 2020;
- review of the Bank's HR strategy.

Activities of the Bank's Credit Council for 2019.

The Bank Credit Council - is an elected collegial credit body of the Bank, which is responsible for credit risks acceptance by the Bank within the limits of its delegated powers. The Bank's Credit Council is accountable to the Bank's Supervisory Board.

During 2019, the Credit Council consisted of:

- Chernenko Sergiy Pavlovych, Chairman of the Board of the Bank - Chairman of the Credit Council;
- Popov Oleg Mikolayovych, Chairman of the Supervisory Board of the Bank - member of the Credit Council;
- Dugadko Ganna Oleksandrivna, Member of the Bank's Supervisory Board - Member of the Credit Council;
- Volchkov Oleksiy Anatoliyovych, Deputy Chairman of the Board - Member of the Credit Council (till 04.03.2019);
- Mahdych Serhii Borysovych - Deputy Chairman of the Board - Member of the Credit Council (since 15.03.2019);
- Eremenko Fedot Evgeniyovych, Deputy Chairman of the Board - Member of the Credit Council;
- Skalozub Leonid Pavlovych, Deputy Chairman of the Board - Member of the Credit Council;
- Sebastian Rubaj.- Deputy Chairman of the Board - member of the Credit Council.

During 2019, 111 meetings of the Credit Council were held, of which 31 meetings were held in a correspondence form of voting (voting by E-mail).

The main issues discussed at the meetings of the Credit Council:

- approval of new loan projects for borrowers;
- making changes to the financing conditions of clients;
- reviewing annual reviews of current credit agreements;
- discussing customer cooperation strategies;
- approving / amending product standards;
- accreditation of insurance companies;
- setting / extending / changing limits on interbank operations;
- setting limits on the debtor for factoring and trade finance operations;
- approval of mortgaged property sale;
- approval of debt claim rights sale;
- consideration of proposals to resolve the outstanding bad debts of clients;
- agreeing amendments to internal regulations on collegial bodies and delegating decision-making powers;
- reviewing reports on the quality of the loan portfolio, overdue debt and dealing with distressed assets.

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

The executive body responsible for the day-to-day management of the Bank is the Management Board.

The competence of the Management Board is to resolve all issues related to the management of the day-to-day activities of the Bank, except those which fall within the exclusive competence of the General Meeting of Shareholders and the Supervisory Board.

The Deputy Chairmen of the Bank's Management Board are members of the Management Board.

The quantitative and personal composition of the Management Board and the term of office of the members of the Management Board are determined by the Supervisory Board.

The Management Board includes: Chairman of the Board, First Deputy Chairman of the Board (if appointed by the Supervisory Board), Deputy Chairmen of the Board, members of the Board.

During 2019, the Board made the following changes:

- in accordance with the decision of the Supervisory Board of 04.03.2019 (Minutes №312), the term of office of Volchkov Oleksiy Anatoliyovych, Deputy Chairman of the Management Board, was terminated on 4 March 2019;
- in accordance with the decision of the Supervisory Board of 14.03.2019 (Minutes # 313) Mahdych Serhii Borysovych was appointed as Deputy Chairman of the Management Board from 15.03.2019;
- in accordance with the decision of the Supervisory Board dated 27.06.2019 (Minutes # 318), the term of office of the Deputy Chairman of the Board - Chief Financial Officer Kozhevin Igor Oleksiyovych was terminated on 03.07.2019 and Shkolyarenko Konstantin Oleksandrovych was appointed from 04.07.2019 to the position of Deputy Chairman of the Management Board - Chief Financial Officer;
- in accordance with the decision of the Supervisory Board of 04.12.2019 (Minutes No. 330), the term of office of Hara Eduard Anatolyevich as a member of the Management Board and the Accountable Officer of the Bank on financial monitoring on 04.12.2019 was terminated.

The agenda of the 2019 Board meeting included consideration of key events to cover in the weekly reports for the Bank's Supervisory Board, the results of the Bank's monthly, quarterly, semi-annual, annual financial results, budget implementation, development of strategies, approval of premises for new branches of the Bank and approval of opening of new branches, consideration of the reports of the Bank's Internal Audit Department on audits of the Bank's structural units and business processes, review of standard quarterly reports on risk management, compliance control, inspection report on the direction of the Bank's risk management system, monthly review of customer reports and social engineering, periodic review of the Bank's IT management reports, monthly review and approval of related party list, review and approval / adoption of internal documents of the Bank, as well as preliminary consideration of issues submitted for approval by the Board of the Bank.

During 2019, there were 46 meetings of the Bank's Management Board, 4 of which were extraordinary and 1 meeting was held in a correspondence form.

At the meetings of the Bank's Management Board:

- Operational (monthly, quarterly, annual) control of the results of the Bank's activity as a whole, business verticals (retail, corporate, investment businesses) was carried out;
- the Bank's Development Strategy for 2020-2024 was developed;
- considered the Bank's budget for 2020 before submission to the Bank's Supervisory Board;
- Hudson survey results and eNPS project reviewed;
- approved changes to the organizational structures of the Bank's subdivisions, as well as agreed Regulations on them;
- the creation of Small Business Risk Management Department was agreed;
- launch of a new line of debit cards for retail business;
- The Project Committee of the Bank was established and the Regulations on its functioning were agreed;
- the Code of Corporate Ethics of the Bank has been revised and approved;
- approved the Bank's Insurance Programs for 2019;
- the Bank's Anti-Corruption Program has been revised;
- Agreed Regulations "On the process of Annual evaluation of the activities of the Members of the Management Board of JSC FUIB and the Management Board of JSC FUIB as a whole ";
- approved lists of related parties of the Bank for submission to the NBU;
- work on updating the existing and approving new regulatory documents of the Bank was carried out, obsolete regulatory and instructive documents of the structural divisions of the Bank, which were revealed as a result of the general bank audit, were withdrawn;
- approved the Bank's Best Employee of the Year program list of winners;
- approved new and revised existing various motivational programs for the Bank's employees;
- decisions were made to change the location of the existing branches and to open new branches of the Bank, to approve the termination of activities and liquidation of the Branch of PJSC FUIB in M. KYIV;
- decisions were made to recognize bad debts as uncollectable and to write it off at the expense of the loan loss allowance or off-balance sheet accounts;
- the decisions on sale and purchase of property and other important issues of the Bank's activity were held.

The following committees were established in 2019 with the Bank's Management Board:

- Project Committee;
- Technology Committee;
- Operational Risk Management Committee;
- Assets and Liabilities Committee;
- Committee on Financial Monitoring;
- Ethics and Business Conduct Committee;
- Tariff and Commercial Committee;

Activities of the Project Committee for 2019.

During 2019, the Project Committee (hereinafter referred to as PC) worked as follows:

1. Chernenko Sergiy Pavlovych, Chairman of the PC, Chairman of the Board;
2. Member of the PC Committee, Deputy Chairman of the Management Board, who oversees the vertical of corporate business:
- during the period from 01.01.2019 to 04.03.2019, Volchkov Oleksiy Anatoliyovych,
- during the period from 15.03.2019 to 31.12.2019, Mahdych Serhii Borysovych;
3. Zagorodnikov Arthur Germanovych, PC member, Deputy Chairman of the Management Board;
4. Sebastian Rubaj, PC Member, Deputy Chairman of the Management Board;
5. Kosenko Natalia Feliksivna, Member of the PC, Deputy Chairman of the Management Board;
6. PC Member, Deputy Chairman of the Management Board - Chief Financial Officer:
- during the period from 01.01.2019 to 03.07.2019 - Kozhevin Igor Oleksiyovych;
- in the period from 04.07.2019 to 31.12.2019 - Shkolyarenko Konstantin Oleksandrovych.
7. Kostyuchenko Tatiana Vasylivna, PC member, Deputy Chairman of the Management Board;
8. Eremenko Fedot Evgeniyovych, PC member, Deputy Chairman of the Management Board;
9. Skalozub Leonid Pavlovych, PC member, Deputy Chairman of the Board;
10. Begunov Andrey Borisovych, PC member, Director of Information Technology Department;
11. PC Member, Director of Strategic Projects and Process Management Department;
- during the period from 01.01.2019 to 24.04.2019 - Khristianovich Ganna Mykolaivna;

- during the period from 01.07.2019 to 31.12.2019 - Nikolaeva Yulia Pavlovna.

The personal composition of the PC is determined in accordance with the Regulations on the Project Committee.

As part of its activities, Project Committee in 2019 made decisions on strategic change management at the Bank, including project portfolio management, change implementation process management, organization and control of cross-functional teams at all stages of change implementation at the Bank, from initiation to results control.

In 2019, the PC held 15 meetings through direct attendance.

During 2019 the PC considered the following:

- new rules for work with the flow of CME tasks have been formed and approved;
- approved the initiation of 10 projects in the Bank;
- approved 19 projects implemented by the Bank's divisions:
- a decision was made to formalize two CPCs:
- 2020 project portfolio and backlog was formed;
- approved scoring model for project priority assessment;
- inventory of obsolete backlog completed (prioritization completed 2016-2017);
- a retrospective of the CPC's motivation for 2018 was carried out;
- CME Kanban bandwidth analysis was performed.

Activities of the Technology Committee for 2019.

During 2019, the Technology Committee (hereinafter referred to as TC) consisted of:

1. Chernenko Sergiy Pavlovych, Chairman of TC, Chairman of the Board;
2. Skalozub Leonid Pavlovych, member of TC, Deputy Chairman of the Board;
3. Begunov Andrey Borisovych, Member of TC, Director of Information Technology Department;
4. Member of TC, Director of Strategic Projects and Process Management Department:
- in the period from 01/01/2019 to 24/04/2019 Khristianovich Ganna Mykolaivna
- in the period from 01.07.2019 to 31.12.2019 Nikolaeva Yulia Pavlovna;
5. Groma Sergiy Grygorovich, member of TC, Head of Information Security Department.

The personal composition of TC is determined in accordance with the Regulation “On the Technology Committee of PUBLIC JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”.

Within the scope of its activities, TC decided in 2019 on the coordination of technological solutions offered for implementation in the Bank's projects, making decisions on the choice of manufacturers of key elements of software and hardware systems, harmonization of changes in key elements of the IT architecture, consideration of information technology policies, introduction of significant technological changes in the Bank's projects.

In 2019, 4 meetings were held by the Bank's Technology Committee through direct attendance.

Topics of TC Bank meetings:

- Cognos TM1 software support discontinue;
- Honeypots implementation software (preliminary Local Network Threat Detection);
- NSPM (Network security policy management) technical solution;
- terms of holding Pentest 2019;
- Software for static program code analysis;
- Implementation of SDN (Software-Defined Networking) and Cisco ISE (Identity Services Engine) platform under the Secure Network Design project.

Activities of the Operational Risk Management Committee for 2019.

During 2019, the Bank's Operational Risk Management Committee (hereinafter referred to as ORMC) worked in the following terms:

1. Chernenko Sergiy Pavlovych, Chairman of the ORMC, Chairman of the Board;
2. Kosenko Natalia Feliksivna, Member of the ORMC, Deputy Chairman of the Management Board;
3. Skalozub Leonid Pavlovych, Member of the ORMC, Deputy Chairman of the Management Board;
4. Eremenko Fedot Evgeniyovych, Member of the ORMC, Deputy Chairman of the Management Board on Risk Management (CRO);
5. Dybko Mykola Mykolayovych, a member of the ORMC, Head of the Market and Operational Risk Management Department;
6. Gurban Anton Volodymyrovych, member of the ORMC, Director of the Transaction Business Department;
7. Groma Sergiy Grygorovich, member of the ORMC, Head of Information Security Division, Security Department;
8. Zavgorodniy Volodymyr Ivanovych, Member of the ORMC, Head of the HR Department;
9. Begunov Andriy Borysovcyh, Member of the ORMC, Director of the Information Technology Department;
10. Kudlai Sergiy Borysovych, a member of the ORMC, Head of the Operational Support Center;
11. Member of the ORMC, Sales and Retail Business Development Department Director:
- during the period from 01.01.2019 to 10.10.2019, Prusov Andriy Oleksandrovych,

- during the period from 11.10.2019 to 31.12.2019, Shcherbacha Oleksandr Sergiyovych;
12. Stadnik Anton Sergiyovich, member of the ORMC, Director of the Department of Investment Business;
13. Nasekan Lesia Oleksandrivna, Member of the ORMC, Legal Department Director;
14. Poleschuk Olena Olegivna, Member of the ORMC, Chief Accountant.

The Head of the Compliance Control Office (CCO) is obligatory to attend the meeting of the ORMC / ORMC Subcommittees with the right of veto.

The personnel of the ORMC is determined in accordance with the Regulation "On the Committee for Operational Risk Management at JSC FUIB".

As part of its activities, the 2019 ORMC managed operational risk management in order to reduce operational losses, improve banking processes, prevent mass failures of systems and technologies, develop, approve and implement measures to ensure the continuity of business units and the Bank as a whole.

In 2019, there were 4 meetings of the ORMC through direct attendance. The following standard quarterly reports were reviewed at each meeting of the ORMC:

- Report on operational risk events recorded in the reporting period;
- Report on the implementation of the Committee's decisions;
- Results of risk appetite monitoring and operational risk limits;
- ISC Performance Reports: "Quarterly Monitoring of Key Control Indicator" (KCI).

Also at the meetings of the ORMC the following matters were considered:

- a report on the results of the annual monitoring of the Key Risk Indicators (KRI) and the approval of the list of KRI and their 2020 benchmarks;
- the results of regular stress testing of operational risk and the results of annual self-assessment of operational risk by the heads of the Bank's divisions;
- ORMC approved the amount of operational risk appetite for 2019 in the amount of UAH 10 million and limits on operational risk;
- the results of the annual BIA and the results of the annual practical testing of HRV Headquarters;
- results of distance learning by basic required distance courses.

Among other the ORMC made decisions on managing the operational risk events, monitored the effectiveness of the decisions made by the ORMC Subcommittees, and evaluated the effectiveness of operation of:

- Information security management systems
- Fraud risk management systems
- Systems to ensure business continuity
- Third-party risk management systems

The following Subcommittees have been working with the Operational Risk Management Committee during 2019:

- "Staff" Subcommittee;
- "Process" Subcommittee;
- "Systems" Subcommittee;
- "External Factors" Subcommittee;
- "Information Security" Subcommittee;
- The ORMC also approved changes in the composition of the Subcommittees.

Activities of the Bank's Assets and Liabilities Committee for 2019

During 2019, the Bank's Assets and Liabilities Committee (hereinafter referred to as ALCO) consisted of the following members:

1. Chernenko Sergiy Pavlovych, Chairman of the ALCO, Chairman of the Management Board;
2. Eremenko Fedot Evgeniyovych, Member of ALCO, Deputy Chairman of the Management Board on Risk Management (CRO);
3. Member of ALCO, Deputy Chairman of the Management Board, supervising the vertical of corporate business:
- in the period from 01.01.2019 to 04.03.2019, Volchkov Oleksiy Anatoliyovych,
- in the period from 15.03.2019 to 31.12.2019, Mahdych Serhii Borysovych;
4. Zagorodnikov Arthur Germanovych, member of ALCO, Deputy Chairman of the Management Board;
5. ALCO Member, Member of the Management Board, which is subordinated to business units working with financial institutions, in the stock markets, in the capital markets, in the foreign exchange markets:
- in the period from 01.01.2019 to 03.07.2019, Kozhevin Igor Oleksiyovych,
- in the period from 04.07.2019 to 31.12.2019, Shkolyarenko Konstantin Oleksandrovych;
6. Sebastian Rubay, a member of the ALCO, Deputy Chairman of the Management Board;
7. Dybko Mykola Mykolayovych, member of ALCO, Head of Market and Operational Risk Management.
8. Stadnyk Anton Sergiyovych, Member of the Committee, Director of the Investment Business Department.

The ALCO's personal composition is determined in accordance with the Regulation on the Assets and Liabilities Management Committee of FUIB JSC.

Within the scope of its activities, the ALCO supports and improves the quality of the Bank's strategy and business plan implementation processes, ensuring that the Bank's planned performance is met by developing appropriate policies, drafting management decisions and adopting them within its competence. At the same time, the objects of management are the structure and volume of banking operations (assets, liabilities and off-balance sheet items), their profitability and the level of risk. The objectives of the ALCO are to maximize the profit and value of the Bank's capital, to ensure the long-term effective functioning of the Bank, to minimize risks through direct decision-making on liquidity, interest rate and currency risks, market risks and all risks at the level of aggregate performance and ensure optimization process with adequate level of risk and profitability of banking operations aimed at ensuring that the Bank receives the appropriate acceptance fee risk by increasing the yield or reducing the risk, or by increasing the income accordingly for the accepted level of risk in cases where there is no correlation between the amount of the remuneration and the level of risk.

In 2019, the Assets and Liabilities Committee held 28 meetings:

- 17 meetings were held in correspondence form;

- 11 meetings were held by direct attendance.

The main topics of the ALCO meetings in the form of joint presence (issues that were regularly discussed):

- analysis and forecast of the Bank's performance indicators:
  - external standards (NBU, banking group, etc.);
  - efficiency: Bank spread and margin.

- risk management (methodology, minimization and compliance control):
  - liquidity risk;
  - interest rate risk;
  - currency risk;
  - price risk;
  - the risk of default of the issuer of government bonds;

- analysis and forecast of the Bank's monetary position:
  - liquidity: analysis and forecast of liquidity position;
  - proposals for the formation of assets and liabilities;

- interest policy:
  - transfer rates;
  - limits on growth rates.

Activities of the Committee on Financial Monitoring for 2019.

The Committee on Financial Monitoring is a permanent collegial body of FUIB JSC, which activity is aimed at ensuring the functioning of the system of risk management of money laundering from crime, financing of terrorism and financing of weapons of mass destruction spread, as well as for the adoption of a precautionary measures to prevent, limit and /or reduce risks to an acceptable level.

During 2019, the Committee on Financial Monitoring consisted of:

1. Chernenko Sergiy Pavlovych, Chairman of the Committee on Financial Monitoring, Chairman of the Management Board;
2. Member of the Financial Monitoring Committee, Deputy Chairman of the Management Board, who oversees the corporate business vertical:
- in the period from 01.01.2019 to 04.03.2019, Volchkov Oleksiy Anatoliyovych,
- in the period from 15.03.2019 to 31.12.2019, Mahdych Serhii Borysovych;
3. Sebastian Rubaj, Member of the Financial Monitoring Committee, Deputy Chairman of the Management Board;
4. Kosenko Natalia Feliksivna, Member of the Committee on Financial Monitoring, Deputy Chairman of the Management Board;
5. Skalozub Leonid Pavlovych, Member of the Financial Monitoring Committee, Deputy Chairman of the Management Board;
6. Eremenko Fedot Evgeniyovych, Member of the Financial Monitoring Committee, Deputy Chairman of the Management Board on Risk Management (CRO);
7. Member of the Financial Monitoring Committee, Head of the Compliance Control Office:
- during the period from 01/01/2019 to 12/03/2019, Bakumenko Dmytro Yuriyovych, acting Head of Compliance Control,
- during the period from 13.03.2019 to 31.12.2019 Serdyuk Vira Oleksandrivna;
8. Responsible employee of the Bank on financial monitoring:
- during the period from 01/01/2019 to 04/12/2019, Hara Eduard Anatoliyovich,

- during the period from December 5, 2019 to December 31, 2019, Shchapov Yevgeny Genadiyovych, temporary acting Responsible employee of the bank on financial monitoring, Head of the transaction monitoring division of the Financial Monitoring Department;
9. Nasekan Lesia Oleksandrivna - Member of the Committee on Financial Monitoring, Legal Department Director;
10. Gorbenko Ganna Valeriyivna - Member of the Committee on Financial Monitoring, Director of the Financial Monitoring Department;
11. Meh Ganna Volodymyrivna - Member of the Committee with the right to an advisory vote, Internal Audit Department Director.

The personnel of the Financial Monitoring Committee is determined in accordance with the Regulation "On the Financial Monitoring Committee of PJSC" FUIB ".

Within its activity, the Committee on Financial Monitoring held 12 meetings, of which 8 meetings were held by direct presence and 4 – in a correspondence form. The Committee considered and decided on the following issues during the reporting period:

- the results of the analysis of suspected financial transactions and the adoption of precautionary measures to minimize the risk of criminal proceeds / terrorist financing;
- the results of the refusal to conduct financial transactions and / or customer service, including in the event that the client is exposed to an unacceptably high level of risk;
- problematic issues that arise during the identification and study of clients;
- changes in the legislation on financial monitoring, measures to be taken by the bank, and terms of updating the internal documents of the bank on financial monitoring, taking into account these changes;
- the results of the analysis of the introduction of new banking products and the related compliance risks of financial monitoring;
- problematic issues that arise during the training of employees of the bank - legal entity / branch of a foreign bank on financial monitoring;
- problematic issues related to the establishment of business relations and service of public persons and persons close or related to public persons;
- other issues arising from the implementation of measures to prevent money laundering from crime or the financing of terrorism or the financing of weapons of mass destruction spread.

Activities of the Ethics and Business Conduct Committee in 2019.

During 2019, the Ethics and Business Conduct Committee served as follows:

1. Kostyuchenko Tatiana Vasylivna, Chairman of the Ethics and Business Conduct Committee, Director of the Human Resources Department;
2. Chernenko Sergiy Pavlovych, Member of the Ethics and Business Conduct Committee, Chairman of the Management Board;
3. Member of the Ethics and Business Conduct Committee, Deputy Chairman of the Management Board, who oversees the corporate business vertical:
- in the period from 01.01.2019 to 04.03.2019, Volchkov Oleksiy Anatoliyovych,
- in the period from 15.03.2019 to 31.12.2019, Mahdych Serhii Borysovych;
4. Rubay Sebastian, Member of the Ethics and Business Conduct Committee, Deputy Chairman of the Management Board of the Bank;
5. Skalozub Leonid Pavlovych, Member of the Ethics and Business Conduct Committee, Deputy Chairman of the Management Board of the Bank;
6. Member of the Ethics and Business Conduct Committee, Head of Compliance Control:
- in the period from 01.01.2019 to 12.03.2019 - Bakumenko Dmytro Yuriyovych, acting Head of Compliance Control,
- in the period from 13.03.2019 to 31.12.2019 Serdyuk Vira Oleksandrivna;
7. Dugadko Ganna Oleksandrivna, Member of the Ethics and Business Conduct Committee, Member of the Bank's Supervisory Board;
8. Meh Ganna Volodymyrivna, Member of the Ethics and Business Conduct Committee, Internal Audit Department Director.

The staff of the Ethics and Business Conduct Committee is determined in accordance with the Regulation "On the Ethics and Business Conduct Committee of FUIB JSC.

In the course of its activities, the Ethics and Business Conduct Committee of the Bank, during 2019, addressed the negative factors of compliance risk, risks related to corporate ethics and business behavior, reputation risks, fraud risks, as well as other negative factors related to the activity of the Bank's staff, and minimized the consequences of the implementation of such negative factors, made the decision to prevent their reoccurrence.

In 2019, the Ethics and Business Conduct Committee of the Bank held 3 meetings through direct attendance.

The main topics of the meetings of the Ethics and Business Conduct Committee of the Bank in the form of joint presence are as follows (issues that were regularly considered):

- statistics of appeals to SCM Trust Line regarding the activities of FUIB JSC;
- report on the work of the ORMC subcommittee "Staff", namely:

  - statistics of violations of labor discipline by employees of the Bank;

- disciplinary action (including termination of employment at the initiative of the Bank) and other measures applied to violators;

- the recommendations of the Subcommittee on the implementation of the Bank's strict internal fraud policy and the development of measures to minimize unintended personnel errors, for example, through automation or the creation of on-line verification systems.

Activities of the Tariff and Commercial Committee for 2019.

During 2019, the Tariff and Commercial Committee (hereinafter referred to as TCC) worked as follows:

1. Chernenko Sergiy Pavlovych, Chairman of TCC, Chairman of the Management Board;
2. Member of TCC, Deputy Chairman of the Management Board - Chief Financial Officer:
- in the period from 01.01.2019 to 03.07.2019 - Kozhevin Igor Oleksiyovych;
- in the period from 04.07.2019 to 31.12.2019 - Shkolyarenko Konstantin Oleksandrovych.
3. A member of TCC, Deputy Chairman of the Management Board, who oversees the vertical of corporate business:
- in the period from 01.01.2019 to 04.03.2019, Volchkov Oleksiy Anatoliyovych,
- in the period from 15.03.2019 to 31.12.2019, Mahdych Serhii Borysovych;
4. Sebastian Rubaj, TCC Member, Deputy Chairman of the Management Board;
5. Zagorodnikov Arthur Germanovych, member of TCC, Deputy Chairman of the Management Board;
6. Sikorska Kseniya Sergiyivna, member of TCC, Director of Marketing Department (since 08.11.2019).

The personal composition of the Tariff and Commercial Committee is determined in accordance with the Regulation on the Tariff and Commercial Committee.

In the course of its activities, the Tariff Commercial Committee in 2019 managed the commercial activity of the bank, product and client portfolio, provided control of the bank's market position and realization of market opportunities for the strategic development of the Bank.

During 2019, meetings at the Tariff and Commercial Committee were held in a correspondence from.

The main issues addressed by the committee:

- changes of tariffs for servicing of individuals, setting of price parameters for new products of retail business, in particular:

- introduction of changes / additions to the basic version of the tariffs of individuals;
- approval of formula pricing for residential mortgage loans for employees of System Capital Management JSC;
- review of FUIB base rates on payment card transactions for partner banks;
- change in approach of pricing on loans secured by mortgage and vehicle (car) for employees of FUIB JSC and SCM JSC;
- interest rates on the “Smart Money” product;
- review of the FUIB tariffs for individuals to deposit funds into the card / credit account through the bank's cash desk without using a card.

- changes in tariffs for services of legal entities, including:

- introduction of changes / additions to the basic edition of tariffs of legal entities;
- change of tariffs of Digital Bank packages for MB;
- approving the pricing process for MB loans under affiliate programs (for clients in the agricultural industry);
- approval of the revision of tariffs for servicing non-resident legal entities in Ukraine;
- approval of individual tariffs for "Ukrposhta" JSC;
- making changes to the rates on the Product “Income Account”;
- updating of the current product “Generation of foreign currency payments”;
- making changes to the tariff section "Corporate Card Accounts settlement";
- introduction of changes in the base rates for depository services for corporate clients in FUIB JSC in the section "Depository service";

- approval of authority to set individual customer rates and tariffs;
- review rates for corporate customers on “Stable Balance”, “Income account” products;
- approval of authority for retail business deposits;
- introduction of Visa Business Standard Instant Chip card into Digital tariff packages;
- approval of "PEER GROUP" for introduction of changes in FUIB JSC tariffs for cash collection services and transportation of currency values;
- approval of tariff for "iBOX BANK" JSC within the account-to-card service and tariffs and authorizations for transaction services A2C, C2A, P2P;
- approval of the Standard "Income Account", the Standard of work with commission payable to customers of MB, the Standards of Products "Single Current Account 2654" and "Single Current Account 2606", the Standard Product "Forward Covered Transactions".

The staffing of the Committees shall be determined in accordance with the appointment of employees to a specific position, or to temporarily perform the duties of employees in those positions.

In their activity, the Committees of the Management Board are governed by the Law of Ukraine "On Banks and Banking Activities", "On Joint Stock Companies", other laws and regulations of Ukraine, the NBU regulations, the Bank's Charter, General Meeting decisions, and the relevant Regulations on the Committee.

10) Information on the facts of breach by the members of the Supervisory Board and the executive body of the Bank of internal rules, which caused damage to the Bank or to the clients of the Bank.

There were no facts of violation of internal rules by the members of the Supervisory Board and the Management Board of the Bank, which would have caused damage to the Bank or the Bank's clients during 2019.

11) Information on the measures of influence applied during the year by governmental authorities to the Bank, including members of the Supervisory Board and the executive body.

During 2019, the Bank was subject to measures of influence from governmental authorities in the form of penalties, namely:

No	Penalty description	Governmental authorities	Status
1	Penalty for violation of para 69.4 of article 69 of Tax Code of Ukraine in the amount of UAH 29 585.86; Penalty for violation of para 69.2 of article 69 of Tax Code of Ukraine in the amount of UAH 614 040.00.	The Office of Large Payers of the State Tax Service of Ukraine	Penalties paid: 22.04.2019 26.06.2019
2	Penalty for late registration of tax invoice from September 30, 2019, № 499 in the single register of tax invoices in the amount of UAH 417.02.	State Tax Service of Ukraine Large taxpayers office	Penalty paid 21.11.2019
3	Fine for improperly spent insurance funds in the amount of 3 516.51 UAH.	Social Insurance Fund of Ukraine	Penalty paid 24.12.2019

To the members of the Supervisory Board and the Management Board impact measures were not applied.

12) Information on the amount of remuneration of the members of the Supervisory Board and the executive body of the Bank for the year.

The members of the Supervisory Board of the Bank perform their functions and receive remuneration in accordance with the terms of the civil agreements concluded with each member of the Supervisory Board.

The members of the Bank's Management Board receive remuneration under the employment contracts approved by the Supervisory Board's decisions. The procedure for payment of remuneration to the members of the Management Board of the Bank is also governed by the Regulation on Remuneration of the Members of the Management Board approved by the Supervisory Board.

13) Information on significant risk factors affecting the Bank's activities during 2019.

During the reporting year, the Bank did not encounter significant economic risk factors in its activities that would have a material adverse effect on its financial position. Trends in the financial and economic sector were forecasted before, that enabled the Bank to respond in time to any changes.

Non-economic risk factors include the election of the President of Ukraine and those risks associated with the possibility of a negative influence on the activity of economic entities from the government through its political course of development of the country.

There were no other significant risk factors affecting the Bank's operations during 2019.

14) Information on the presence in the Bank of the Risk Management System and its key characteristics.

An effective risk management system is a guarantee of the Bank's achievement of tactical and strategic goals, with absolute respect for internal and external constraints on structure and capital adequacy in the normal course of business and in times of crisis.

The main purpose of the Bank's risk management system is:

- ensuring the Bank's sustainable development within the framework of its business development strategy;
- securing and protecting the interests of shareholders, creditors, customers, including depositors and other persons interested in the Bank's sustainable operations, so that risks taken by the Bank do not create a threat to the Bank's existence;
- enhancing the competitive advantages of the Bank as a result of strategic planning taking into account the level of risks taken, improving the effectiveness of risk management and increasing the Bank's market value, preserving the reliability of the Bank while expanding its product range;
- increasing investor confidence through the creation of a transparent risk management system established by the Corporate Governance System with permanent control by the NBU and other state supervisory authorities.

The control of capital adequacy by the Bank is carried out by separate structural units (DFC, Risk Management) and officials, as well as by the Bank's Supervisory Board, the Bank's Management Board, the Chairman of the Bank's Management Board, and relevant committees of the Management Board / Supervisory Board.

Positions have been created within the Bank: Deputy Chairman of the Board on Risk Management (CRO) and Head of Compliance Control (CCO), who are independent and accountable to the Supervisory Board. CRO / CCO have veto voting power.

The independence of risk management units and compliance control is ensured by the Supervisory Board through:

- providing these units with a direct and unrestricted opportunity to discuss risk issues directly with the Bank's Supervisory Board without the need (obligation) to inform the members of the Bank's Management Board;
- organizational and functional separation of these units from the units (heads of units) of the first and third lines of defense;
- ensuring that the number of employees in these units is sufficient and that they are qualified to meet the goals and objectives set for them;
- accounting for sufficient financial support for these units in the Bank's budget. The remuneration of the employees of these units should not depend on the performance of the business units that are subject to control, and should facilitate the completion of these units by qualified employees of the relevant profile. The performance evaluation of the employees of these units must be based on the achievement of their objectives so as not to restrict their independence;
- ensuring that these units have access to the information necessary for their effective operation. Managers and other employees of the Bank should facilitate the provision of such information;
- preventing employees of these units from exercising control functions over activities for which they have previously been directly responsible or in relation to which they have previously taken decisions to prevent conflicts of interest.

The Supervisory Board obtains information from a quarterly and annual financials and on the occurrence of a significant risk event or excess of the risk limit within one business day of identifying the risk.

The Market and Operational Risk Division is the main unit responsible for identification and assessment of market and operational risks (hereinafter referred to as the MORD), which reports to the Deputy Chairman of the Management Board on Risk Management (CRO), who leads the Risk Management Division, reporting to the Bank's Supervisory Board.

The main units for credit risk identification and assessment are the Corporate Client Risk Department (large and medium-sized corporate clients), the Retail Risk Department (retail clients), the Small Business Risk Management Department (small corporate clients), which is responsible to the Deputy Chairman of the Management Board on Risk Management (CRO), who heads the risk management division, accountable to the Bank's Supervisory Board.

The Compliance Control Division (CCD) is the main unit responsible for identification and assessment of compliance risks, which is subordinated to the Head of Compliance Control (CCO), and reports to the Bank's Supervisory Board.

The Bank conducts risk management by adhering to the three lines of defense model:

- the first line of defense includes the Bank's Business Units and Supporting Units. They are the owners of all risks arising in their area of responsibility (especially operational risk and compliance risk). These units are responsible for identifying and assessing risks, the ability to apply management measures, and reporting on such risks.
- the second line of defense is the Risk Management Unit (DRCK, DRR, DRMBB, UROR) and Compliance (CCD).
- the third line of defense is the Internal Audit Department that assesses the effectiveness of the risk management system of the first and second levels of defense, including the evaluation of the effectiveness of the internal control system (ICS).

Three lines of defense provide:

Risk Acceptance (1st line of defense): Bank's business units (business units and support units) directly prepare and execute banking operations involved in the process of risk identification, assessment and monitoring, and comply with the requirements of internal regulations regarding risk management and take into account the level of risk involved in the preparation of the operation;

Risk Management (2nd line of defense): Risk Management (DRCK, DRR, DRMMB UROR) and Compliance Control Division responsible for risk management, develops risk management mechanisms, methodology, conducts risk assessment and monitoring, prepares risk reporting, prepares risk reporting risk aggregation, calculates the amount of requirements for total capital;

Internal audit (3rd line of defense): conducts an independent assessment of the quality of the existing risk management processes, the quality of the current risk management processes, identifies irregularities and makes suggestions for improving the risk management system.

The management and decision-making process is carried out through the development of approved policies, regulations, instructions regarding credit, market, operational and liquidity risks. The risk management process is based on the consequent stages of identification, assessment, management decision making, monitoring of compliance with limits and certain risk indicators and risk control.

The Bank sets out the following list of significant risks:

- ✓ Credit risk of large corporate clients
- ✓ Credit risk for small business customers
- ✓ Credit risk of the retail business
- ✓ Credit risk of financial institutions
- ✓ Liquidity risk
- ✓ Banking book interest rate risk
- ✓ Price risk (as part of market risk)
- ✓ Currency risk (as part of market risk)
- ✓ Default risk of the issuer of government bonds (as part of the market risk)
- ✓ Operational risk
- ✓ Compliance risk

The Management Board / Committee of the Management Board and the Supervisory Board make one of the decisions regarding the level of risk:

- "Accept" - accepts the risk of continuing operations unchanged if there is an insignificant loss with a low probability of occurrence (if the excess is due to objective reasons that are independent of management decisions).
- "Risk Transfer" - the transfer of risk, i.e. insurance, mainly risks with potentially significant losses with a low probability of occurrence or risks that are under the control of the Bank.
- “Minimize risk” - a risk mitigation that involves adjusting certain processes and introducing additional controls in the event of a minor loss with a high probability of occurrence
- “Risk Discard” - avoidance of risk, which implies termination of activities and / or closure of positions leading to significant losses with a high probability of occurrence.

For the purpose of ensuring the stable and efficient functioning of the entire risk management system, the Bank develops a risk management culture whose main tasks are:

- acquiring knowledge and skills in risk management through systematic (regular, distance) training;
- the proper use of risk management tools and tools by employees in their day-to-day operations;
- developing skills for employees to use risk management tools in a properly and timely manner;
- open and active communication within the Bank on the values and principles of the risk management culture.

The management of FUIB JSC with the purpose of observing both the bank's executives and other employees of the bank of risk management culture creates the necessary atmosphere (tone at the top) by:

- defining and adhering to corporate values, as well as monitoring compliance with such values (approving the Code of Corporate Ethics and controlling its observance by all employees);
- ensuring understanding of both bank executives and other employees of the bank, their role in risk management to achieve the goals of the bank's activities, as well as responsibility for the violation of the established level of risk appetite (training and testing of knowledge on SRM and SIC);
- promoting risk awareness by ensuring that all divisions of the bank are systematically informed of the strategy, policy, risk management procedures and encouraging the free exchange of information and critical assessment of risk acceptance by the bank (publishing of information on SRM and its results on the internal corporate portal);
- receipt of confirmation that the bank's executives and other employees have been informed of disciplinary sanctions or other actions that will be applied to them in case of unacceptable behavior / violation of the bank's activity (familiarization with regulatory documents by electronic document circulation / signature).

The existing risk management system evolves with the development of the Bank and is based, among other things, on the experience of overcoming major systemic crises in 1999, 2004, 2008 and 2014. The management of the company is convinced that a mature risk management system has been formed at the current stage, which allows effectively offset both current and strategic challenges. In 2019 the Bank underwent a routine inspection of the National Bank of Ukraine in the direction of risk management system assessment without the use of influence measures.

15) Information on the Internal Control System operation results during the year and its key characteristics.

Internal Control System (ICS) - the Bank's organizational structure, procedures, and internal control measures aimed altogether at:

- achievement of the Bank's goals, including fulfillment of the planned indicators of its activity, ensuring the efficiency and effectiveness of the Bank's operations, preserving of its assets;
- ensuring the effectiveness of corporate governance at the Bank by operating a comprehensive, efficient and adequate risk management system;

- ensuring the completeness, timeliness and accuracy of the preparation and submission of financial, statistical, management and other reports; compliance with the activity of the Bank with the legislation of Ukraine, regulations of the National Bank of Ukraine, standards of professional associations, the effect of which extends to the Bank, and interbank documents.

The main purpose of the ICS is to provide the Bank's management with a reasonable guarantee of achieving the overall goals and objectives of the Bank, to enhance the organization of internal control, to improve the functioning of internal control and to improve the efficiency of the tasks performed, and to ensure the stability, security and efficiency of the Bank's operations and processes.

The ICS of the Bank consists of the following components: control environment, risk management inherent in the Bank's activities, including compliance risk, control activities in the Bank, control over information flows and communications, monitoring the effectiveness of the Bank's internal control system.

Objectives of implementing the Bank's internal control system:

- ensuring the efficiency of operations, protection against potential errors, violations, shortages, losses in the Bank's activities;
- ensuring the functioning of a comprehensive, adequate and effective risk management system;
- providing adequate, comprehensive, complete, reliable, accessible, timely information to users (interested units) to make appropriate management decisions;
- the accuracy, completeness, objectivity and timeliness of the preparation and submission of financial, statistical and other reports to internal users, shareholders, clients, contractors and / or state - controlling bodies;
- timeliness and reliability of the Bank's operations accounting;
- compliance (exercising control over the Bank's compliance with the requirements of legislation, regulations, market standards, rules of fair competition, rules of corporate ethics, intra-bank documents, as well as procedures for managing conflict of interest situations;
- effective staff management;
- introduction of targeted operational models of processes with sufficient level of automation and availability of necessary controls to prevent and / or minimize the realization of potential risks identified as significant for the Bank;
- preventing the Bank from engaging in illegal financial transactions, including preventing the Bank's customers (residents and non-residents) from engaging in illegal currency transactions, preventing and detecting financial transactions related to the legalization of proceeds of crime and terrorist financing.

The Bank's internal control system ensures the achievement of its operational, informational and compliance goals.

The functioning of the Bank's Internal Control System is ensured through the interaction of the governing bodies and functional structural units, namely:

- The Supervisory Board approves the risk management policies and policies regarding the organization of the Bank's Internal Control System, controls the efficiency of the Internal Control System's operation and prompt elimination of its deficiencies;
- The Audit Committee of the Supervisory Board, which started its activity on 01.01.2019, on the rights of the advisory body of the Supervisory Board oversees and evaluates the effectiveness of the internal audit and the internal control system of the Bank, monitors the implementation by the Bank's Management of the necessary measures to eliminate the shortcomings aimed at implementation of recommendations and conclusions of internal and external auditors, as well as the Bank's external oversight bodies on the ICS within the prescribed timeframe, resulting in appropriate recommendations to the Supervisory Board;
- The Management Board of the Bank is responsible for the establishment of a ICS, which provides timely identification of trends that may threaten the future of the Bank, regulates the establishment of an organizational structure that complies with the principles of the Internal Control System, and ensures the distribution of responsibilities that eliminate conflicts of interest;
- The Operational Risk Management Committee tactically implements the strategy of implementation and development of the Internal Control System, approves and provides ongoing monitoring of the effectiveness of the operation of the Internal Control System of the "second line of defense";
- CRO and Risk Management Units (Market and Operational Risk Management, Corporate Customer Risk Department, Retail Risk Department, Small Business Risk Department) by definition provide policies and methods for measuring and controlling credit, market and operational risks and are responsible for the quality of the implementation of internal control system monitoring (except for evaluating the effectiveness of the internal control system);
- Head of Compliance Control (CCO) and the Compliance Department ensure the development and implementation of a compliance risk management system, compliance with applicable legislation and ethical rules established by the Bank;
- Internal Audit Department (IAD) provides an independent assessment of the adequacy and effectiveness of the internal control system and is responsible for the quality of this assessment. IAD provides independent and

objective safeguards and advices aimed at improving the Bank's operations, assists the Bank in achieving its goal by using a systematic and consistent approach to assessing and enhancing the effectiveness of risk management, internal control and corporate governance processes.

The Bank's internal control system is based on three lines of defense:

1) business units and support units are located in the **first line of defense**. They hold all the risks (especially operational and compliance risks) that arise in their field of activity. These units are responsible for identifying and evaluating risks, taking management measures, and reporting on those risks.

In the first line of defense, the Bank appoints, within the divisions of employees responsible for internal control of operational risk, officers under the Operational Risk Management System (ORMS), that perform additional functions on operational management and compliance risk (identify events, provide information on events to second line security units, etc.).

All structural divisions of the Bank are responsible for compliance with the requirements of the Bank's internal risk management documents in the course of its activities.

2) In the **second line of defense**, the Risk Management and Compliance Control departments, within their competence, perform the following functions in terms of risk management:

- development, implementation and continuous development of a system for managing individual types of risks;
- ensuring timely identification, measurement, monitoring, control, mitigation and reporting of significant risks;
- advising the Bank's risk management units;
- providing training and awareness of the Bank's employees on risk management;
- carrying out an on-going analysis of the risks to which the Bank is exposed in the course of its operations, with a view to preparing proposals for timely and adequate management decisions to mitigate risks;
- generating a consolidated statement of risk management results within the Bank and monitoring results of the Internal Control System of the Bank's Supervisory Board at least once a quarter; identifying situations that require immediate notification to the Bank's Supervisory Board no later than the next business day;
- influence decision-making that exposes the Bank to significant risks and, if necessary, take all possible steps to properly inform the Bank's Supervisory Board and the Management Board in order to prevent such decisions;
- monitoring the implementation of risk avoidance, transfer and mitigation measures;
- planning and conducting scenario analysis and stress testing;
- coordinating or overseeing the development of a business continuity plan, depending on the chosen process management model;
- coordinating and analyzing the results of self-assessment of banking risks;
- providing expert opinion, reconciling the results of analysis and assessment of risks inherent in new products / significant changes in the activities of the Bank conducted by the first line units;
- analysis of the risks inherent in the Bank's outsourced activities;
- formulating proposals for the Bank's risk insurance policy.

3) the **third line of defense** is the Internal Audit Department that evaluates the effectiveness of the Internal Control System (ICS), including the assessment of the effectiveness of the risk management system of the first and second levels of defense. The Internal Audit Department, within the framework of the planned and unscheduled internal audit tasks, reviews the presence, evaluates the complexity, effectiveness and adequacy of the internal control system, its compliance with the types and volumes of operations performed by the bank, changes in the bank's business model, its macroeconomic and business environment and informs The Audit Committee, the Supervisory Board and the Management Board by providing results of the audits in the form of objective judgments, conclusions and estimates on whether risk management system is sufficient and efficient and complies with these types of volumes and ongoing bank operations and internal controls of the Bank. At least once a year, the Internal Audit Department shall provide the Audit Committee, the Supervisory Board and the Management Board with a general assessment of the effectiveness of the internal control system as a type of periodic monitoring activities, specifying the content, procedure, method and criteria for evaluating the effectiveness of the internal control system.

Based on the results of the 2019 audits, recommendations were made to the management responsible for the audited areas of activity and to the Management Board regarding improvements to the internal control, corporate governance and individual risk management systems. Information on the results of audits and the adoption of recommendations by management was provided to the Audit Committee of the Supervisory Board and to the Supervisory Board of the Bank in the forms of quarterly reports on the results of the Internal Audit Department. Based on the results of 2019, the Internal Audit Department prepared and presented to the Management Board and to the Supervisory Board a generalized assessment of the Bank's Internal Control System. This assessment was made using the COSO methodology (Conceptual Framework of Internal Control) as revised since May 2013. Overall, the Bank's internal control system has been assessed as "largely effective", which means:

- ➢ all the individual components of the ICS (5 components) are effective in all significant aspects;
- ➢ the Bank adheres to most individual principles (of which there are 17) that characterize each component, but may not fully adhere to the individual principles within the individual component;

- there is a room for improvement, but it does not lead to an ineffective internal control system and does not threaten the achievement of the Bank's objectives.

16) Information on the results of operations during the year of the Internal Audit System, as well as the data specified in the notes to the financial and consolidated financial statements in accordance with the standards of accounting.

The Bank's internal audit system as a whole is effective and complies with the International Professional Practices Framework of Internal Audit and with the Code of Ethics of the Institute of Internal Auditors, as evidenced by the results of internal and external evaluations.

17) Information on assets sale during the year in the amount exceeding the amount stipulated in the Bank's Charter.

During 2019, there were no facts of Bank's assets sale in excess of the amount established in the Bank's Charter.
The Management Board within the limits of its powers made the decision to sale Bank's assets during the reporting year, namely real estate.

18) Information on the results of assets valuation in case of their sale or purchase during the year exceeds the size specified in the Bank's charter.

The assets were not assessed due to absence of the asset purchase and sale operations during the year in the amount exceeding the amount stipulated in the Bank's Charter.

19) Information on transactions with related parties, including operations within one industrial-financial group or other association, carried out during the year.

The Bank pays close attention to identifying related parties of the Bank, preparing and updating their list to control the risks associated with related parties transactions.

The Bank conducts transactions with related parties in accordance with market conditions, in compliance with the requirements of the legislation on the approval / adoption of transactions by the Bank's Management Board / Credit Council. The Bank does not provide loans to any party for repayment by that person of any obligations to a related party to the Bank; for acquisition of assets with related party to the Bank, except for products manufactured by that person; for the purchase of securities placed or signed by a related party to the Bank.

The Bank submits to the NBU on a monthly basis information on related parties to the Bank in accordance with the procedure established by the NBU regulations. The process of interaction of the Bank's divisions in the identification of Bank related parties, compilation, updating and rendering the list of Bank related parties to the NBU is regulated by the "Regulation on preparing the related parties list with FUIB JSC".

The plan of measures to bring N9 ratio to the NBU normative values is carried out without violations, moreover with a "safety margin".

20) Information on recommendations made by the state regulators of banking services regarding the audit opinion.

The Bank did not receive any recommendations from the banking regulatory authorities in 2019 regarding the audit opinion.

21) Information on the external auditor of the Bank's Supervisory Board appointed during 2019.

According to the results of the tender procedures for the selection of auditing firms that may be selected for carrying out the statutory audit of the Bank's financial statements, on the basis of the criteria for the selection of the auditing entity, approved by the Supervisory Board's decision of 16.05.2019, taking into account the requirements of the Law of Ukraine №2258-VIII dated 21.12.2018, Private Joint Stock Company Private JSC «KPMG Audit» (certificate of inclusion in the Register of audit firms and auditors №2397 according to the Audit Chamber of Ukraine dated 26.01.2001) was chosen as auditor of the Bank for conducting the external obligatory audit of the Bank's financial statements for 2019 and 2020 by the decision of the Supervisory Board of the Bank dated 11.09.2019.

22) Information on the activities of the external auditor, in particular:

- **total audit experience:**

  total audit experience of Private JSC KPMG Audit is 27 years.

- **number of years of audit services with the Bank:**

  Private JSC KPMG Audit will provide the Bank with the services of mandatory audit of the Bank's financial statements for 2019 and 2020.

- **list of other audit services provided to the Bank during the year:**

  In the reporting year, except for audit of the financial statements of JSC First Ukrainian International Bank prepared in accordance with International Financial Reporting Standards (IFRS) as of and for the year ended December 31, 2019, and the audit of the financial statements of the Banking Group, the controller of which is JSC First Ukrainian International Bank, the audit company also conducted the first stage of the Bank's sustainability assessment, taking into account the requirements of the National Bank of Ukraine.

- **cases of conflict of interest and / or combination of the internal auditor's functions:**

  there were no cases of conflict of interest and / or combination of the performance of internal auditor functions during 2019.

- **auditors' rotation with the Bank over the last five years**

  The Bank's external auditor, who provided statutory audit services for the Bank's financial statements for the last five years (2014 to 2018), was Ernst & Young's Limited Liability Company. In accordance with the requirements of the current legislation the auditor was rotated in 2019 with the election of a new external auditor – JSC KPMG Audit.

- **the penalties applied to the auditor by the Audit Chamber of Ukraine during the year, and the facts of the false reports submission of the Bank, confirmed by the auditor's opinion, which was revealed by the Bank's controlling bodies;**

  The Bank has no information on the penalties applied to Private JSC KPMG Audit by the Audit Chamber of Ukraine during 2019 (such information is not available in public sources) and on the facts of the Bank's submission of unreliable reports, confirmed by an audit opinion, which was revealed by the Bank's supervisory bodies.

23) Information on the Bank's protection of the rights and interests of banking services consumers, including:

availability of complaints review mechanism, status of the Bank's review of banking services complaints during the year (nature, number of complaints received and number of complaints satisfied), availability of legal cases on banking services and the results of their consideration.

In order to protect the rights of consumers of banking services, the Bank introduced a mechanism for considering customer requests (proposals (remarks), applications (petitions), complaints), counterparties, third parties, which is regulated by an internal banking regulation - “Procedure for managing complaints, recommendations and thanks of clients and other stakeholders", which contains a clear division of the powers and responsibilities of the persons involved in the consideration of appeals.

The process of consideration of complaints received is centralized at the Bank level and consists in the registration, consideration of the complaint, the causes and consequences of such a complaint, preparation and submission of a comprehensive response, proper control over all stages of the complaints review process.

The complaint is considered completed after the consumer has been informed on the outcome of the review and the action taken. In cases where it is impossible to contact the client (for example, after several attempts of calls within several days the subscriber does not answer, the subscriber's number is "out of reach" or "does not exist"), the complaint is closed with the comment that the client has not been answered. Such cases are an exception and in case of repeated request of the client, the Bank will give him the answer upon previous request.

Each appeal, whether it is a complaint, a request or a recommendation from a client or other stakeholder is considered by the Bank as an opportunity to improve its work, improve the quality of service and the level of satisfaction of clients and other interested persons.

The Bank strictly adheres to the requirements of consumer protection legislation.

Customer experience office of the Marketing Department is the Bank's responsible unit for timely consideration and settlement of customer requests as well as providing responses based on their reviews.

During 2019, there were 24,873 complaints to the Bank, representing 1.92% of the total number of active clients. The complaints were related to poor customer service, improper use of remote access services, use of banking cards, payment terminals, high tariffs etc.

The Bank's responsible divisions duly considered all complaints.

24,820 customer complaints were completely closed in 2019. Other complaints are going to be closed in early 2020.

As at the end of 2019, there is a pending legal case in the Darnytskyi District Court of Kyiv on the claim to the Bank of a private individual on withdrawal of the deposit under the bank deposit agreement in the amount of UAH 38,041,518.86.

The Bank considers the claim as unreasonable because the Bank already fulfilled its obligations under the bank deposit agreement in full, which is supported by the relevant documents and the Bank continues to defend its position in the court.

Signed on behalf of the Management Board on 12 March 2020

S.P. Chernenko (Chairman of the Management Board)

K.O. Shkolyarenko (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)