**ANNUAL REPORT**

**JSC “UKRAINIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT”**

For the year that ended 31 December 2018

**CONTENT**

|  |  |  |  |
| --- | --- | --- | --- |
|  | FINANCIAL STATEMENTS |  |  |
|  | Financial statement (Balance) |  | 3 |
|  | Statement of profit and loss |  | 4 |
|  | Comprehensive income statement |  | 5 |
|  | Statement of changes in equity |  | 6 |
|  | Statement of cash flows |  | 7 |
|  | NOTES TO FINANCIAL STATEMENTS |  |  |
| 1. | Information about the bank |  | 8 |
| 2. | Economic environment in which the bank carries out its activities |  | 9 |
| 3. | Basis of presentation of financial statements |  | 10 |
| 4. | Principles of accounting policy |  | 11 |
| 5. | New and revised standards that have not entered into force |  | 35 |
| 6. | Cash and cash equivalents |  | 37 |
| 7. | Investments in securities |  | 37 |
| 8. | Investment property |  | 39 |
| 9. | Fixed assets and intangible assets |  | 40 |
| 10. | Other assets |  | 41 |
| 11. | Customer funds |  | 41 |
| 12. | Provision for liabilities |  | 42 |
| 13. | Other liabilities |  | 42 |
| 14. | Subordinated debt |  | 42 |
| 15. | Share capital and residential differences (emission income) |  | 43 |
| 16 | Movement revaluation reserve |  | 43 |
| 17. | Analysis of assets and liabilities by their proceedings |  | 43 |
| 18. | Interest income and expense |  | 44 |
| 19. | Commission income and expense |  | 44 |
| 20. | Other operating income |  | 45 |
| 21. | Administrative and other operating expense |  | 45 |
| 22. | Costs income taxes |  | 46 |
| 23. | Profit/(loss) per one simple and preferred share |  | 46 |
| 24. | Operating segments |  | 47 |
| 25. | Financial risk management |  | 49 |
| 26. | Capital management |  | 59 |
| 27. | Potential liabilities of the bank |  | 61 |
| 28. | Fair value of assets and liabilities |  | 61 |
| 29. | Submission of financial instruments by evaluation categories |  | 63 |
| 30. | Operations with relevant parties |  | 64 |
| 31. | Subsequent events |  | 65 |

**FINANCIAL STATEMENT (BALANCE)**

**on December 31, 2018**

(ths.UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Item | Notes | **December 31**  **2018** | **December 31**  **2017** |
| **1** | **2** | **3** | **4** |
| **ASSETS** |  |  |  |
| Cash and cash equivalents | 6 | 3 289 | 3 417 |
| Investments in securities | 7 | 169 043 | 149 720 |
| Investment property | 8 | 27 761 | 27 808 |
| Accounts receivable on current income tax |  | 248 | 248 |
| Property, plant and equipment and intangible assets | 9 | 28 638 | 28 695 |
| Other assets | 10 | 2 804 | 893 |
| **Total assets** |  | **231 783** | **210 781** |
| **LIABILITIES** |  |  |  |
| Clients’ money | 11 | 617 | 2 544 |
| Provisions for liabilities | 12 | - | 111 |
| Other liabilities | 13 | 347 | 268 |
| Subordinated debt | 14 | 32 754 | 23 296 |
| **Total liabilities** |  | **33 718** | **26 219** |
| **EQUITY** |  |  |  |
| Share capital | 15 | 244 000 | 244 000 |
| Another additional capital | 15 | (261) | (261) |
| Reserve and other funds of the bank |  | 4 044 | 4 044 |
| Revaluation reserves | 16 | 5 352 | - |
| Retained earnings (uncovered loss) |  | (55 070) | (63 221) |
| **Total equity** |  | **198 065** | **184 562** |
| **Total liabilities and equity** |  | **231 783** | **210 781** |

The notes on pages 8-65 are an integral part of the financial statements of the Bank for 2018.

Approved for issue and signed

March 18, 2019

Chairman О. Loktionov

Chief accountant N. Zeleniuk

N. Zeleniuk tel. 454 27 00

(performer surname, phone number)

**STATEMENT OF PROFIT AND LOSS**

**for 2018**

(ths.UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **Notes** | **2018** | **2017** |
| Interest income | 18 | 27 302 | 9 939 |
| Interest expenses | 18 | (4 831) | (7 037) |
| **Net interest income / (Net interest expenses)** |  | **22 471** | **2 902** |
| Commission income | 19 | 142 | 208 |
| commission expenses | 19 | (71) | (30) |
| Net profit / (loss) on foreign exchange operations |  | 30 | 1 |
| Net profit / (loss) on foreign currency revaluation |  | (34) | 32 |
| Net profit / (loss) Impairment of financial assets |  | (6) | 7 |
| Net (loss) / profit from (increase) / decrease in provisions for liabilities | 12 | 111 | - |
| Other operating income | 20 | - | 5 925 |
| Expenses of employee benefits | 21 | (10 168) | (7 026) |
| Depreciation and amortization expenses | 21 | (712) | (620) |
| Administrative and other operating expenses | 21 | (3 612) | (2 811) |
| **Profit / (loss) before tax** |  | **8 151** | **(1 412)** |
| Income tax expense |  | - | - |
| Profit / (loss) from ongoing activity |  | 8 151 | (1 412) |
| **Profit / (loss) per year** |  | **8 151** | **(1 412)** |
| Profit (loss) belonging to: |  |  |  |
| to the owners of the bank |  | 8 151 | (1 412) |
| uncontrollable share |  | - | - |
| Profit / (loss) per share from continuing operations: |  |  |  |
| net profit / (loss) per one ordinary share, UAH | 23 | 16,70 | (5,33) |
| adjusted net profit / (loss) per one ordinary share, UAH |  | 16,70 | (5,33) |
| Profit / (loss) per share belonging to the owners of the bank: |  |  |  |
| net profit / (loss) per one ordinary share for the year, UAH | 23 | 16,70 | (5,33) |
| adjusted net profit / (loss) per ordinary share for the year, UAH |  | 16,70 | (5,33) |

The notes on pages 8-65 are an integral part of the financial statements of the Bank for 2018.

Approved for issue and signed

March 18, 2019

Chairman О. Loktionov

Chief accountant N. Zeleniuk

N. Zeleniuk tel. 454 27 00

(performer surname, phone number)

**COMPREHENSIVE INCOME STATEMENT**

**for 2018**

(ths.UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **Notes** | **2018** | **2017** |
| **Profit / (loss) per year** |  | **8 151** | **(1 412)** |
| **OTHER COMPREHENSIVE INCOME** |  |  |  |
| ARTICLE THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS |  |  |  |
| Correction result on transactions with shareholders | 16 | 5 352 | - |
| **Other comprehensive income that will not be reclassified to profit or loss after tax** |  | **5 352** | **-** |
| **Other comprehensive income after tax** |  | **5 352** | **-** |
| **Total comprehensive income for the year** |  | **13 503** | **(1 412)** |
| Total comprehensive income, which includes: |  |  |  |
| to the owners of the bank |  | 13 503 | (1 412) |
| uncontrollable share |  | - | - |

The notes on pages 8-65 are an integral part of the financial statements of the Bank for 2018.

Approved for issue and signed

March 18, 2019

Chairman О. Loktionov

Chief accountant N. Zeleniuk

N. Zeleniuk tel. 454 27 00

(performer surname, phone number)

**STATEMENT OF CHANGES IN EQUITY**

**(Equity statement)**

(ths.UAH.)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Line | Item | Notes | Owned by the shareholders of the bank | | | | | | Total equity |
| Share capital | Emission differences and other additional capital | Reserve and other funds | Revaluation reserve | Undivided profit | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| **1** | **Balance as of January 1, 2017** |  | **120 000** | **(99)** | **4 044** | **-** | **(61 809)** | **62 136** | **62 136** |
| **2** | **Adjusted balance at the beginning of the previous period 01.01.2017** |  | **120 000** | **(99)** | **4 044** | **-** | **(61 809)** | **62 136** | **62 136** |
| 3 | Share Issue: | 15 | 124 000 | (162) | - | - | - | 123 838 | 123 838 |
| 3.1 | Nominal value | 15 | 124 000 | - | - | - | - | 124 000 | 124 000 |
| 3.2 | Emission differences and other additional capital | 15 | - | (162) | - | - | - | (162) | (162) |
| 4 | Total comprehensive income |  | - | - | - | - | (1 412) | (1 412) | (1 412) |
| 4.1 | Profit / (loss) per year |  | - | - | - | - | (1 412) | (1 412) | (1 412) |
| 4.2 | Other comprehensive income | 16 | - | - | - | - | - | - | - |
| 5 | Distribution of profits |  | - | - | - | - | - | - | - |
| **6** | **Balance at the end of the previous period of December 31, 2017** |  | **244 000** | **(261)** | **4 044** | **-** | **(63 221)** | **184 562** | **184 562** |
| 7 | Share Issue: | 15 | - | - | - | - | - | - | - |
| 7.1 | Nominal value | 15 | - | - | - | - | - | - | - |
| 7.2 | Emission differences and other additional capital | 15 | - | - | - | - | - | - | - |
| 8 | Total comprehensive income |  | - | - | - | 5 352 | 8 151 | 13 503 | 13 503 |
| 8.1 | Profit / (loss) per year |  | - | - | - | - | 8 151 | 8 151 | 8 151 |
| 8.2 | Other comprehensive income | 16 | - | - | - | 5 352 | - | 5 352 | 5 352 |
| 9 | Distribution of profits |  | - | - | - | - | - | - | - |
| **10** | **Balance at the end of the reporting period, December 31, 2018** |  | **244 000** | **(261)** | **4 044** | **5 352** | **(55 070)** | **198 065** | **198 065** |

The notes on pages 8-65 are an integral part of the financial statements of the Bank for 2018.

Approved for issue and signed

March 18, 2019

Chairman О. Loktionov

Chief accountant N. Zeleniuk

N. Zeleniuk tel. 454 27 00

(performer surname, phone number)

**STATEMENT OF CASH FLOWS**

**by indirect method**

**for 2018**

(ths.UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **Notes** | **2018** | **2017** |
| 1 | 2 | 3 | 4 |
| MONEY FUNDS FROM OPERATING ACTIVITIES | | | |
| Profit / (loss) before tax |  | 8 151 | (1 412) |
| Adjustment: | | | |
| Depreciation and amortization | 8, 9 | 712 | 620 |
| Net increase / (decrease) in provisions for impairment of assets | 6, 10 | 90 | - |
| Amortization of discount / (bonus) |  | 2 107 | (3 040) |
| The result of operations with foreign currency |  | 34 | (32) |
| (Accrued income) |  | (3 063) | (942) |
| Accrued expenses |  | 75 | (298) |
| Another movement of funds that is not monetary | 12 | (111) | (5 882) |
| **Net cash profit/(loss) from operating activities to changes in operating assets and liabilities** |  | **7 995** | **(10 986)** |
| Changes in operating assets and liabilities: | | | |
| Net (increase) / decrease in other financial assets |  | - | 31 |
| Net (increase) / decrease in other assets | 10 | (1 996) | (15) |
| Net increase / (decrease) in customer funds | 11 | (1 927) | 2 524 |
| Net increase / (decrease) in other financial liabilities |  | 4 | (3) |
| Net increase / (decrease) in other liabilities | 13 | (3) | (94) |
| **Net cash received / (used) from operating activities before income tax** |  | **4 073** | **(8 543)** |
| Income tax paid |  | - | - |
| **Net cash received / (used) from operating activities** |  | **4 073** | **(8 543)** |
| MONEY FUNDS FROM INVESTMENT ACTIVITIES | | | |
| Purchase of securities in the bank's portfolio to maturity | 7 | (2 310 991) | (1 269 428) |
| Proceeds from redemption of securities in the bank's portfolio until maturity | 7 | 2 295 498 | 1 184 445 |
| Purchase of fixed assets | 9 | (479) | (245) |
| Purchase of investment property |  | 0 | 0 |
| Purchase of intangible assets | 9 | (129) | (45) |
| **Net cash received / (used) from investment activity** |  | **(16 101)** | **(85 273)** |
| MONEY FUNDS FROM FINANCIAL ACTIVITIES | | | |
| Obtaining a subordinated debt | 14 | 11 900 | - |
| Repayment of subordinated debt |  | - | (28 000) |
| Issue of ordinary shares |  | - | 124 000 |
| Emission differences and other additional capital |  | - | (162) |
| **Net cash received / (used) from financial activities** |  | **11 900** | **95 838** |
| **Impact of changes in the official exchange rate on cash and cash equivalents** |  | **0** | **0** |
| Net increase / (decrease) in cash and cash equivalents |  | **(128)** | **2 022** |
| **Cash and cash equivalents at the beginning of the period** | **6** | **3 417** | **1 395** |
| **Cash and cash equivalents at the end of the period** | 6 | **3 289** | **3 417** |

The notes on pages 8-65 are an integral part of the financial statements of the Bank for 2018.

Approved for issue and signed

March 18, 2019

Chairman О. Loktionov

Chief accountant N. Zeleniuk

N. Zeleniuk tel. 454 27 00

(performer surname, phone number)

**Note 1. Information about the bank**

Joint Stock Company "Ukrainian Bank for Reconstruction and Development" was founded in Ukraine on December 17, 2003 as the Closed Joint-Stock Company "Ukrainian Bank for Reconstruction and Development" and registered with the National Bank of Ukraine (NBU) on March 19, 2004. On October 01, 2007 the Bank was transformed into Open Joint-Stock Company "Ukrainian Bank for Reconstruction and Development". As a result of changes in the Law of Ukraine "On Joint Stock Companies" on August 28, 2009 the name was changed to Public Joint Stock Company "Ukrainian Bank for Reconstruction and Development". On November 1, 2018, in connection with the changes in the Law of Ukraine "On Joint Stock Companies", the Bank changed the type of a joint-stock company into a private joint-stock company, and also changed the name to the Joint-Stock Company "Ukrainian Bank for Reconstruction and Development". The Bank is the successor of all rights and obligations of the Open Joint Stock Company "Ukrainian Bank for Reconstruction and Development", the Closed Joint-Stock Company "Ukrainian Bank for Reconstruction and Development" and the Public Joint-Stock Company "Ukrainian Bank for Reconstruction and Development".

Location of the bank: 4, Oleksiya Terekhina str., Kyiv, Ukraine, 04080.

JSC "Ukrainian Bank for Reconstruction and Development" during the reporting year carries out its activities within the limits of the banking license No. 216 issued by the National Bank of Ukraine on 15.11.2011 and the general license of the National Bank of Ukraine No. 216-2 dated 18.06.2018 for the right to carry out foreign exchange operations. In accordance with the banking license, the Bank has the right to provide banking services as defined in part three of Article 47 of the Law of Ukraine "On Banks and Banking".

In addition, the Bank has Licenses of the State Commission for Securities and Stock Market for the professional activity in the stock market - securities trading activities: dealership.

The main activities of the Bank include commercial activities, loans, cash and cash services to customers, as well as other types of banking activities.

The Bank is a member of the Guarantee Fund for Individuals Deposits Certificate No. 169 dated November 19, 2012.

JSC "Ukrainian Bank for Reconstruction and Development" is a universal banking institution that can provide the full range of banking services in accordance with the current legislation of Ukraine and in accordance with existing bank and general licenses of the National Bank of Ukraine and licenses of the State Commission for Securities and Stock Market.

In the reporting year 2018, the Bank's main activities were banking operations:

- opening and maintenance of current accounts of clients (in national and foreign currencies);

- attraction of funds to deposit accounts;

- placement of funds on correspondent accounts with other banks;

- operations on the securities market on its own behalf;

- purchase / sale of foreign currency on the interbank foreign exchange market of Ukraine on its own behalf and on behalf of clients;

- purchase / sale of cash foreign currency through the Bank's cash desk

In 2018, the Bank operated on the territory of one region.

As of December 31, 2018, and on December 31, 2017 the sole shareholder of the bank, which owns 100% share capital was Limited Liability Company "Bose (HONG KONG) CO., LIMITED" (Ukraine).

The owners of significant share of the Bank at December 31, 2018 are citizens of China Yan Dunshen and Dai Junun together, that became common indirect participation of 100% due to:

* LIMITED LIABILITY COMPANY “BOSE (HONGKONG) CO, LIMITED", in which 80% of the participation is owned by BOSE (Hong Kong) Co., Limited” and 20% by Yan Dunshen;
* “BOSE (Hong Kong) Co., Limited” (Hong Kong), 100% of its authorized capital is “Baoshi (Tianjin) Electronics Commerse Co., Ltd.” (Baoshi (Tianjin) Electronical Commerce Co., Ltd);
* “Baoshi (Tianjin) Electronics Commers Co., Ltd.”, 99% of its share capital which belongs to “Tianjin Bohai Commodity Exchange Co.”, Ltd, Tianjin Limited Liability Company;
* Tianjin Limited Liability Company "Bohai Commodity Exchange", 15.5113% of which belongs to Yan Dunshen; 31.5802% of the ownership interest in the “Bo Xu” Promotional Investment Company (Khorgos) (Limited Partnership) (Norso Bo Xu Equity Investments Limited Partnership);
* Shares investment company "Bo Xu" (Horgos) (Limited partnership), 90% of which belongs to Yan Dunsheng and 10% Dai Junun.

The share of management in shares of the Bank is absent.

These financial statements were approved by the Board of the Bank on March 18, 2019.

**Note 2. Economic environment in which the bank carries out its activities**

Overall for 2018, the banking system continued to recover after the crisis. The level of bankruptcies in the market was minimal over the past 5 years. The only bank that went to the management of the temporary administration of the Deposit Guarantee Fund was VTB Bank.

In the reporting year, the banking system was exposed to a number of risks and threats, the main of which were:

*Inflation risk.* In order to prevent significant losses in the banking system as a result of the impairment of credit and deposit portfolios of the banks, the National Bank used the forced increase of the discount rate during the year to 18%. Such an increase was an answer to the increase in prices in 2017.

*High payments on external debt and autumn uncertainty with the IMF tranche.* The situation was saved by the fact that after a long negotiation and legislative process, the previous funding program was replaced by a "standby agreement", and the authorities eventually fulfilled their promise of budget adoption and gas price increase. As a result, gold and foreign exchange reserves at the end of 2018 reached $ 17.7 billion.

*Introduction of a military state on part of the territory of Ukraine.* However, this at least led to a partial exchange rate jump and a certain withdrawal of deposits in the border areas, however, there was a temporary and limited character in terms of capacity.

In general, the banking sector worked without significant internal or external shocks - banks actively attracted funding and lent. In total, the loan portfolio of banks grew by 8.1% to UAH 616 billion. The volume of the deposit portfolio of banks in national currency in 2018 grew by 10% - to UAH 539.7 billion, while in foreign currency - by 1.6%, to $ 8.6 billion. The volume of hryvnia deposit portfolio by results year exceeded the pre-crisis level that the banking system had in 2013.

Banks' interest rates grew, first of all, as a result of the gradual increase of the NBU discount rate from October 2017. The discount rate grew by an average of 5.5 p.p. - up to 18% per annum. Also, the market conditions influenced the growth of market rates. Thus, the value of business loans for the year increased by 6.6 p.p. - up to 20,9% per annum, and the cost of loans for the population - by 3,9 p.p. - up to 33.1% per annum.

In 2018, the banking system was profitable for the first time in the last 5 years, receiving 21.7 billion UAH of net profit. Significant growth in profitability was made possible by reducing deductions in reserves with stable growth of interest and commission income. In particular, the volume of deductions by banks in reserves has decreased more than doubled - from 49.2 billion UAH in 2017 to 23.7 billion UAH in 2018 At the same time, net interest and commission income of the banking system increased by a total of 38%.

Inflation in 2018 was the smallest in the last 5 years. Thus, according to the results of 2018, the base inflation slowed down to 8.7% compared with 9.5% in 2017, but exceeded the target of the National Bank by 6% ± 2 at the end of 2018.

It is expected that in 2019, inflation will continue to decline to 5%. The next 12 months are expected to further increase volumes of goods and services production in Ukraine, high levels of business activity and a slight increase in devaluation processes. There are high expectations about the growth of production volumes. Growth is expected by enterprises of all types and directions of activity, size by number of employees. Domestic enterprises gradually increase their expectations about the need for borrowed funds. The share of respondents planning to take out bank loans is growing. At the same time, the share of enterprises planning to attract foreign currency loans is growing. Banks, in turn, express readiness to lend and expect to improve the quality of the loan portfolio during the current year.

It is predicted that during 2019 the banking sector will remain profitable. Although there will be pressure on the interest margin, because in the general growth of interest rates in the economy and competition for deposits, the cost of funding banks will increase.

The main sources of financing of the Bank in the reported year were their own funds and funds attracted under the terms of subordinated debt.

The Bank does not have any resources not recognized in the statement of financial position in accordance with IFRS.

**Note 3. Basis of presentation of financial statements**

These financial statements of the Bank are prepared in accordance with International Financial Reporting Standards

These financial statements are prepared under the historical cost convention modified by the initial recognition of financial instruments at fair value and revaluation of financial instruments available for sale and derivatives, except as disclosed in the accounting policies below.

The Bank has applied the following IFRS, which are based on the main principles of accounting:

- IAS 1 “Presentation of Financial Statements”;

- IAS 8 “Accounting policies, changes in accounting estimates and errors”;

- IAS 10 “Events after the Reporting Period”;

- IAS 12 “Income Taxes”;

- IFRS 13 “Fair Value Measurement”;

- IAS 16 “Property, Plant and Equipment”;

- IAS 19 “Employee Benefits”;

- IAS 21 “Impact of exchange rates”;

- IAS 33 “Earnings per Share”;

- IAS 36 “Impairment of Assets”;

- IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”;

- IAS 40 “Investment Property”;

- IFRS 9 “Financial Instruments”;

- IFRS 7 “Financial Instruments: Disclosures of information”;

- IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”;

- IFRS 8 “Operating Segments”;

- IFRS 15 “Revenue from contracts with customers”.

The functional currency in which the Bank is accounting is hryvnia. Transactions in currencies other than the functional currency of the Bank are treated as operations with foreign currency.

The financial statements are presented in thousands of Ukrainian hryvnias ("ths. UAH."), Except for data in the calculation of profit for 1 ordinary share and unless otherwise specified.

**Note 4. Principles of accounting policy**

***4.1. Consolidated Financial Statements.***

Consolidated financial statements are absent due to the absence of a consolidated group - as a separate economic unit that is a set of legal entities, including the main banking institution (the parent bank, taking into account branches, offices in Ukraine and abroad), group members (associate affiliated companies) and special purpose entities.

***4.2. Basis for evaluating the preparation of financial statements***

The accounting policy of the bank is based on the main principles of accounting in accordance with International Financial Reporting Standards and the requirements of the regulatory acts of the National Bank of Ukraine, namely:

full coverage - all banking transactions are subject to registration in the accounts without any exceptions. The financial statements should contain all information about the actual and potential effects of the bank's operations, which may affect the decisions taken under it;

the predominance of the essence over the form - transactions are accounted for and disclosed in the financial statements according to their essence and economic content, and not only in their economic form;

autonomy - the assets and liabilities of the Bank should be separated from the assets and liabilities of the owners of the Bank and other banks (enterprises) in connection with this, personal property and liabilities of owners should not be reflected in the financial statements of the Bank. Assets - resources that result from past events, the use of which is expected to lead to future economic benefits. Liabilities - debts arising from past events, the settlement of which in the future is expected to lead to a reduction of resources embodying economic benefits;

accuracy means the application in accounting of valuation methods that imply that assets and / or income will not be overestimated, liabilities and / or expenses will not be devalued;

continuity - an assessment of the Bank's assets with the assumption that its operations will continue in the future. If the Bank plans to reduce its activities, then it is reflected in the financial statements;

accrual and compliance of income and expenses - to determine the financial result of the reporting period, revenues of the reporting period are compared with the costs incurred to obtain these revenues. Income and expenses are recorded in the accounting and financial statements at the time they arise, regardless of the date of receipt or payment of cash. Revenues are an increase in economic benefits during the accounting period in the form of gain or increase in assets or liabilities, resulting in an increase in capital, with the exception of its increase in shareholder contributions. Expenses are the reduction of economic benefits during the accounting period in the form of retirement or amortization of assets or liabilities, which leads to a decrease in equity and is not a distribution between shareholders. Equity - is the residual part of the bank's assets after deducting all liabilities;

consistency - constant (from year to year) application by the bank of the chosen accounting policy. Changes in accounting methods are possible only in cases provided for by international standards and national regulations (accounting standards, and require additional substantiation and disclosure in the financial statements;

historical (actual) cost - assets and liabilities are accounted for in the first place at the cost of their acquisition or occurrence. Assets and liabilities in foreign currency, except for non-monetary items, are revalued in the event of a change in the official rate.

The Bank conducts and prepares financial statements in the currency of Ukraine - hryvna. Transactions in foreign currencies are reflected in the accounting and financial statements in the currency of Ukraine with the translation of them at the official exchange rate of the National Bank of Ukraine on the date of execution or compilation of accounts. Transactions are recorded in the accounting period in which they were executed, irrespective of the date of movement of funds for them.

Assets and liabilities are valued and presented in accounting with sufficient caution in order not to endure existing financial risks that potentially threaten the Bank's financial position for subsequent reporting periods.

For accounting and financial reporting, assets and liabilities of the Bank are accrued and accounted for:

the value of their acquisition or occurrence - at historical or initial value: assets - by the amount of money paid to them, their equivalents or other forms of compensation; an obligation - on the amount of funds mobilized or their equivalents to be paid to repay liabilities in the course of the Bank's ordinary activities;

fair value - the price that would have been received for the sale of an asset or paid for the transfer of a liability in the ordinary course of business between market participants at the date of the transaction; the fair value adjustment of assets is carried out through revaluation, valuation for impairment and available credit risk;

amortized cost - the value at which the financial asset, financial liability is measured, and which consists of the acquisition cost reduced by the amount of principal repayment of the debt increased (reduced) by the amount of accumulated depreciation of any difference between the original cost and the repayment value calculated using an effective interest rate reduced by the amount of partial write-down due to impairment.

The value of assets varies as a result of fluctuations in market prices, foreign exchange rates, physical and moral depreciation, and other objective factors. Revaluation of separate asset items is carried out to their fair (market) value in accordance with the procedure established by the current legislation and internal documents of the Bank.

The criteria for recognition and subsequent measurement applicable to each category of assets and liabilities and items of income and expense are set out in paragraphs 4.6 to 4.29 of Note 4, "Accounting Principles".

The bank does not have reporting articles for which the accounting policy was not applied in accordance with international financial reporting standards. All assets and liabilities are evaluated separately and displayed in expanded form.

***4.3. Financial instruments***

The Bank classifies and evaluates financial assets based on the business model it uses to manage these assets and the characteristics of the cash flows provided for in the contract / terms of issue.

The business model reflects the management of the groups of financial assets to achieve a certain goal and is determined by the Bank in accordance with strategic development plans.

The business model determines whether there will be cash flows from contractual cash flows or from the sale of financial assets, or will come from both of these sources. If the sale of cash flows occurs in a manner different from the expectations of the date of the business model assessment (for example, if the Bank sold more or less financial assets than expected during the implementation of the classification), this does not entail the occurrence of errors in previous financial statements periods and does not change the classification of the balance of financial assets held by the specified business model. At the same time, for newly-created or newly acquired financial assets, the Bank considers all relevant information together with information on how cash flows have been realized in the past.

In assessing the business model of the Bank applies judgment, and this assessment is made based on the following factors:

- intentions and goals of retention;

- plans, forecasts, strategies for management methods;

- reporting indicators for key management personnel;

- a list of inherent risks;

- sales - frequency, volumes, maturities, causes, expectations, forecasts, plans for future sales.

The Bank uses the following types of business models of financial asset management:

- a business model whose purpose is to hold assets for contractual cash flows;

- a business model, the goal of which is achieved both by obtaining contractual cash flows and through the sale of financial assets;

- others.

Each model may include several different asset management goals. One and the same asset type may be included in different portfolios that identify different business models if these portfolios have different management objectives (retention).

The Bank defines business models aggregated into groups: asset portfolios and sub-portfolios within portfolio portfolios.

Definition of a business model for portfolios of financial assets in the form of investments in deposit certificates issued by the NBU and Bonds of an internal state loan (interest and discounted) is carried out on the basis of the conducted testing.

For all other non-derivative financial assets available to the Bank (IFRS 9 short-term financial receivables, cash flows, NOSTRO accounts), the Bank applies a business model whose purpose is to obtain contractual cash flows without testing, taking into account that that such sales of assets are not planned. If in the future the Bank will plan the sale of any of the above assets, then, in the event of such a decision, the Bank will conduct additional testing to determine the business model.

In the case of long-term financial receivables and long-term receivables for business operations of the Bank (in the case of sale of assets of the Bank), it is accounted for as a loan granted and, accordingly, it is tested for determining the business model.

The Bank does not determine the business model for derivatives that are measured at fair value with the recognition of revaluation gains / losses.

In assessing the method of managing financial assets, scenarios that are not reasonably expected to be expected by the Bank, such as the "worst" scenario or "stress" scenario, are not taken into account.

*Business Model I, whose purpose is to hold assets for contractual cash flows*

 The management of financial assets held for a business model whose purpose is to hold assets to obtain contractual cash flows is carried out for the implementation of cash flows by obtaining contractual payments during the term of the instrument.

When analyzing whether cash flows will be realized by obtaining contractual cash flows for financial assets, information will be taken into account on the availability and nature of sales of such assets in prior periods. Thus, the frequency of such sales, the value and terms of operations, the reasons for such operations, as well as the expectation of future sales activities are taken into account.

The Bank continues to apply a business model whose purpose is to hold assets for contractual flows to the financial assets for which sales took place before the date of maturity for the following reasons:

Sale of financial assets in case of growth of credit risk. Regardless of the frequency and size of sales transactions, the holding of such assets is not contrary to a business model whose purpose is to hold assets for contractual flows, since the credit quality of financial assets is related to the ability to obtain contractual cash flows, and credit risk management activities are non-derivative The most powerful part of such a business model.

Sale of financial assets made to manage the risk of concentration of loans (without an increase in credit risk on assets), if such transactions are not performed frequently (even if they are significant in size) or are insignificant on an individual or aggregate basis (even if they are carried out frequently).

In addition, sales transactions may be considered appropriate for the purpose of obtaining cash flows if transactions are carried out when the maturity of financial assets is matched and the amount of cash received from these operations is approximately equal to the revenue from the residual contractual flows.

Depending on which contractual cash flows according to the SPPI test are expected to be received, financial assets attributed to the management model whose purpose is to obtain contractual cash flows are estimated at:

- amortized cost - in case if only contractual flows are the principal amount and interest;

- at fair value through profit or loss - in the event that contractual flows include any other payments other than principal and interest.

*Business model II type (mixed), the goal of which is achieved both by obtaining contractual cash flows and the sale of financial assets*

An integral part of reaching the goal of a business model is both obtaining contractual cash flows and the sale of financial assets, with cash flows expected to be predominantly from sales, and sales transactions are an integral part of achieving a business goal.

This business model can include financial assets held to manage daily liquidity needs, maintaining a certain profit profile, matching maturities between assets and liabilities, and others.

Financial assets held under this business model are measured at fair value through revaluation due to other comprehensive income.

*Other business models*

Within other business models are financial assets, the purpose of which is the maintenance of the cash flows solely from the sale of such assets.

Financial assets held under such a business model are measured at fair value through profit or loss.

The Bank adopts a decision to hold relevant financial assets based on fair value and manage them for the purpose of realizing this fair value, which is related to active sale and purchase.

Obtaining contractual cash flows is possible but not an integral part of achieving the goal of this business model.

*Initial recognition of financial instruments*

The Bank recognizes a financial asset or financial liability in the balance sheet when and only when it becomes a party to the contractual provisions of the instrument. Ordinary acquisition or sale of financial assets is recognized by the Bank using the accounting date of the transaction.

The Bank, at initial recognition of financial instruments, estimates them at fair value plus transaction costs. The exception is the initial recognition of financial instruments that are arranged at fair value with the recognition of revaluation profit / loss: expenses incurred on transactions with the acquisition of such financial assets are recognized as expenses on the date of transaction.

The Bank recognizes a financial instrument in its accounting for profit or loss at the amount of the difference between the fair value of the financial asset or financial liability and the value of the contract in correspondence with the discount / premium account if the effective interest rate on this instrument is higher or lower, than market. The difference between the fair value of a financial asset or a financial liability and the value of an agreement with a bank's shareholder is reflected in equity capital and included in the aggregate of retained profit (loss) on the disposal of the financial instrument.

At initial recognition, the Bank classifies financial assets based on the business model it uses to manage these assets and the cash flow characteristics provided for by the agreement.

The Bank classifies financial liabilities as being subsequently measured at amortized cost, with the exception of derivative financial instruments, financial guarantee contracts, lending commitments at interest rates lower than market rates.

Bank on initial recognition reflects estimates and accounting financial guarantees and firm commitments on loans granted at a rate lower than the market, at fair value.

The Bank reclassifies all financial assets covered by relevant changes if and only if the business model of financial assets management changes. Reclassification is applied prospectively, starting from the day of reclassification. The Bank does not reclassify previously recognized gains, losses (including gains or losses) or interest.

In the case of a reclassification of a financial asset from the category of those measured at amortized cost to the category of those measured at fair value through profit or loss, the fair value of such an asset is measured at the date of reclassification. Any gain or loss arising as a difference between the previous amortized cost of a financial asset and its fair value is recognized in profit or loss.

The reclassification of a financial asset from the category of those at fair value through profit or loss to the category of those measured at amortized cost is carried at the fair value of the asset at the date of reclassification, which becomes its new gross carrying amount. At the same time, the effective interest rate is determined on the basis of fair value at the date of reclassification, and the reclassification date itself is the date of initial recognition.

If the Bank reclassifies a financial asset from the category of those measured at amortized cost to that which is measured at fair value through other comprehensive income, the fair value of the asset is estimated at the date of reclassification. Any gain or loss arising as a difference between the previous amortized cost of a financial asset and its fair value is recognized in other comprehensive income. An effective rate and an estimate of expected credit losses are not subject to adjustment.

In case of the decision to reclassify a financial asset from the category of fair value through other comprehensive income to the category of those measured at amortized cost, the fair value of such an asset at the date of reclassification becomes its new gross carrying amount, however, the cumulative gain or loss, previously recognized in other comprehensive income is excluded from equity and the fair value of the financial asset at the date of reclassification is adjusted accordingly. As a result, a financial asset is valued at reclassification as if it were always measured at amortized cost. Such an adjustment affects other comprehensive income but does not affect the profit or loss and therefore is not a reclassification adjustment. An effective interest rate and an estimate of expected credit losses as a result of such reclassification are not subject to correction.

If the Bank reclassifies a financial asset from the category of those measured at fair value through profit or loss to the category of fair value through other comprehensive income, the financial asset is subsequently measured at its fair value.

In the event of a decision to reclassify a financial asset from the category of fair value through other comprehensive income to the category of fair value through profit or loss, the financial asset is subsequently measured at its fair value. A cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity into profit or loss as a reclassification adjustment.

The Bank does not reclassify any financial liabilities.

***Modifications under contract cash flows of financial assets***

The Bank records in the accounting changes in terms of an agreement or modification of a financial asset, which leads to a revision of cash flows for it, as:

1) derecognition of the original financial asset and the recognition of a new financial asset at fair value; or

2) continued recognition of an initial financial asset with new terms.

The Bank recalculates the gross carrying amount of the financial asset and recognizes the income or expense from the modification if the terms of the agreement on the financial asset are reviewed by agreement of the parties or any other modification occurs, which does not result in the cessation of recognition of the original financial asset.

The Bank calculates a new gross carrying amount as the present value of the revised or modified cash flows provided by the contract, discounted at the original effective interest rate (or the original effective interest rate adjusted for credit risk - for purchased or created depreciated financial assets). The Bank includes transaction costs to the carrying amount of the modified financial asset and depreciates them during the life of such an asset.

The Bank recognizes the difference between the gross carrying amount of the original terms and the gross carrying amount under revised or modified terms as income or expense from the change.

The Bank ceases to recognize an initial financial asset and recognizes a new financial asset if the revised or modified cash flows provided for in the contract result in the cessation of recognition of the original financial asset. The Bank recognizes at the date of the modification a new financial asset at fair value, taking into account transaction costs associated with the creation of a new financial asset (with the exception of a new asset held at fair value through profit or loss) and determines the amount of expected credit losses for 12 months.

***4.4. Impairment of financial assets***

In accordance with the requirements of IFRS 9, the Bank applies a model of expected loss, which foresees timely impairment or improvement in the credit quality of financial instruments, based on available information and future projections. The amount of expected loss recognized as a provision for impairment losses depends on the degree of deterioration in the credit quality since the initial recognition of the financial instrument.

The general process of estimating the impairment involves 2 stages: analysis of the level of credit risk and calculation of the amount of expected credit losses.

Under the general approach, the provision for impairment is calculated on the basis of:

- expected losses during the year - for financial instruments without signs of material deterioration of credit quality from the moment of initial recognition;

- expected losses for the entire duration of the term - for financial instruments that have revealed a significant increase in credit risk.

For financial instruments that have been impaired at the time of their acquisition, an approach is used for which the provision is calculated in the amount of accumulated changes in the amount of expected loss for the entire period of the financial instrument's existence. At the date of initial recognition, the Bank takes into account expected losses in determining the effective interest rate and the provision for such transactions is not calculated. Subsequently, the Bank determines the changes since the initial recognition in the accumulated amount of expected loan losses for the entire period of the financial instrument's existence.

For each reporting date, the Bank recognizes the estimated provision for impairment losses on the basis of expected loan losses during the 12 months or expected loan losses during the period of the instrument (depending on the degree of deterioration of the credit quality of the financial instrument after initial recognition). Changes in the provision for impairment losses are recognized in profit or loss as income or expense from impairment. The Bank makes the following assessment at each reporting date:

- for instruments that are prone to credit risk, in the absence of a significant increase in credit risk after initial recognition, the Bank creates an estimated provision for expected credit losses for 12 months, that is, the portion of expected credit losses during the instrument period that results from default events that are possible during 12 months after the reporting date. (Stage 1)

- for instruments subject to credit risk, with a significant increase in credit risk after initial recognition on an individual or group basis, but without any indication of impairment (default), an estimated provision for impairment losses for expected loan losses is formed for the entire duration of the instrument. (Stage 2)

- for instruments subject to credit risk, with a significant increase in credit risk after initial recognition on an individual or group basis, with signs of impairment (default), an estimated provision for impairment losses is expected for the expected duration of the instrument. (Stage 3)

If in the subsequent reporting periods the credit quality of a financial instrument is improved to such an extent that significant deterioration of the credit risk after initial recognition is not yet present, the Bank returns to the determination of the estimated provision for impairment on the basis of expected credit losses for 12 months.

The factors and criteria considered by the Bank as evidence of a significant increase in credit risk and the existence of default indicators in terms of different segments of borrowers / counterparties are as follows:

- Lowering the borrower class 2 or class 1, starting with 6 classes.

- Overdue payables for payments ranging from 30 to 90 days.

- Debt up to EBITDA of more than 5 in the current quarter.

-Availability of information on litigation or enforcement proceedings leading to liquidity problems.

- Blocking current accounts for more than 7 days.

- Violation of terms of loan agreements (except for overdue debt).

- Negative value of equity capital.

- Changing ownership or management, which can lead to certain problems.

- Problems at the group level.

- Changing legislation that can lead to certain problems.

- The deterioration of the market situation in the industry;

- Reduced by more than 50% of revolutions in the current month compared with the average over the past 3 months.

The Bank considers three general economic scenarios - optimistic, realistic and crisis. The probability of implementing each economic scenario is determined taking into account the available information (relative to the macroeconomic indicators, the general economic and political situation in the country, etc.), the presence of which affects the probability of occurrence of a certain scenario. Within the framework of general economic scenarios, the Bank forecasts the following standard scenarios of the borrower's behavior and methods of repayment of credit indebtedness:

- independent repayment of credit indebtedness according to the current schedule;

- independent repayment of credit indebtedness due to debt restructuring;

- repayment of the borrower's credit debt due to the implementation of collateral for this loan;

- sale of a borrower's credit debt or refinancing it by a third party;

- debt write-off of the borrower through the formation of reserves in the full amount of the arrears.

The procedure for taking into account the forecast macroeconomic information in determining the expected credit losses

The information used by the Bank to determine the likelihood of implementation of various macroeconomic scenarios is the prognostic and current information (at the time of determination) disclosed by the National Bank of Ukraine and other official sources (the same information is used by the Bank in developing the Bank's Development Strategy), namely:

- the discount rate of the National Bank;

- official exchange rate of hryvnia to foreign currencies;

- index of inflation;

- the size of the gross domestic product;

- index of consumer prices and producer prices;

- unemployment rate;

- average salary;

- prices for key goods exported from Ukraine and imported to Ukraine.

Annually, at the beginning of the year, this information is being processed by the Risk Management Department and, by expert evaluation, the probability of realization of each of the possible general economic scenarios - optimistic, realistic and crisis - for the current year is established. The determined indicators of the probability of realization of all general economic scenarios are approved by the decisions of KURAP and are valid throughout the year. Indicators are reviewed annually or in case of significant changes in macroeconomic indicators.

The Bank uses two approaches to the reservation: group and individual. The group approach applies a portfolio-based assessment. Used for financial instruments that have one of the following features:

• are not considered significant - less than 10% of the regulatory capital of the Bank;

• there was no significant increase in credit risk.

An individual approach applies a client-level assessment. Used for financial instruments that have one of the following features:

• considered significant - more than 10% of the regulatory capital of the Bank;

• significant increases in credit risk or default indicators.

To measure impairment and the formation of a provision for trade receivables and receivables that are a financial asset (hereinafter - financial receivables), for which the maturity under the terms of the agreement does not exceed three months, the Bank applies a simplified approach. This approach involves simplifying the calculation of credit risks for the above-mentioned arrears using the matrix of provisions recognized in liabilities, according to which the Bank does not track changes in credit risk.

The procedure for assessing the impairment of receivables from economic operations for a simplified approach is based on the assertions that:

- the instrument "accounts receivable" does not include a significant component of financing;

- the difference in time between receipt of the goods or services from the seller and payment of such goods is one year or less.

Asset provisions are special (valuation) reserves that reduce the carrying amount of assets and the need for formation of which is caused by a decrease in usefulness.

In the financial statements, the provisions for active operations are shown as follows:

- in the Report on the financial condition of the bank - in the book value of the respective assets;

- in the Profit and Loss Statement - in the form of net profit / loss from increase / decrease in provisions for impairment of financial assets, accounts receivable and other financial assets.

Depreciated financial assets are reimbursed (written off) by the Bank at the expense of the established insurance reserve. The decision on reimbursement (write-off) on account of the created reserve of depreciated financial assets under the principal debt and accrued interest / commissions is taken by the Board of the Bank upon submission of the Credit Committee.

Debt write-offs and interest accrued on them are not grounds for termination of the Bank's claims to the borrower. During the period, the Bank, in accordance with the legislation of Ukraine, continues to work on the reimbursement of write-off due to the provision for bad debts. In the reporting period, there was no recovery of assets due to the creation of an insurance reserve.

***4.5. Termination of recognition of financial instruments***

The Bank ceases to recognize a financial asset or group of financial assets (hereinafter referred to as a financial asset) if:

a) the term of the rights to cash flows from a financial asset, as determined by the terms of the contract, expires;

b) the transfer of a financial asset meets the criteria for termination of recognition.

The Bank transfers a financial asset if one of the following conditions is met:

the bank transfers the rights to receive cash flows from the financial asset, which are stipulated by the agreement;

the bank retains the rights to receive cash flows from a financial asset provided for by the transfer agreement, but undertakes to pay cash flows to one or more recipients under an agreement that meets the following conditions:

a) the bank has no obligation to pay the amounts to final buyers until the receipt of equivalent amounts from the original asset;

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

c) the bank has an obligation to transfer any cash flows that it collects on behalf of the final recipients without significant delay. In addition, the Bank does not have the right to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in IFRS 7 Cash Flow Statements) during a short maturity from the date of collection to the date of the required transfer to the final beneficiaries. Interest on such investments is passed on to final recipients.

The Bank assesses the limits in which it retains all risks and rewards of ownership of an asset when it transmits a financial asset, taking into account the following:

a) if the bank transfers substantially all the risks and rewards of ownership of the financial asset, it must cease recognition of the financial asset and recognize the rights and obligations created or retained during the transfer, separately as an asset or liability;

b) if the bank retains basically all the risks and rewards of ownership of the financial asset, then it continues to recognize the financial asset;

c) if the bank does not transfer, does not preserve substantially all the risks and rewards of ownership of the financial asset, it determines whether the control over the financial asset is maintained.

The Bank does not exercise control over the transferred asset if the party to whom the asset is transferred is in a real position to sell it to an unrelated third party may unilaterally sell this sale without the need to impose additional restrictions on such transfer.

If the control over the financial asset is not retained, then the bank ceases to recognize such an asset and recognizes the rights and obligations created or retained during the transfer, separately as an asset or liability. In case of control over a financial asset, the bank continues to recognize the transferred financial asset in the course of its further participation in it.

The Bank recognizes the difference between the carrying amount of the financial asset and the amount of compensation received as other operating income or expense in the event of the asset's cessation.

The Bank terminates recognition in the balance sheet of a financial liability or part thereof, if such obligation is repaid, canceled or expired.

**4.6. Cash and cash equivalents**

Cash and cash equivalents are assets that can be converted into cash at the first demand, which has a slight risk of changing value. Cash and cash equivalents include cash in the bank's cash desk, balances with the National Bank of Ukraine (with the exception of mandatory reserves and cash for which there are legislative restrictions on the order) and all non-impaired funds placed on the interbank market with original maturity not more than three months.

**4.7. Mandatory reserves on the accounts of the National Bank of Ukraine**

During the reporting period 2018 and 2017, the Bank did not create or maintain mandatory reserves at separate accounts with the National Bank of Ukraine.

**4.8. Financial assets at fair value through profit or loss**

During the reporting period 2018 and 2017, the Bank did not create or maintain financial assets at fair value through profit or loss.

**4.9. Money in other banks**

The funds in other banks include financial assets that provide for the provision of cash for temporary use or acceptance of a commitment to temporarily use funds under certain conditions for the purpose of acquiring or creating a receivable that is not related to derivative financial instruments, not is quoted on an open market and must be redeemed at a fixed or determinable date.

Granted loans, placed deposits are initially measured and recorded at fair value, including transaction costs and other payments associated with the initiation of a financial instrument.

The Bank reflects transaction costs and other payments related to the initiation of a financial instrument on the discount accounts (bonuses) for this financial instrument.

After initial recognition, the Bank assesses the loans granted, deposits (deposits) are depreciated at amortized cost using the effective interest rate.

The Bank records interest income and expenses on loans, deposits (deposits) and depreciates a discount (premium) using the effective interest rate.

At the same time, interest is accounted for at the nominal (contractual) interest rate, and the effective interest rate is used to distribute income by adjusting interest income on credit transactions by the difference between the amount of interest income recognized at the effective interest rate and accrued at the nominal interest rate of income (expenses ) The difference is displayed on the accounts of the unamortized discount and remuneration in correspondence with the accounts of interest income (expenses).

The Bank records in profit or loss the amount of the difference between the fair value of the financial asset or financial liability and the value of the contract in correspondence with the discount account (premium) if the effective interest rate on this instrument is higher or lower than the market value.

The fair value of a financial instrument at initial recognition is the transaction price (that is, the fair value of the funds provided or received). The Bank determines the fair value of a financial instrument using the appropriate valuation method if the market for a financial instrument is not active, in particular:

reference to the market price of another similar instrument;

discounted cash flow analysis;

other methods that provide a reliable estimate of the fair value of financial instruments.

During the reporting period, the Bank did not carry out operations on placement of term funds in other banks. Balances on correspondent accounts with other banks are reflected in cash and cash equivalents.

**4.10. Loans to customers due diligence**

During the reporting period 2018 and 2017 the Bank did not carry out operations related to lending to customers.

**4.11. Agreements for the sale (purchase) of securities with the obligation of reverse repurchase (sale)**

During 2017 -2018, the Bank did not enter into contracts for the sale (purchase) of securities with the obligation of reverse repurchase (sale).

**4.12. Investments in securities**

The Bank's investments in securities are investments in debt securities whose purpose is to receive cash flows in accordance with the terms of issue. Debt securities held by the bank to generate cash flows under the terms of issue are stated at the balance sheet date at amortized cost using the effective interest rate method.

For each balance sheet date, securities recorded at amortized cost are analyzed for impairment and, if necessary, subject to adjustments.

The Bank recognizes interest income on debt securities depending on the stage of credit risk:

- at the first and second stage of credit risk by applying an effective interest rate to gross book value;

- in the third stage of impairment, by applying the effective interest rate to the amortized cost, adjusted for the amount of the provision.

Reducing the value of investments in securities is reflected in the accounting by creating a provision for the amount exceeding the book value of securities over the amount of expected reimbursement. In the event of a decrease in the value of securities, the bank generates reserves.

During the reporting year 2018 and the previous reporting period, the bank exclusively invested in risk-free debt securities: government-denominated bonds denominated in national currency, with maturity up to 1 year, and deposit certificates of the National Bank of Ukraine.

**4.13. Investments in Associates**

During 2017-2018, the Bank did not invest in associates.

**4.14. Investment Property**

Investment property - real estate (land or building or part of the building, or a combination thereof) held by (the owner or lessee under a finance lease agreement) in order to obtain lease payments (lease payments) or increase the cost of capital or to achieve both goals.

At initial recognition of investment property, the Bank evaluates and displays it in accounting at cost, which includes the purchase price of this property and all costs directly related to its acquisition.

After initial recognition of an investment property, its further assessment is carried out by the Bank at its original cost (cost) based on accumulated depreciation (other than investment property in the form of land) and impairment losses.

The liquidation value of such a property is zero, the original value is depreciated over its useful life, which is 75 years for buildings.

The Bank analyzes the presence of evidence of impairment of investment property, if there is evidence of a possible loss of economic benefit.

The Bank analyzes the availability of property, plant and equipment and intangible assets impairment annually as of December 1, 2006, as part of the annual inventory of assets and liabilities. As a result of the inventory, as at 1/12/2018 there are no grounds for recognizing the impairment of investment property objects.

**4.15. Goodwill**

Due to the fact that during the reporting period the bank did not carry out business combinations, goodwill was not recognized during 2017-2018.

**4.16. Fixed assets**

Purchased (created) fixed assets / low value non-current tangible and intangible assets are credited to the Bank's balance sheet at an original cost, which includes all costs associated with the acquisition (creation), delivery, installation and commissioning.

Subsequently, fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses.

When calculating depreciation using a straightforward method.

Depreciation charges are defined as administrative and other expenses in the statement of income.

The range of useful life (exploitation) of fixed assets is between 3 and 75 years, including:

-building 75 years old;

-machines and equipment - 5-7 years;

- tools, instruments and equipment - 4 years;

-information systems and other machines for automatic information processing - 5 years.

During the reporting year, useful life of fixed assets has been revised, but has not changed.

The Bank recognizes impairment if there is evidence of a possible loss of economic benefit. The usefulness of non-current assets is reduced if their book value exceeds the estimated amount of expected reimbursement. The Bank performs an analysis of the existence of evidence of impairment of fixed assets and intangible assets each year. Based on the results of the inventory of fixed assets held on 01.12.2018, there are no grounds for recognizing impairment.

**4.17. Intangible assets**

Acquired intangible assets are carried at historical cost, which consists of actual costs for acquisition (manufacturing) and bringing to a state at which they are suitable for use in accordance with the intended purpose.

Subsequently, intangible assets are carried at cost less accumulated depreciation and any accumulated impairment losses.

The revaluation of the initial value of intangible assets in the reported year was not conducted by the Bank.

The Bank analyzes the availability of impairment indicators for intangible assets each year as of December 1, 2006, in the framework of annual inventory of assets and liabilities.

The Bank recognizes impairment if there is evidence of a possible loss of economic benefit. The usefulness of intangible assets decreases if their carrying amount exceeds the estimated amount of expected reimbursement. During 2017-2018 impairment of intangible assets was not recognized.

**4.18. Operational lease by which the bank acts as a lessor and / or lessee**

Operational lease is a business transaction involving the transfer to the lessee of the right to use fixed assets for a term not exceeding their full depreciation period, with the obligatory return of such fixed assets to their owner after the expiration of the lease agreement.

The accounting of fixed assets transferred to operating leases is continued by the Bank on the balance accounts for which these assets were accounted for in the balance sheet of the bank prior to operating lease.

During the term of the lease agreement, the Bank charges depreciation on assets transferred to operational leasing in accordance with the accounting policy.

The lease payments are accounted for by the Bank in accordance with the operating lease agreement on the terms of payment of the lease payment provided for by this agreement and on the last working day of the month (if payment for services rendered in the current month is carried out next month).

During the reporting period, the bank did not perform operations to provide / obtain non-current assets in operating leases.

**4.19. Financial leasing in which the bank acts as a lessor and / or lessee**

During the period from 2017 to 2018, the Bank did not perform financial leasing transactions for which the Bank acted as a leasing and / or lessee.

**4.20. Non-current assets held for sale and disposal groups**

During 2018-2017 the Bank did not carry out operations with non-current assets held for sale or assets of the disposal group.

**4.21. Amortization**

Amortization is subject to the value of all non-current (tangible and intangible) assets (except for land value and capital investments in progress) on a systematic basis over the useful life of the asset, which is established by the bank during their initial recognition.

Depreciation is not charged if the carrying amount of non-current assets equals their liquidation value.

Depreciation charges are defined as administrative and other expenses in the statement of income.

Depreciation of fixed assets (other than non-current tangible assets) banks are accounted for using the straight-line method, according to which the annual amount of depreciation is determined by dividing the depreciated value for the useful life of the item of property, plant and equipment.

The range of useful life (exploitation) of fixed assets is from 3 to 75 years, including:

- buildings 75 years old;

- machinery and equipment - 5-7 years;

- Instruments, instruments and equipment - 4 years;

- information systems and other machines for automatic information processing - 5 years;

- other fixed assets - 12 years.

During the reporting year, useful life of fixed assets has been revised, but has not changed.

Depreciation of low-value non-current tangible assets and library funds is accrued in the first month of the use of an object in the amount of 100 percent of its value.

Amortization of intangible assets is accrued using the straight-line method, which is that the economic benefits from intangible assets are fully utilized throughout their term of service.

The useful lives of intangible assets in the reporting year 2018 were reviewed but not changed.

When changing the depreciation method or setting a new useful life, these changes apply from the month following the month in which they occurred.

Depreciation is charged on a monthly basis. Monthly amount of depreciation is determined by dividing the amortization amount for the full year of useful use by 12.

**4.22. Stopped activity**

The component of the Bank in accordance with the provisions of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations that was liquidated or classified as held for sale, which is a separate business line or geographic region of activity, or is part of a coordinated plan for liquidation of a separate main business line, for 2017-2018 the Bank is absent.

**4.23. Derivative financial instruments**

During 2018-2017 the Bank did not carry out transactions with financial derivative instruments.

**4.24. Attracted funds**

The funds borrowed from the Bank include clients' funds.

Borrowings initially recognized are measured at their fair value less costs incurred. After initial recognition, attracted funds are measured at amortized cost using the effective interest rate method.

For the use of funds registered in the client's account, the bank pays interest, the amount of which is credited to the account, unless otherwise specified by the bank account agreement or by law.

The Bank records interest expenses on clients' funds in the accounting and depreciates the discount (premium) using the effective interest rate.

The funds attracted by the bank on a deposit are subject to obligatory reservation in the amount of the established norms of mandatory reserve for banks of Ukraine in accordance with the current legislation.

During 2017-2018 the Bank did not issue debt securities.

**4.25. Financial liabilities at fair value through profit or loss.**

During the reporting year 2018 and previous 2017, the bank had no financial liabilities at fair value through profit or loss.

**4.26. Debt securities issued by the bank**

In the reporting period, the Bank did not issue debt securities.

**4.27. Reserves for obligations**

Provisions are recognized in the financial statements of the Bank when the Bank has a present legal or constructive obligation as a result of past events and when it is probable that an outflow of resources foreseen for economic benefits will be required to settle such an obligation, and the amount of that obligation can be calculated with a sufficient level of accuracy.

The following obligations under which the Bank recognizes the reserves include the following obligations:

- loan commitments;

- potential tax liabilities;

- obligations on employee benefits, including obligations to pay unused vacation;

- others.

Provisions for provided financial liabilities are a guarantee of their future performance, which is recognized in the balance sheet of the bank as a liability and indicates possible penalties as a result of the retirement of resources associated with the implementation of such financial liabilities.

The Bank undertakes commitments related to lending, including loan commitments, which are generally recognized in the amount of fees received and disclosed in the financial statements at fair value. This amount is amortized on a straight-line basis over the life of the obligation, except for the obligation to provide loans, if it is probable that the Bank will enter into a specific loan agreement and does not expect to realize the relevant loan within a short time after this provision. Such a loan for the loan is related to future periods and is included in the carrying amount of the loan at initial recognition. As at the end of each reporting period, commitments related to lending are valued at the highest of two amounts: the unamortized balance of the respective amount at initial recognition or estimated costs necessary to settle the liability at the end of the period.

Reserves that are formed by the bank to cover expenses for the payment of unused vacation are reflected in the "Other liabilities" of the Statement of financial position and in the item "Employees benefits" Income Statement.

**4.28. Subordinated debt**

Subordinated debt - long-term borrowed funds that are returned to the investor in accordance with the agreement after the repayment of claims by all other creditors and are included in the capital provided the National Bank of Ukraine receives the permit.

Subordinated debt is initially accounted for at fair value. The Bank recognizes in the initial recognition the gain or loss for the amount of the difference between the fair value of the financial liability and the value of the contract in correspondence with the discount / premium account if the effective interest rate on this instrument is higher or lower than the market value. After initial recognition, funds raised under the terms of a subordinated debt are carried at amortized cost.

The cost of subordinated debt is charged by the Bank monthly from the application of the effective interest rate. Interest payments are made in accordance with the terms and conditions of the Agreement and taking into account the features specified in the Agreement on payment of interest, subject to availability of certain parameters of the Bank's activities. Accrued but unpaid interest is not capitalized, but is accounted for by the Bank when determining the carrying amount of a subordinated debt.

**4.29. Income tax**

Income tax for the year consists of current and deferred taxes.

Current taxation is calculated on the basis of the amounts expected to be paid to the tax authorities in relation to the taxable profit or loss for the current period, calculated in accordance with the requirements of the Tax Code of Ukraine and applying the tax rate applicable on the reporting date. Taxable profit is based on the tax returns and is reported as a receivable / liability for current income tax on the balance sheet of the bank.

Income tax is recognized in the Profit and Loss Statement, except when it relates to items reflected directly in equity.

Deferred tax is calculated using the balance sheet liability method for all temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and amounts used for tax purposes.

To determine the deferred income tax, the tax rate will be used in the period when the deferred tax asset or liability is realized. Deferred tax assets / liabilities are recognized in the item deferred tax assets / liabilities of the statement of financial position of the Bank. Expenses from deferred tax assets or liabilities are recognized in the income statement in the income tax expense, except for deferred tax assets or liabilities arising from transactions that are recorded as changes in equity.

**4.30. Share capital and issue income**

Share capital is paid by the participants' cash contributions to the value of the Bank's shares in the amount determined by the charter. Share capital is shown on the original (nominal) value. Costs directly related to the issue of new shares are accounted for in equity as a reduction in the amount of receipts and the financial statements are reflected in other additional capital.

Excess of fair value (placement prices) made for the payment of shares of cash, over nominal value is recorded in equity as a statement of income.

**4.31. Own shares purchased from shareholders**

During the reporting period 2018, the Bank did not carry out redemption of its own shares in the shareholders.

**4.32. Income and expenses**

Income / expenses are subject to accrual and disclosure in the Bank's financial statements if the following conditions are met:

- on assets and liabilities - there is a real debt (interest income / expenses);

- For services rendered (received) - the financial result can be accurately assessed and there is a contract for the provision (receipt) of services or documents confirming the full (partial) provision of them (commission income / expense, the result of trading operations, administrative expenses).

The accrual of such income and expenses is carried out on a monthly basis regardless of the term of the payments specified in the agreement.

Income and expenses arising from the transaction are determined by an agreement between its participants or other documents drawn up in accordance with the requirements of the current legislation of Ukraine.

Income and expenses are recognized for each type of business (operational, investment, financial) of the Bank. The criteria for recognizing income and expenses are applied separately to each operation of the Bank. Each type of income and expense is reflected in the accounting separately.

As a result of using the assets of the Bank by other parties, income is recognized in the form of interest, royalties, dividends:

- interest is recognized in the reporting period to which they belong, and they are calculated based on their base of calculation and term of use of the relevant assets or amounts of the Bank's debts;

- royalties are recognized on the principle of accrual in accordance with the economic content of the relevant agreement;

- dividends are recognized in the event of the establishment of rights to receive payment.

The condition of recognition of interest and royalties is the probability of obtaining an economic benefit by the Bank, and dividends are a reliable estimate of income.

For trading in financial instruments, profits and losses are recognized when the following conditions exist:

- the risks and benefits associated with the ownership of the assets transferred to the buyer;

- The Bank does not carry out further management and control over the realized assets;

- the amount of income can be reliably determined;

- there is confidence that as a result of the operation there will be an increase in the bank's economic benefits;

- Costs associated with this transaction can be reliably determined.

If an asset provides for economic benefits for several accounting periods, the cost is recognized by systematically allocating its value (for example, depreciation) between the relevant reporting periods.

Costs that cannot be directly linked to the income of a particular period are shown in the expense of the reporting period in which they were incurred.

Income (expenses) for one-time services (for example, fees for exchanged currencies, provision of (obtaining) consultations, etc.) can be recognized without displaying accrued income (expense) accounts if the funds were received (paid) during or after the actual provision (receipt) services during the reporting month.

Income (expenses) for services provided in stages are recognized after the completion of each stage of the transaction during the duration of the service provision agreement and are recorded on an accrual basis. Income (expense) is charged from the date of registration of a document confirming the provision (receipt) of the service.

Income (expenses) for services with compulsory result are recognized on the fact of providing (receiving) services or on the fact of achieving the result provided by the contract.

The cost of acquiring and creating an asset that cannot be recognized as an asset is recognized as an expense.

- the amount of proceeds from a commission agreement, agency agreements and a similar agreement in favor of the commissioner, principal, etc.;

- the amount of the advance payment for the advance payment of services, goods, etc.;

- proceeds belonging to other persons;

- proceeds from the initial placement of securities;

- the amount of value added tax, other taxes and mandatory payments, which are subject to transfer to the budget and extrabudgetary funds.

Not recognized as expenses and are not included in the statement of financial results:

- payments under contracts of commissions, agency agreements and other similar agreements in favor of the commissioner, principal, etc.;

- preliminary (advance) payment of goods, works, services;

- repayment of received loans, return of deposits, etc.;

- expenses that are reflected in the reduction of equity in accordance with the current legislation of Ukraine.

Income, expenses and depreciation of the discount (premium) are carried out at least once a month, with the reflection of the corresponding accounts of interest income (expenses).

If income (expenses) are received (paid) at the balance sheet date, then the Bank may not reflect them on accrued income and expenses accounts.

If the income and expenses are recognized within the reporting period without displaying them on the accrued income (expense) accounts, the bank shall apply appropriate internal control over the accrued and received income.

Income and expense items are not discounted but are recorded separately, with the exception of articles related to hedging, or assets and liabilities, if there is a legal right to such a rollback and if this is provided by the relevant accounting regulations (standards).

On a net basis, the income and expense arising as a result are reflected:

- Realization and revaluation of the book value of securities purchased for trading transactions;

- sale of securities in the Bank's portfolio for sale;

- operations in foreign currency.

Revenues and expenses incurred in future periods are accounted for as future income / expense items. The Bank recognizes the amount of incomes and expenses belonging to the reporting period on a monthly basis.

Interest income and expense are recognized on the income and expense accounts using the effective interest method. Interest on financial instruments is charged at the nominal interest rate stipulated by the terms of the contract (issue) and is reflected in the accrued income and expense accounts.

Interest income on assets at the first and second stage of depreciation is calculated by multiplying the gross carrying amount by the effective interest rate. Interest income on assets in the third stage of depreciation is calculated by multiplying the amortized cost to the effective interest rate.

Amortization of a discount (premium) for financial instruments is carried out simultaneously with the accrual of interest.

Any differences that arise between the amount of interest income (expense) recognized at the effective interest rate and accrued at the nominal interest rate of income (expense) for financial instruments acquired (received) at par value (net of discount or premium) are shown for Accounts for non-amortized discount (premium) in correspondence with accounts on account of interest income (expenses).

To calculate the effective interest rate, cash flows are determined taking into account all terms of the agreement on the financial instrument, including all commissions and other amounts paid or received by the parties that are an integral part of the income (expenses) of the financial instrument. If it is impossible to reliably estimate the cash flows or the expected life of the financial instrument, the cash flows provided for by the relevant agreement are used during the term of the agreement.

If, in the future, the real values ​​and timing of cash flows will differ from those planned and such deviation is not associated with a decrease or reversal of usefulness, then the carrying amount of the financial instrument should be adjusted at the balance sheet date. In this case, the difference between the carrying amount of the financial instrument and the value of the estimated future cash flows discounted at the original effective interest rate (that is, the effective interest rate calculated at initial recognition) is determined. This difference is reflected in the accounts of the unamortized discount (premium) in correspondence with the accounts for the accounting of interest income (expenses).

The Bank recognizes revenue for contracts that do not fall within the scope of applying IFRS 16 Leases and IFRS 9 Financial Instruments, the Bank applies the following five-step model for analyzing such contracts:

- identification of the contract;

- identification of individual obligations to perform within the framework of the concluded agreement;

- definition of the price of the contract;

- distribution of the price of the agreement between the obligations to perform;

- recognition of income when (or as it is) fulfilled the obligation to perform.

Accounting for a contract with a buyer is carried out by a bank if the following conditions are fulfilled simultaneously:

- the parties to the contract have entered into an agreement (in writing, verbally or in accordance with another ordinary business practice) and undertake to fulfill the obligations stipulated by the agreement;

- the bank identifies the rights of each party in relation to the assets and services to be transferred;

- the bank identifies the terms of payment for assets and services to be transferred;

- the nature of the contract is commercial (risks, timing or future cash flows of the bank are expected to change as a result of the contract);

- The bank receives compensation, the right to which it will receive in exchange for the assets and services to be passed on to the buyer is probable.

If the contract with the counterparty does not meet the above conditions, the compensation received from the counterparty is recognized by the bank as income only in case of occurrence of any of the following events:

- the bank does not have unfulfilled obligations to transfer assets or services to the buyer and all or almost all compensation promised by the buyer was received by the bank and not subject to return; or

- the contract was terminated, and the compensation received from the buyer is not subject to return.

The Bank, at the date of the contract, assesses the assets or services that are the subject of the contract with the buyer and identifies as an obligation to fulfill each obligation to transfer to the buyer or asset / service (or set of assets / services) that are either separate or series Separate assets or services that are essentially identical and are transmitted / provided to the buyer under the same scheme.

For the purposes of this classification, the Bank uses the following criteria indicating separation of assets or services:

- the buyer can benefit from the asset / service either separately or together with other resources to which the buyer has free access;

- the obligation of the Bank to transfer / provide the asset / service to the buyer is such that it is identified separately from other promises under the contract.

The Bank combines two or more contracts concluded at the same time or almost simultaneously with one buyer and accounts for such contracts as one provided one or more of the following criteria are met:

- the contracts were agreed as a package for one commercial purpose;

- the amount of compensation under one contract depends on the price or performance of another contract;

- the assets / services promised under the contracts (or under each contract) constitute one obligation to perform.

The Bank determines the transaction price as the amount of compensation it expects to receive under the contract, except for amounts received from third parties.

The contract price includes direct costs that are directly related to such a contract - labor costs, management costs of the contract and control over its implementation, costs that are payable to the buyer in full. Other expenses The Bank, including the costs of the contract, recognizes as part of the reporting period in which they were incurred.

Income is recognized on the basis of the price of the contract by proportional distribution of the obligation, with the fulfillment of such an obligation by transferring / rendering / asset / service, etc. For each commitment to be executed during the period, the Bank recognizes revenue by assessing the extent to which the obligations are fulfilled with the use of the results method. In case of impossibility to reliably estimate the result, the bank recognizes income in the amount of incurred expenses.

**4.33. Revaluation of foreign currency**

Foreign currency transactions are initially measured and recorded in accounting in the reporting currency by the conversion of the amount in foreign currency according to the official (accounting) rate of the hryvnia to foreign currencies established by the National Bank of Ukraine at the date of the transaction (date of recognition of assets, liabilities, equity, income and expenses).

Initially, an operation in foreign currency is accounted for in the currency of Ukraine - UAH - by applying to the amount in foreign currency the current exchange rate on the date of the transaction.

For each subsequent balance sheet date after recognition:

- all monetary items in foreign currency are recorded in the accounting at the official (accounting) rate of hryvnia to foreign currencies at the balance sheet date;

- non-monetary items in foreign currency recorded at cost are recorded in the accounting at the official (accounting) exchange rate of the hryvnia to foreign currencies at the date of recognition (date of transaction);

- non-monetary items in foreign currency recorded at fair value are recorded in the accounting at the official (accounting) exchange rate of hryvnia to foreign currencies at the date of determination of their fair value.

Assets and liabilities denominated in foreign currencies are recorded in the financial statements in UAH equivalent at the official (accounting) rate at the date of the reporting or on the date of their recognition.

In accordance with IAS 21 “The Effect of Changes in Foreign Exchange Rates”, non-monetary items whose inclusion on the Balance Sheet is related to transactions in foreign currency are recorded in Ukrainian Hryvnia Financial Statements at the official exchange rate at the date of the transaction.

Income and expenses (accrued, received, paid) in foreign currency are recorded in national currency income and expenditure accounts at official exchange rates of hryvnia to foreign currencies at the date of their recognition. Revenues and expenses of future periods in foreign currency by monetary assets and liabilities are revalued in the reporting currency at each change in official exchange rates of hryvnia to foreign currencies up to the time of their recognition (reflected in income and expenses accounts in the corresponding reporting period). Revenues and expenses of future periods in foreign currency for non-monetary items are recorded in the reporting at official exchange rates of hryvnia to foreign currencies at the date of their occurrence and are not revalued at each change of official exchange rates of hryvnia to foreign currencies until the time of their recognition on the respective income and expenditure accounts of the classes.

To prepare the financial statements, the Bank used the following exchange rates to prepare the financial statements that were effective at the end of the relevant periods:

|  |  |  |
| --- | --- | --- |
| Currency | December 31, 2018 | December 31, 2017 |
| 100 USD | 2 768,8264 | 2 806,7223 |
| 100 EURO | 3 171,4138 | 3 349,5424 |
| 100 YUAN | 402,5761 | - |

**4.34. Offsetting of articles of assets and liabilities**

Financial assets and financial liabilities are cumulated only where there is a legally enforceable right to cancel certain amounts and when the Bank intends to repay the liability on a net basis or sell the asset and simultaneously repay the liability.

**4.35. Employee benefits**

Employee benefits include current payouts. Current payments to employees include: wages and salaries, other payroll taxes; pay for time not worked (annual leave and other paid unprocessed time); bonuses and other incentive payments payable within twelve months after the end of the period in which the employees perform the relevant work, etc.

The accrued amount of employee benefits for work performed by them during the reporting period is recognized as current liability.

Payments for unprocessed time that are subject to accumulation are recognized as liabilities due to the provision of security in the reporting period. Payments for unprocessed time that are not subject to accumulation are recognized as liabilities in the period in which the time of absence of the employee at work is payable.

**4.36. Information on operating segments**

A segment is a segregated business component that provides products or services (operating segment) or is engaged in the provision of products or services in a separate economic region (geographical segment), and whose performance or assets represent at least ten percent of all segments, or, in the opinion of management Bank, which are important for the Bank. The segment has inherent risks and profitability, which differ from other segments of activity.

Information about the operating segment is presented separately in the reporting, if such information meets any of the quantitative criteria:

- the income of this segment from the sale of products, services to external buyers and for economic calculations is 10% or more of the total income (including banking within the segment);

- the financial result of this segment is not less than 10% of the total financial result of all segments of a certain type (that is, not less than 10% of the greater of two absolute values ​​- the total amount of profit or the total amount of loss of all segments);

- the carrying amount of the assets of the segment is 10% or more of the total book value of all segments of a particular type.

The reporting segments are formed by the Bank on the basis of the selected areas of operations (services to banks, services for corporate clients and individuals, banking activities with securities) and by combining several similar segments of the same type into a separate reporting segment. Similar recognized segments that have similar profit values ​​over several reporting periods and are consistent with most of the criteria for determining the operating segment.

Income from the reporting segment is the income directly attributable to the segment, and the corresponding portion of the Bank's income that can be attributed to the segment from external activity.

The expenses of the reporting segment are expenses related to the core activities of the segment that are directly attributable to it and the corresponding portion of the expenses that can be reasonably attributed to the segment, including the costs of external activities. Segment costs do not include the cost of paying a profit tax.

Assets in the reporting segment are assets that are used to perform normal business and are directly related to this segment. Segment assets do not include income tax assets. Segment assets are recognized after deducting the respective provisions that govern the valuation of an item in the Bank's balance sheet.

A segment liability is a liability that arises from the normal activities of a segment and is directly related to a segment, or can be attributed to a segment by proportional distribution. If the segment result includes interest expense, then the segment liabilities include related liabilities, for which interest is charged. Segment liabilities do not include liability for tax on profits.

The main criterion by which the Bank determines the reporting operating segments is the homogeneity inherent in the segment of risks, profitability, target groups and the technological process.

JSC "Ukrainian Bank for Reconstruction and Development" operates in the following operating segments:

* ***Banking services*** - opening of correspondent accounts in other banks, placement (raising) of funds, sale and purchase transactions of non-cash foreign currency in the interbank foreign exchange market of Ukraine, transactions for the sale and purchase of cash national currency, etc.
* ***Services for clients (legal entities and individuals)*** - settlement and cash transactions on current accounts of legal entities and individuals, taking deposits (deposits), providing overdraft, loans and other lending services, conducting operations with non-cash foreign currency on behalf of clients, etc.
* ***Securities Transactions*** - treasury securities purchase and sale operations (domestic government loan and deposit certificates), depositary services, services on own securities, etc.
* ***Other segments and operations.***

In addition, the allocation of indirect costs to use the method in which the expenses related to the reporting segments in proportions equal installments each reporting segment in the total result of all reportable segments after direct attribution of income and expenses.

During the reporting period 2018, segregation, segregation, accounting policy changes were not carried out.

Intersegment operations are carried out on a royalty-free basis.

The Bank does not have clients whose income exceeds 10% of the total amount of external income.

Detailed information for operating segments is presented in note 26.

**4.37. Related Party Transactions**

In the course of its ordinary activities, the Bank carries out operations with various counterparties. Parties are considered to be related if one party has the ability to control the other party or has a significant influence on the other party when making managerial decisions.

As of December 31, 2018, and December 31, 2017, the sole shareholder of the bank, which owns 100% of the authorized capital of the Bank, was the “BOSE (HONGKONG) KO., LIMITED” (Ukraine).

Detailed information on transactions with related parties is provided in Note 32.

**4.38. Significant accounting judgments and estimates, their impact on the recognition of assets and liabilities**

**Uncertainty estimates.** In the process of applying accounting policies, the management of the Bank used its own judgments and evaluated the amounts disclosed in the financial statements using the main principles of IFRS. In case of impossibility of applying any standard or interpretation in a specific agreement, the management of the Bank applied professional judgments which enabled the Bank to provide up-to-date and reliable information. When using judgments, the Bank was guided by the requirements of paragraphs 10 and 11 of IFRS 8 "Accounting policies, changes in accounting estimates and errors", requirements of other standards or interpretations related to similar or related issues. The most significant use of judgments and evaluations includes the following***:***

**Fair value of financial instruments.** If the fair value of financial assets and liabilities reflected in the Statement of Financial Position cannot be determined on the basis of prices in an active market, it is recognized using a variety of valuation techniques including the use of mathematical models. Output data for these models is determined on the basis of a valuation model that uses observational data, wherever possible, but when this is not possible, certain judgments are required when determining fair value.

**Taxation.** The management believes that the Bank has complied with all the provisions of the current tax law. However, there is no certainty that the tax authorities do not interpret the compliance of the Bank with the provisions of the applicable tax law in another way, and that as a result of the Bank, fines and penalties will not be charged. Management estimates the amount of potential taxes and fines by assessing the probability of paying such taxes and fines and applying current tax laws. The actual payment of additional taxes accrued depends on the ability of the tax authorities to question the existing provisions and interpretation of the applicable tax legislation, as well as changes to the tax legislation. If interpretations of tax authorities are different from the interpretations of the Bank's management, the Bank may be charged additional taxes and fines.

**Initial recognition of transactions with economic entities related to authorities.** In the course of its activities, the Bank conducted operations with business entities connected with the authorities. In accordance with IFRS 9, "Financial Instruments", financial instruments are initially measured at fair value. In the absence of an active market for such transactions, in order to determine whether transactions were carried out at market or non-market interest rates, the Bank's management used professional judgments. The reasons for the judgments were pricing for similar types of operations with unrelated parties, an analysis of the effective interest rate, open information on possible market rates.

**The principle of a continuous organization.** These financial statements are prepared on the basis of the principle of a permanent organization. Using this judgment, the Bank took into account the existing intentions, the profitability of operations, the available financial resources and the impact of the current economic situation on the Bank's activities.

**4.39. Changes in accounting policies, accounting estimates, corrections of material errors and presentation of their financial statements**

In preparing the annual financial statements, the accounting principles are consistent with the principles used in the preparation of the annual financial statements for the year ended December 31, 2017, except for the new and revised standards and interpretations that have to be applied by the Bank from January 1, 2018.

In the reporting year 2018, the Bank made the following changes to the Accounting Policy:

- in respect of its alignment with IFRS 9 “Financial Instruments”, effective for annual periods beginning on or after January 1, 2018.

The Bank applies this standard retrospectively without recalculation for prior periods. During the classification, business models were determined according to the new standard for financial assets, recognition of which was not discontinued as of 01.01.2018. At the same time, SPPI-tests and the calculation of an effective interest rate on such assets were conducted on the date of their initial recognition.

Financial assets that have been outstanding as of 01.01.2018 are mainly represented by investments in securities in the form of deposit certificates of the National Bank of Ukraine and bonds of domestic state loans in the national currency of Ukraine. On the basis of the classification, all financial assets are classified by the Bank as a business model of management of financial assets, the purpose of which is to obtain contractual cash flows, followed by their accounting at amortized cost. Such a classification did not lead to changes in the Profit and Loss Statement, taking into account that these assets are risk-free for the Bank.

There was no change in the classification and further assessment of the Bank's financial liabilities.

- in part to bring it into line with requirements of IFRS 15 "Revenue from contracts with customers", which entered into force for annual periods beginning on January 1, 2018.

The bank applies this standard retrospectively with the cumulative effect of initial recognition of the application. As of 01.01.2018, contracts that fall within the scope of the standard and were incomplete on the date of initial application were absent.

The introduction of changes to the Accounting Policy did not have a material impact on the Bank's financial statements.

During 2018, the Bank did not correct significant errors that had an impact on the financial statements of previous reporting periods.

There was no evidence of re-presentation of comparative information in the financial statements and the fact of the reissue of corrected financial statements.

***The following revised standards become mandatory for the Bank from 1 January 2018:***

IFRS 9 “Financial Instruments” (as amended in July 2014, effective for annual periods beginning on or after 1 January 2018). The main distinguishing features of the new standard are as follows:

Financial assets should be classified in three categories of valuation: measured at amortized cost, measured at fair value through other comprehensive income, and measured at fair value through profit or loss.

Classification is carried out on the basis of both criteria: business models for managing financial assets and contractual agreements with the characteristics of cash flows for a financial asset.

A financial asset is carried at amortized cost, provided that both conditions are met: it corresponds to a business model whose purpose is to obtain contractual cash flows, and such contractual cash flows are exclusively the principal amount and the amount of interest on the repayment of the principal amount.

A financial asset is carried at fair value through profit and loss if both conditions are met: it corresponds to a business model whose purpose is achieved either by obtaining contractual cash flows or through the sale of financial assets, and such contractual cash flows are exclusively amounts the principal debt and the amount of interest on the outstanding principal amount.

Financial assets that contain any cash flows other than those that meet the requirement to pay exclusively principal and interest should be measured at fair value through profit or loss (for example, derivatives). Built-in derivatives are not separated from financial assets, but are included in their composition when assessing compliance with the condition of payment of exclusively principal and interest.

Regarding the classification and measurement of financial liabilities, most of the requirements of IAS 39 and in relation to the classification and measurement of financial liabilities have been transferred to IFRS 9 unchanged. The main difference is the requirement to disclose the effect of changes in own credit risk of financial liabilities classified as at fair value through profit or loss as part of other comprehensive income.

IFRS 9 introduces a new model for recognizing impairment losses: the model for expected credit losses.

Financial assets that have been outstanding as of 01.01.2018 are mainly represented by investments in securities in the form of deposit certificates of the National Bank of Ukraine and bonds of domestic state loans in the national currency of Ukraine. During the reporting period, the Bank worked with these assets in order to obtain cash from their repayment, there were no cases of sale until the maturity date. Therefore, all assets were attributed by the Bank to a business model of management of financial assets whose purpose is to obtain contractual cash flows, followed by their accounting at amortized cost. Taking into account that these assets are risk-free for the Bank, there were no adjustments to the Profit and Loss Statement.

The following table shows the reconciliation of the book value of financial assets with previous valuation categories in accordance with IFRS (IAS) 39 with their new assessment categories adopted when transitioning to IFRS 9 as of January 1, 2018:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Rating category | | The carrying amount in accordance with IAS 39 (outstanding at end of period 31.12.2017) | Provision in accordance with IAS 39 (outstanding at end of period 31.12.2017) | Influence | | | | Carrying amount in accordance with IFRS 9 (balance on the beginning of the period, 01/01/2018) | Provision in accordance with IFRS 9 (balance on the beginning of the period, 01/01/2018) |
| IAS 39 | IFRS 9 | Revaluation | | Reclassification | |
| Expected credit losses | Other | Obligatory | Voluntary |
| *Cash and cash equivalents* | *Correspondent accounts opened with other banks* | *Estimated at amortized cost* | *2 516* | *-* | *-* | - | - | - | *2 516* | - |
| Securities | Securities held to maturity (T-bills) | Estimated at amortized cost | 128 629 | - | - | - | - | - | 128 629 | - |
| Securities in bank's portfolio to maturity (NBU deposit certificates) | Estimated at amortized cost | 21 091 | - | - | - | - | - | 21 091 | - |
| *Total securities in the bank's portfolio to maturity* | *Estimated at amortized cost* | *149 720* | *-* | - | - | - | - | *149 720* | - |
| **Total financial assets** |  |  | 152 236 | - | - | - | - | - | 152 236 | - |

No changes were made to the classification and subsequent assessment of financial liabilities of the Bank.

IFRS 15 “Revenue from Contracts with Customer”. IFRS 15 provides for a new five-step model that applies to revenues from contracts with customers that are not included in the scope of applying IFRS 16 “Leases” and IFRS 9 “Financial Instruments”. In accordance with IFRS 15, revenue from such contracts is recognized in the amount reflecting the consideration that the entity expects to receive in exchange for the transfer of assets or services to the client. The principles of IFRS 15 provide for a more structured approach to the measurement and recognition of revenues. The introduction of IFRS 15 did not materially affect the Bank's financial statements, taking into account that the Bank does not sell non-financial assets or deferred payment services.

**Note 5. New and revised standards that have not entered into force**

A number of new standards and explanations are published that are mandatory for annual periods beginning on or after 1 January 2019 and which the Bank has not yet accepted ahead of schedule:

*IFRS 16 “Leases”* (issued January 13, 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard establishes the principles for recognizing, evaluating, presenting and disclosing information about the lease. All lease agreements lead to the tenant's right to use the asset from the moment the lease expires, as well as to receive financing if lease payments are made during a period of time. Accordingly, IFRS 16 abolishes the classification of the lease as operating or financial, as foreseen by IAS 17, and instead introduces a single model for accounting for lease transactions for lessees. Tenants will have to recognize: (a) assets and liabilities in relation to all lease contracts with a validity period of more than 12 months, except when the value of the leased property is insignificant; and (b) depreciation of leased assets separately from interest on a lease in the statement of income. In relation to leasing to a lessor, IFRS 16, in essence, retains the accounting requirements provided for in IAS 17. Thus, the lessor continues to classify lease contracts as operating or financial leases and, accordingly, reflect them differently in reporting [According to the estimates of the management, implementation of the relevant standard will not have a material impact on the Bank's financial statements.]

Clarification of IFRIC 23 Uncertainty in Income Tax Income (issued June 7, 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 contains a guide to accounting for current and deferred tax, but does not include guidance on how to reflect the effects of uncertainty. The clarification clarifies how to apply the recognition and measurement requirements in IAS 12 in the event of uncertainty in the presentation of the income tax. [It is currently expected that the standard will not have a material effect on the financial statements of the bank.]

Annual Improvements to IFRS, 2015-2017 - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued December 12, 2017 and effective for annual periods beginning on or after 1 January 2010). January 1, 2019 or after this date).

These highly specialized adjustments relate to four standards. As far as IFRS 3 is concerned, they point out that the acquirer needs to reassess the previously prevailing share of joint operations when he gains control over the business. With respect to IFRS 11, the amendments indicate that an investor should not revalue its prior share of participation when it obtains joint control over joint operations, similar to existing requirements that apply when a related organization becomes a joint venture or vice versa. Amendments to IAS 12 clarify that an entity recognizes all the effects of declaring or paying dividends on profit tax when it recognizes transactions or events that have caused the corresponding distributions, such as a portion of the gain or loss, or as part of other aggregate revenues. It has now been clearly established that this requirement applies in all cases where payments for financial instruments classified as equity represent a distribution of profits, and not only where the tax consequences are the result of changes in the tax rates on distributed or retained earnings. Amendments to IAS 23 include a clear indication that loans and borrowings received specifically for the financing of a particular asset are excluded from the total cost of borrowings admitted to capitalization to a significant extent to the end of a given asset. The Bank is currently assessing the impact of changes on the financial statements.

*Amendments to IAS 19, "Amendment, Reduction and Settlement of a Pension Plan" (issued February 7, 2018 and effective for annual periods beginning on or after January 1, 2019).*

These amendments indicate how to determine retirement expenses in the event of a change in the retirement plan with established payments. When a plan is adjusted (modification, reduction or settlement), in accordance with the requirements of IAS 19, a net liability or asset over established payments should be reconsidered. These adjustments require the use of updated assumptions for this revaluation to determine the value of services in the current period and net interest on the balance in the reporting period after the program changes. Prior to the amendment, IAS 19 does not include guidance on determining these costs after the change in plan. The requirement to use updated assumptions is expected to provide useful information to users of financial statements. The Bank is currently assessing the impact of changes on the financial statements.

Amendments to the Conceptual Basis of Financial Statements (Issued March 29, 2018 and effective for annual periods beginning on or after January 1, 2020).

The new version of the conceptual framework for financial reporting includes a new section on valuation, recommendations for reporting financial results, improvements in definitions and recommendations (in particular, definitions of commitments), and clarifications on important issues such as the role of leadership, prudence and uncertainty of assessment in the preparation of financial reporting

Unless otherwise stated above, it is expected that these new standards and explanations will not have a significant effect on the Bank's financial statements.

**NOTE 6. CASH AND CASH EQUIVALENTS**

**Table 6.1. Cash and cash equivalents**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Cash funds | 2 479 | 901 |
| 2 | Correspondent accounts, deposits and overnight loans at banks: | 828 | 2 516 |
| 2.1. | of Ukraine | 828 | 2 516 |
| 2.2. | other countries | - | - |
| 3. | Reserve for depreciation | (18) | - |
| **4** | **Total cash and cash equivalents** | **3 289** | **3 417** |

**Table 6.2. Analysis of changes in provision for cash and cash equivalents**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Provision for impairment at the beginning of the period | - | - |
| 2 | (Increase) / decrease in provision for impairment of purchased / initiated financial assets | (18) | - |
| 3 | Provision for impairment at the end of the period | (18) | - |

**Table 6.3. Analysis of changes in the gross carrying amount of cash and cash equivalents**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Gross book value at the beginning of the period | 3 417 | 1 395 |
| 2 | Acquired / initiated financial assets | 2 361 491 | 1 503 960 |
| 3 | Financial assets whose recognition has been canceled or canceled (except write-offs) | (2 361 712) | (1 501 938) |
| 4 | Other changes | 111 | - |
| 5 | Gross Balance Sheet at the end of the period | 3 307 | 3 417 |

**Table 6.4. Analysis of credit quality of cash and cash equivalents**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | High rating | 2 914 | 3 417 |
| 2 | Medium rating | 393 | - |
| 3 | Total cash and cash equivalents | 3 307 | 3 417 |

**NOTE 7. INVESTMENTS IN SECURITIES**

**Table 7.1. Investments in securities that are accounted for at amortized cost**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Government bonds | 120 878 | 128 629 |
| 2 | NBU deposit certificates | 48 165 | 21 091 |
| 3 | Provision for debt securities at fair value | - | - |
| **4** | **Total investments in securities that are accounted for at amortized cost** | **169 043** | **149 720** |

As at the end of the day on December 31, 2018, the Bank did not have in place and did not transfer to security without termination of recognition the securities purchased under repo agreements, as well as securities that the Bank cannot sell or remit.

**Table 7.2. Analysis of the credit quality of investments in securities, which are accounted for amortized cost, for 2018**

(ths. UAH.)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Line | Item | Stage 1 | | Total |
| Government bonds | Deposit certificates of the NBU |
| 1 | 2 | 3 | 4 | 5 |
| 1 | Debt securities, which are accounted for at amortized cost | 120 878 | 48 165 | 169 043 |
| 1.1 | Minimum credit risk | 120 878 | 48 165 | 169 043 |
| 2 | Total gross book value of securities, which are accounted for at amortized cost | 120 878 | 48 165 | 169 043 |
| 3 | Provision for impairment of securities, which are accounted for at amortized cost | - | - | - |
| 4 | Total debt securities, which are accounted for at amortized cost | 120 878 | 48 165 | 169 043 |

**Table 7.3. Analysis of credit quality of investments in securities, which are accounted for amortized cost, for 2017**

(ths. UAH.)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Line | Item | Stage 1 | | Total |
| Government bonds | Deposit certificates of the NBU |
| 1 | 2 | 3 | 4 | 5 |
| 1 | Debt securities, which are accounted for at amortized cost | 128 629 | 21 091 | 149 720 |
| 1.1 | Minimum credit risk | 128 629 | 21 091 | 149 720 |
| 2 | Total gross book value of securities, which are accounted for at amortized cost | 128 629 | 21 091 | 149 720 |
| 3 | Provision for impairment of securities, which are accounted for at amortized cost | - | - | - |
| 4 | Total debt securities, which are accounted for at amortized cost | 128 629 | 21 091 | 149 720 |

**Table 7.4. Analysis of changes in the gross carrying amount of investments in securities that are accounted for at amortized cost**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Gross value at the beginning of the period | 149 720 | 59 969 |
| 2 | Acquired / initiated financial assets | 2 310 991 | 1 269 428 |
| 3 | Financial assets whose recognition has been canceled or canceled (except write-offs) | (2 295 499) | (1 184 445) |
| 4 | Other changes | 3 831 | 4 768 |
| 5 | Gross Balance Sheet at the end of the period | 169 043 | 149 720 |

**NOTE 8. INVESTMENT PROPERTY**

**Table 8.1. Investment property is measured at cost method for 2018:**

ths. UAH.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Line | Item | Land | Buildings | Total |
| 1 | 2 | 3 | 4 | 7 |
| 1 | Balance at the beginning of the year: | 24 674 | 3 134 | 27 808 |
| 1.1 | Initial value | 24 674 | 3 407 | 28 081 |
| 1.2 | Wear and tear | - | (273) | (273) |
| 2 | Amortization | - | (47) | (47) |
| 3 | Balance at the end of December 31 | 24 674 | 3 087 | 27 761 |
| 3.1 | Initial value | 24 674 | 3 407 | 28 081 |
| 3.2 | Wear and tear | - | (320) | (320) |

As part of investment property, the Bank recognizes the following objects:

- a land plot, the ownership of which was received on the basis of realization of the rights of the mortgagee and which was not implemented during the year. According to the current legislation of Ukraine, land plots are not subject to depreciation;

- a complex, non-residential buildings, the ownership of which the Bank received on the basis of realization of the rights of the mortgagee in previous reporting periods. By the recognition of investment property, this object was accounted for as long-term assets held for sale, but provided that it was not implemented within the period allowed for its implementation, it was decided to classify this object as part of investment property on the basis of the cost method with the simultaneous recognition of accumulated depreciation. The complex of non-residential buildings is subject to depreciation on a straight-line basis in accordance with the term of useful life specified by this object - 75 years.

Given the uncertainty about financial stability, transactions with similar real estate are almost non-existent, which makes it impossible to accurately determine the fair value of these objects of real estate. Therefore, the above-mentioned objects of investment property are accounted for as investment property under the cost method.

Provided that from the date of the last valuation (as of 01.01.2018) there were no events that could lead to a significant fluctuation of real estate prices, the book value of the property of the Bank belonging to investment property corresponds to the range of assessments in which the most the fair value of such property is likely to be.

**Table 8.1. Investment property is measured at cost method for 2017:**

ths. UAH.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Line | Item | Land | Buildings | Total |
| 1 | 2 | 3 | 4 | 7 |
| 1 | Balance at the beginning of the year: | 24 674 | 3 181 | 27 855 |
| 1.1 | Initial value | 24 674 | 3 407 | 28 081 |
| 1.2 | Wear and tear | - | (226) | (226) |
| 2 | Amortization | - | (47) | (47) |
| 3 | Balance at the end of December 31st | 24 674 | 3 134 | 27 808 |
| 3.1 | Initial value | 24 674 | 3 407 | 28 081 |
| 3.2 | Wear and tear | - | (273) | (273) |

**Table 8.3. Amounts recognized in the Profit and Loss Statement and other comprehensive income**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Amounts of income and expenses | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Income from lease of investment property | - | 1 |
| 2 | Other direct costs that do not generate rental income | (162) | (164) |

Information on the minimum amounts of future lease payments for non-repayable operating leases, if the bank is a landlord, is not available. This is due to the fact that the bank does not have operating lease contracts for investment property on condition of non-repayment of their execution.

**NOTE 9. FIXED ASSETS AND INTANGIBLE ASSETS**

**Table 9.1. Fixed assets and intangible assets**

(ths. UAH.)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Line | Item | Buildings, constructions and transmission equipment | Machinery and equipment | Instruments, tools, equipment (hardware) | Other fixed assets | Other non-current tangible assets | Intangible assets | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **1** | **Carrying amount at the beginning of 2017:** | **28 795** | **66** | **1** | **2** | **-** | **114** | **28 978** |
| 1.1 | Initial (overvalued) cost | 30 836 | 995 | 214 | 7 | 154 | 512 | 32 718 |
| 1.2 | Wear at the beginning of the previous year | (2 041) | (929) | (213) | (5) | (154) | (398) | (3 740) |
| 2 | Revenue | - | 134 | - | 14 | 86 | 45 | 279 |
| 3 | Capital investments for the completion of fixed assets and improvement of intangible assets | 11 | - | - | - | - | - | 11 |
| 4 | Depreciation deductions | (411) | (31) | - | (1) | (86) | (44) | (573) |
| 5 | Other changes | - | - | - | - | - | - | - |
| 5.1 | Initial (overvalued) cost | - | - | - | - | - | (18) | (18) |
| 5.2 | Wear and tear | - | - | - | - | - | 18 | 18 |  |
| **6** | **Carrying amount at the end of 2017 (as at 1 January 2018):** | **28 395** | **169** | **1** | **15** | **-** | **115** | **28 695** |
| 6.1 | Initial (overvalued) cost | 30 847 | 1 129 | 214 | 21 | 240 | 539 | 32 990 |
| 6.2 | Demolition at the end of 2017 (at the beginning of 2018) | (2 452) | (960) | (213) | (6) | (240) | (424) | (4 295) |
| 7 | Revenue | - | 271 | - | 27 | 119 | 130 | 547 |
| 8 | Capital investments for the completion of fixed assets and improvement of intangible assets | 61 | - | - | - | - | - | 61 |
| 9 | Depreciation deductions | (413) | (75) | (1) | (3) | (119) | (54) | (665) |
| 10 | Other changes | - | - | - | - | - | - | - |
| 10.1 | Initial (overvalued) | - | - | - | - | - | - | - |
| 10.2 | Wear and tear | - | - | - | - | - | - | - |
| **11** | **Carrying amount at the end of December 31, 2018** | **28 043** | **365** | **0** | **39** | **-** | **191** | **28 638** |
| 11.1 | Initial (overvalued) cost | 30 908 | 1 400 | 214 | 48 | 359 | 669 | 33 598 |
| 11.2 | Wear and tear by the end of 2018 | (2 865) | (1 035) | (214) | (9) | (359) | (478) | (4 960) |

As of December 31, 2018, JSC "Ukrainian Bank for Reconstruction and Development":

- The cost of fixed assets and intangible assets, for which the restrictions on the possession, use and disposal of the property are stipulated by law, amount to 0.00 ths. UAH.

- There are no fixed assets and intangible assets pledged;

- The residual value of fixed assets that are temporarily not used (preservation, reconstruction, etc.);

- There is no residual value of fixed assets withdrawn from operation for sale;

- Initial cost of fully amortized fixed assets – 1 361 thousand UAH;

- The cost of intangible assets for which there is a restriction of ownership - does not have;

- Cost of the created intangible assets - does not have;

- Increases or decreases during the reporting period that arise as a result of revaluations and as a result of impairment losses recognized or reversed directly in equity are not incurred.

**NOTE 10. OTHER ASSETS**

**Table 10.1. Other assets**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Accounts Receivable for Acquisition of Assets | 1 852 | 62 |
| 2 | Prepayment for services | 296 | 73 |
| 3 | Other assets \* | 805 | 823 |
| 4 | Reserve for other assets | (149) | (65) |
| 5 | Total other assets minus reserves | 2 804 | 893 |

\* The article of other assets consists of:

1. Inventories of material values in a statement - 19 thousand UAH.

2. Expenses of future periods - 182 thousand UAH.

3. Accounts receivable for compulsory payments, except for income tax - 582 thousand UAH.

4. Other accrued income - 22 thousand UAH.

**Table 10.2. Analysis of changes in provisions for impairment of other assets for 2018**

(ths. UAH.)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Line | Reserves movement | Accounts Receivable for Acquisition of Assets | Prepayment for services | Other assets | Total |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Balance as of January 1, 2018 | - | (43) | (22) | (65) |
| 2 | (Increase) / decrease in provision for impairment during the period | (1) | (83) | - | (84) |
| 3 | Balance at the end of December 31, 2018 | (1) | (126) | (22) | (149) |

**Table 10.3. Analysis of changes in provisions for impairment of other assets for 2017**

(ths. UAH.)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Line | Reserves movement | Prepayment for services | Other assets | Total |
| 1 | 2 | 3 |  | 4 |
| 1 | Balance as of January 1, 2017 | - | (22) | (22) |
| 2 | (Increase) / decrease in provision for impairment during the period | (43) | - | (43) |
| 3 | Balance at the end of the day on December 31, 2017 | (43) | (22) | (65) |

**Note 11. CUSTOMER FUNDS**

**Table 11.1. Customer funds**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Other legal entities | 204 | 2 544 |
| 1.1 | Current accounts | 204 | 2 544 |
| 2 | Individuals | 413 | - |
| 2.1 | Current accounts | 393 | - |
| 2.2 | Term funds | 20 | - |
| 3 | Total customer funds | 617 | 2 544 |

**Table 11.2. Distribution of clients' funds by types of economic activity**

(ths. UAH.)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Line | Type of economic activity | 2018 | | 2017 | |
| sum | % | sum | % |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Real estate operations, leasing, engineering and services | 202 | 32,7% | 2 539 | 99,8% |
| 2 | Trade, repair of cars, household products and personal items | 1 | 0,2% | 2 | 0,1% |
| 3 | Individuals | 413 | 67,0% |  |  |
| 3 | Others | 1 | 0,1% | 3 | 0,1% |
| 4 | Total customer funds | 617 | 100 % | 2 544 | 100 % |

**NOTE 12. PROVISION FOR LIABILITIES**

**Table 12.1. Changes in provisions for liabilities in 2018**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Reserves movement | Other | Total |
| 1 | 2 | 3 | 4 |
| 1 | Balance as of January 1, 2018 | 111 | 111 |
| 2 | Formation and / or increase of reserve | - | - |
| 3 | Other movement (reduction of reserve) | (111) | (111) |
| 3 | Balance at the end of the day on December 31, 2018 | - | - |

**Table 12.2. Changes in provisions for liabilities in 2017**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Reserves movement | Other | Total |
| 1 | 2 | 3 | 4 |
| 1 | Balance as of January 1, 2017 | 111 | 111 |
| 2 | Formation and / or increase of reserve | 759 | 759 |
| 3 | Other movement (reduction of reserve) | (759) | (759) |
| 3 | Balance at the end of the day on December 31, 2017 | 111 | 111 |

**NOTE 13. OTHER LIABILITIES**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Accounts payable for taxes and duties, except for income tax | 1 | 1 |
| 2 | Accounts payable on settlements with bank employees | 340 | 261 |
| 3 | Another debt | 6 | 6 |
| 4 | Total | 347 | 268 |

**NOTE 14. SUBORDINATED DEBT**

The carrying amount of liabilities under subordinated debt at the end of the day of December 31, 2018 is 32 754 thousand UAH, including:

- subordinated debt - 43 900 thousand UAH;

- unamortized discount - (11 309) thousand UAH;

- accrued interest expense - 163 thousand UAH.

Funds are invoiced in accordance with the following agreements:

1. Supplementary agreement No. 1 dated April 28, 2015, on amendments to extend the term for subordinated debt to the Contract on attraction of funds under conditions of subordinated debt No. 2 dated November 25, 2009, for the amount of 32 000 000,00 UAH. for the period up to 28.04.2021 with an interest rate of 6%.

The decision of the Commission of the National Bank of Ukraine to oversee and regulate the activities of banks was granted the Bank's permission to take into account the funds attracted under the terms of subordinated debt to the Bank's capital of November 25, 2009. By decision of the Commission of the National Bank of Ukraine on supervision and regulation of banking activities, oversight (overtime) of payment systems on April 28, 2015, the decision No. 182 on making amendments to the permit in the part of its extension in connection with the extension of the term of the engagement contract was granted. funds on subordinated debt terms.

2. Agreements on attraction of funds on subordinated debt from 07.02.2018 to the amount of 11 900 000,00 UAH for the period until 09.02.2023 with an interest rate of 0%.

By resolution of the National Bank of Ukraine Committee on Supervision and Regulation of Banking Activities, oversight (overtime) of payment systems dated April 13, 2018, the Bank authorized the Bank to issue funds authorized for subordinated debt to the Bank's capital.

Capitalization of interest on the above-mentioned Agreements is not carried out.

**NOTE 15. SHARE CAPITAL AND RESIDENTIAL DIFFERENCES (EMISSION INCOME)**

(ths. UAH.)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Line | Item | Number of shares in circulation (thousand pieces) | Simple shares | Emission Difference /  Expenses related to the issue of shares | Total |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Balance as of January 1, 2017 | 240 | 120 000 | (99) | 119 901 |
| 2 | Contributions for shares (lots, shares) of a new issue | 248 | 124 000 | (162) | 123 838 |
| 3 | Balance at the end of the day on December 31, 2017 (balance on January 1, 2018) | 488 | 244 000 | (261) | 243 739 |
| 4 | Contributions for shares (lots, shares) of a new issue | - | - | - | - |
| 5 | Balance at the end of the day on December 31, 2018 | 488 | 244 000 | (261) | 243 739 |

The number of shares declared for issue in 2018 was 0 pcs.

The number of shares issued and paid during 2018 is 0 ths. pcs.

The number of shares issued and not paid during 2018 is 0 ths. pcs.

Number of paid shares, issue of which at the reporting date is not registered by the NSSMC - 0 pcs.

The nominal value of one ordinary share is 500 UAH.

The Bank does not have the rights, privileges and limitations inherent in each group of equity capital, including restrictions on the payment of dividends, the return of capital.

**NOTE 16. MOVEMENT REVALUATION RESERVE (components of other comprehensive income)**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 31.12.2018 | 31.12.2017 |
| 1 | 2 | 3 | 4 |
| 1 | Balance at the beginning of the reporting period | - | - |
| 2 | The result of the adjustment of the value of financial instruments during the initial recognition of transactions with shareholders | 5 352 | - |
| 3 | Income tax | - | - |
| 4 | Balance at the end of the period | 5 352 | - |

**NOTE 17. ANALYSIS OF ASSETS AND LIABILITIES BY THEIR PROCEEDINGS** (ths. UAH.)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Line | Item | 31.12.2018 | | | | 31.12.2017 | | |
| less than 12 months | more than 12 months | | total | less than 12 months | more than 12 months | total |
| 1 | 2 | 3 | 4 | | 5 | 6 | 7 | 8 |
| ASSETS | | | | | | | | |
| 1 | Cash and cash equivalents | 3 289 | - | | 3 289 | 3 417 | - | 3 417 |
| 2 | Investments in securities | 169 043 | - | | 169 043 | 149 720 | - | 149 720 |
| 3 | Investment Property | - | 27 761 | | 27 761 | - | 27 808 | 27 808 |
| 4 | Accounts receivable under current tax on profit | 248 | - | | 248 | 248 | - | 248 |
| 5 | Fixed assets and intangible assets | - | 28 638 | | 28 638 | - | 28 695 | 28 695 |
| 6 | Other assets | 2 804 | - | | 2 804 | 893 | - | 893 |
| 7 | Total assets | 175 384 | 56 399 | | 231 783 | 154 278 | 56 503 | 210 781 |
| LIABILITIES | | | | | | | | |
| 8 | Clients’ money | 617 | - | 617 | | 2 544 | - | 2 544 |
| 9 | Provisions for liabilities | - | - | - | | 111 | - | 111 |
| 10 | Other liabilities | 347 | - | 347 | | 268 | - | 268 |
| 11 | Subordinated debt | 163 | 32 591 | 32 754 | | 163 | 23 133 | 23 296 |
| 12 | Total liabilities | 1 127 | 32 591 | 33 718 | | 3 086 | 23 133 | 26 219 |

**NOTE 18. INTEREST INCOME AND EXPENSES**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| **Interest income, calculated on the effective interest rate** | | | |
| Interest income on assets recorded at amortized cost | | | |
| 1 | Debt securities | 27 302 | 9 895 |
| 2 | Correspondent accounts in other banks | - | 44 |
| 3 | Total interest income on assets recorded at amortized cost | 27 302 | 9 939 |
| **Interest expense calculated at the effective interest rate** | | | |
| Interest expense on financial liabilities recorded at amortized cost | | | |
| 4 | Other funds raised | (4 830) | (7 037) |
| 5 | Total interest expense on financial liabilities recorded at amortized cost | (4 830) | (7 037) |
| 6 | Net interest income / (expenses) | 22 472 | 2 909 |

**NOTE 19. COMMISSIONS INCOME AND EXPENSE**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
|  | **Commission income** |  | |
| 1 | Settlement and cash transactions | 142 | 81 |
| 2 | Others | - | 127 |
| 3 | Total commission income | 142 | 208 |
|  | **Commission expense** |  | |
| 4 | Settlement and cash transactions | (66) | (23) |
| 5 | Others | (5) | (7) |
| 6 | Total commission expense | (71) | (30) |
| 7 | **Net commission income / expenses** | 81 | 178 |

**NOTE 20. OTHER OPERATING INCOME**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Operating lease income | - | 1 |
| 2 | Other operating income | - | 5 924 |
| 3 | Total operating income | - | 5 925 |

**NOTE 21. ADMINISTRATIVE AND OTHER OPERATING EXPENSES**

**Table 21.1. The cost of employee benefits**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Wages and bonuses | (8 484) | (5 847) |
| 2 | Charges to the wage fund | (1 569) | (1 151) |
| 3 | Other payments to employees | (115) | (28) |
| 4 | Total staff costs | (10 168) | (7 026) |

**Table 21.2. Amortization costs**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Amortization of fixed assets | (658) | (576) |
| 2 | Amortization of software and other intangible assets | (54) | (44) |
| 3 | Total amortization costs | (712) | (620) |

**Table 21.3. Other administrative expenses and operating expenses**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Costs of maintenance of fixed assets and intangible assets | (1 563) | (1 017) |
| 2 | Professional services | (124) | (31) |
| 3 | Marketing and advertising costs | (24) | (25) |
| 4 | Payment of other taxes and duties, except for income tax | (376) | (336) |
| 5 | Telecommunication costs | (403) | (355) |
| 6 | Audit costs | (100) | (30) |
| 7 | Other administrative and operational expenses \* | (1 022) | (1 017) |
| 8 | Total administrative and other operating expenses | (3 612) | (2 811) |

\* Article “Other administrative and operating expenses” consist of:

1. Expenditures on information services received - 123 thousand UAH.

2. Expenses on securities of own issue - 22 thousand UAH.

3. Postal and telephone expenses - 67 thousand UAH.

4. Expenses on business trip - 203 thousand UAH.

5. Representative expenses - 71 thousand UAH.

6. The expenses for sponsorship and charity - 15 thousand UAH.

7. Transport services - 213 thousand UAH.

8. Other operating expenses - 31 thousand UAH.

9. Other administrative expenses - 103 thousand UAH.

10. Other expenses - 90 thousand UAH.

11. To increase the reserve for accounts receivable under economic operations of the Bank - 84 thousand UAH.

**NOTE 22. COSTS INCOME TAXES**

**Table 22.1. Reconciliation of accounting profit (loss) and taxable income (loss)**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Profit before tax | 8 151 | (1 412) |
| 2 | Theoretical tax deductions at the appropriate tax rate | 1 467 | (254) |
| IMPLEMENTATION OF ACCOUNT PROFIT (LOSS): | | | |
| 3 | Costs that are not included in the amount of expenses for the purpose of calculating tax revenue but are recognized in accounting | 157 | 141 |
| 4 | Expenses included in the amount of expenses for the purpose of calculating tax profit but not recognized in accounting | (5 215) | (4 973) |
| 5 | Amount of tax on profit (loss) | (3 591) | (5 086) |

As at 31.12.2018, the estimated amount of the deferred tax asset is 3 624 thousand UAH, including:

- deferred tax asset due to temporary tax differences - 33 thousand UAH;

- deferred tax asset at the expense of tax losses transferred to future periods - 3 591 thousand UAH.

Due to the fact that during 2019 it is not expected to receive a sufficient amount of taxable profits in accordance with the tax accounting rules, the Bank did not reflect the calculated VPA in the reporting year for 2018.

**NOTE 23. PROFIT/(LOSS) PER ONE SIMPLE AND PREFFERED SHARE**

**Table 23.1. Net and adjusted profit / (loss) for one simple and preferred share**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 4 | 5 |
| 1 | Profit / (loss) owned by the holders of ordinary shares of the bank | 8 151 | (1 412) |
| 2 | Profit / (loss) per year | 8 151 | (1 412) |
| 3 | Average annual number of ordinary shares in circulation (thousand pieces) | 488 | 265 |
| 4 | Net and adjusted profit / (loss) on ordinary shares, UAH. | 16,70 | (5,33) |

**Table 23.2. Calculation of profit / (loss) owned by owners of simple and preferred shares of the bank**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
| 1 | Profit / (loss) for the year owned by the owners of the bank | 8 151 | (1 412) |
| 2 | Retained profit / (loss) per year | 8 151 | (1 412) |
| 3 | Retained profit / (loss) for the year owned by the owners of ordinary shares, depending on the conditions of the shares | 8 151 | (1 412) |
|  | Profit / (loss) for the year owned by the owners of ordinary shares of the bank | 8 151 | (1 412) |

**NOTE 24. OPERATING SEGMENTS**

**Table 24.1. Income, expenses and results of reporting segments for 2018**

(ths. UAH.)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Line | Item | Name of reporting segments | | | Total |
| services to other banks | services to clients | securities transactions |
| 1 | 2 | 3 | 4 | 5 | 6 |
|  | Income from external clients: |  |  |  |  |
| 1 | Interest income | - | - | 27 302 | 27 302 |
| 2 | Commission income | - | 142 | - | 142 |
| 3 | Total income segments | - | 142 | 27 302 | 27 444 |
| 4 | Interest expense | - | (4 831) | - | (4 831) |
| 5 | Net profit / (loss) on impairment of financial assets | - | (6) | - | (6) |
| 6 | Result from operations with foreign currency | - | 30 | - | 30 |
| 7 | Result from revaluation of operations with foreign currency | (17) | (17) | - | (34) |
| 8 | Commission costs | (66) | (5) | - | (71) |
| 9 | Deductions to provisions for liabilities | - | 111 | - | 111 |
| 10 | Expenditure on employee benefits | (1 017) | (1 525) | (7 626) | (10 168) |
| 11 | Costs of wear and tear and depreciation | (71) | (107) | (534) | (712) |
| 12 | Administrative and other operating expenses | (3610) | (542) | (2 709) | (3 612) |
| 13 | SEGMENT RESULT: profit / (loss) | (1 524) | (6 752) | 16 426 | 8 151 |

**Table 24.2. Income, expenses and results of reporting segments for 2017**

(ths. UAH.)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Line | Item | Name of reporting segments | | | Other segments and operations | Total |
| services to other banks | services to clients | securities transactions |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|  | Income from external clients: |  |  |  |  |  |
| 1 | Interest income | 45 | - | 9 894 | - | 9 939 |
| 2 | Commission income | - | 208 | - | - | 208 |
| 3 | Other operating income | 5 924 | - | - | 1 | 5 925 |
| 4 | Total income segments | 5 969 | 208 | 9 894 | 1 | 16 072 |
| 5 | Interest expense | (3 283) | (3 754) | - | - | (7 037) |
| 6 | Net profit / (loss) on impairment of financial assets | - | 7 | - | - | 7 |
| 7 | Result from operations with foreign currency | - | 1 | - | - | 1 |
| 8 | Result from revaluation of operations with foreign currency | 16 | 16 | - | - | 32 |
| 9 | Commission costs | (23) | (7) | - | - | (30) |
| 10 | Expenditure on employee benefits | (2 600) | (70) | (4 356) | - | (7 026) |
| 11 | Costs of wear and tear and depreciation | (229) | (6) | (385) | - | (620) |
| 12 | Administrative and other operating expenses | (1 040) | (28) | (1 743) | - | (2 811) |
| 13 | SEGMENT RESULT: profit / (loss) | (1 189) | (3 707) | 3 483 | 1 | (1 412) |

\* Line 3 "Other operating income" for the segment "Services to Other Banks" includes recognition of income from early termination of recognition of financial instruments in the amount of 5,924 thousand UAH. The segment "Other segments and operations" includes operating lease income (lease) in the amount of 1 thousand UAH.

**Table 24.3 Assets and liabilities of reporting segments for 2018**

(ths. UAH.)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Line | Item | Name of reporting segments | | | Total |
| services to other banks | services to clients | securities transactions |
| 1 | 2 | 3 | 4 | 5 | 6 |
|  | ASSETS OF SEGMENTS |  |  |  |  |
| 1 | Asset segments | 810 | 2 479 | 169 043 | 172 332 |
| 2 | Total asset segments | 810 | 2 479 | 169 043 | 172 332 |
| 3 | Unallocated assets \* | 305 | 443 | 2 304 | 3 052 |
| 4 | Total assets | 1 115 | 2 922 | 171 347 | 175 384 |
|  | LIABILITY OF SEGMENTS |  |  |  |  |
| 5 | Obligations of segments | - | 33 371 | - | 33 371 |
| 6 | Total liabilities of segments | - | 33 371 | - | 33 371 |
| 7 | Unallocated liabilities \*\* | 34 | 50 | 259 | 343 |
| 8 | Total commitments | 34 | 33 421 | 259 | 33 714 |
|  | OTHER SEGMENT ARTICLES |  |  |  | - |
| 9 | Capital Investments | 6 132 | 8 902 | 46 287 | 61 321 |
| 10 | Amortization | (492) | (715) | (3 715) | (4 922) |

**Table 24.4 Assets and liabilities of reporting segments for 2017**

(ths. UAH.)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Line | Item | Name of reporting segments | | | Total |
| services to other banks | services to clients | securities transactions |
| 1 | 2 | 3 | 4 | 5 | 6 |
|  | ASSETS OF SEGMENTS |  |  |  |  |
| 1 | Asset segments | 2 967 | 450 | 149 720 | 153 137 |
| 2 | Total asset segments | 2 967 | 450 | 149 720 | 153 137 |
| 3 | Unallocated assets \* | 422 | 11 | 707 | 1 141 |
| 4 | Total assets | 3 389 | 461 | 150 427 | 154 278 |
|  | LIABILITY OF SEGMENTS |  |  |  | - |
| 5 | Obligations of segments | - | 25 840 | - | 25 840 |
| 6 | Total liabilities of segments | - | 25 840 | - | 25 840 |
| 7 | Unallocated liabilities \*\* | 140 | 4 | 235 | 379 |
| 8 | Total commitments | 140 | 25 844 | 235 | 25 840 |
|  | OTHER SEGMENT ARTICLES |  |  |  | - |
| 9 | Capital Investments | 22 596 | 611 | 37 864 | 61 071 |
| 10 | Amortization | (1 690) | (46) | (2 832) | (4 568) |

**Table 24.5. Information about geographic regions**

(ths. UAH.)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Line | Item | 2018 | | | 2017 | | |
| Ukraine | Other Countries | Total | Ukraine | Other Countries | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Revenues from external customers | 27 444 | - | 27 444 | 16 072 | - | 16 072 |
| 2 | Fixed assets | 56 399 | - | 56 399 | 56 503 | - | 56 503 |

**NOTE 25. FINANCIAL RISK MANAGEMENT**

**Credit risk**

The Bank determines the credit risk as the probability of occurrence of losses or additional losses or failure to receive the planned revenues as a result of failure by the debtor / counterparty to assume obligations under the terms of the contract. Issues of acceptance / avoidance of credit risks within the limits of their powers shall be resolved by the Supervisory Board of the Bank, the Management Board, the Credit Committee, the Risk Management Department, the Credit Department and other authorized departments of the Bank.

In conducting credit operations, the Bank is guided by the requirements for limiting the credit risk established by the National Bank of Ukraine and the internal limits of credit risk, which are approved by the Supervisory Board.

During the reporting year, the Bank complied with both the internal standards of credit risk and those established by the National Bank of Ukraine:

|  |  |  |  |
| --- | --- | --- | --- |
| **Reporting date** | **H7 - standard of the maximum amount of credit risk for 1 counterparty,**  **not more than 25%** | **Н8 - standard of large credit risks, not more than 800%** | **Н9 - standard of the maximum amount of credit risk for transactions with the bank-connected persons, not more than 25%** |
| 01.02.2018 | 0,03% | 0% | 0% |
| 01.03.2018 | 0,02% | 0% | 0% |
| 01.04.2018 | 0,02% | 0% | 0% |
| 01.05.2018 | 0,01% | 0% | 0% |
| 01.06.2018 | 0,01% | 0% | 0% |
| 01.07.2018 | 0,01% | 0% | 0% |
| 01.08.2018 | 0,01% | 0% | 0% |
| 01.09.2018 | 0,01% | 0% | 0% |
| 01.10.2018 | 0,01% | 0% | 0% |
| 01.11.2018 | 0,11% | 0% | 0% |
| 01.12.2018 | 0,11% | 0% | 0% |
| 01.01.2019 | 0,80% | 0% | 0% |

During 2018, the level and impact of credit risk was insignificant, as loans to banks and customers were not provided by the Bank. The credit risk that was reflected in the forms of statistical reporting of the Bank was due to the presence of receivables.

**Market risk**

Market risk or position risk is the present or potential risk for revenues and capital arising from the Bank adopting positions in securities, currencies, commodities and derivatives. Market risk arises as a result of the uncertainty of the financial result in the future due to the variability of factors that determine this result - adverse changes in interest rates, fluctuations in the market value of financial instruments, changes in foreign exchange rates, etc.

The main risk of market risk, as well as any financial risk, is that it leads to instability of cash flows over time. This, in the final analysis, has a significant impact on the Bank's key performance indicators, and, above all, on its financial sustainability.

The Bank assumes the risk for a certain fee. Profit is a reward for a well-taken risk. Therefore, the analysis of the structure of risk, its assessment, management and accounting are an integral part of the Bank's policy and strategy. Market risk is multicomponent and is closely related to many types of risks, but mainly such as interest, stock (price) and monetary.

The aggregate market risk is defined as the sum of all components of market risk:

* the size of risk on financial instruments sensitive to changes in interest rates (interest rate risk);
* the size of the risk on open positions of the bank in foreign currencies and bank metals (currency risk);
* the size of the risk for financial instruments sensitive to changes in market prices for stock values ​​ (stock risk).

The quantitative assessment of market risk is limited to determining the amount that the Bank may lose as a result of the combination of the above operations. Such an estimate is the limit of loss for a certain period, expressed in monetary units.

In order to manage market risk, the Bank applies the following instruments:

* establishment of a limit on the total size of the currency position;
* establishment of limits on investments in securities and assessment of volatility of quotations of securities;
* unplanned revision of the limits in the event of a sharp change in market conditions or significant reduction of the Bank's resource base;
* formation of reserves for covering possible losses.

According to the internal "Regulation on market risk management", the total amount of potential losses of the Bank as a result of the implementation of market risks should not exceed 15% of the regulatory capital of the Bank.

**Currency risk**

Currency risk arises due to unfavorable fluctuations in foreign exchange rates affecting assets, liabilities and off-balance sheet items contained in the Bank's trading and bank books. The Bank's exposure to currency risk is determined by the Bank's open currency position in different foreign currencies (that is, the degree of imbalance between the balance sheet and off-balance sheet items) and the dynamics of exchange rates, which is determined by the state of the market. The Bank regulates its activities regarding the management of the currency position in accordance with the Resolution of the Board of the National Bank of Ukraine dated August 12, 2005, No. 290 (with amendments and additions) and separate regulatory documents, which set the limits of the open currency position.

The main method of managing a currency position in a financial market volatility is limiting. Limits limit the amount of risk associated with the exchange rate that the Bank is prepared to bear. In calculating the limits, the Bank is guided by the principle that possible transactions risks should be covered by own funds, which, in case of losses, can be directed to their repayment without loss for other operations of the Bank. In the reporting year, the following internal limits of the open currency position were established and operated by the Bank:

* the limit of the long open foreign currency position of the Bank in all foreign currencies must be no more than 4.85% of the regulatory capital of the Bank;
* the limit of the Bank's short open foreign currency position in all foreign currencies cannot exceed 4.85% of the regulatory capital of the Bank.

The currency risk is also considered by the Bank in close connection with such risks as:

* credit risk (if the exchange rate changes, there may be difficulties with repayment of loans, if denomination is denominated in foreign currency);
* liquidity risk (the Bank should assess its liquidity separately in each currency);
* legal risk (obligatory observance of the currency legislation of Ukraine).

During the reporting year, the Bank complied with both the limits set by the National Bank of Ukraine and the internal limits of the open position.

**Table 25.1. Currency risk analysis**

(ths. UAH.)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Line | Name of the currency | 31.12.2018 | | | | 31.12.2017 | | | | |
| monetary assets | monetary  obligation | derivative financial instruments | net position | monetary assets | monetary obligations | derivative financial instruments | net position |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 1 | USD | 778 | 387 | - | 391 | 331 | - | - | 331 |
| 2 | Euro | 131 | - | - | 131 | 348 | - | - | 348 |
| 3 | Yuan Renminbi | 101 | - | - | 101 | - | - | - | - |
| **3** | **Total** | **1 010** | **387** | **-** | **623** | **679** | **-** | **-** | **679** |

**Table 25.2. Changes in profit or loss and equity as a result of possible changes in the official exchange rate of hryvnia against foreign currencies as at the reporting date, provided all other variables remain fixed.**

(ths. UAH.)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Line | Item | 31.12.2018 | | 31.12.2017 | |
| impact on profit / (loss) | impact on equity | impact on profit / (loss) | impact on equity |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Strengthening the USD by 5% | 20 | 20 | 17 | 17 |
| 2 | 5% weakening of the USD | (20) | (20) | (17) | (17) |
| 3 | Strengthening the euro by 5% | 7 | 7 | 17 | 17 |
| 4 | Easing the euro by 5% | (7) | (7) | (17) | (17) |
| 3 | Strengthening yuan by 5% | 5 | 5 | - | - |
| 4 | Weakening yuan by 5% | (5) | (5) | - | - |

**Table 25.3. Change in profit or loss and equity as a result of possible changes in the official exchange rate of hryvnia to foreign currencies, established as the weighted average rate, provided all other variables remain fixed**

(ths. UAH.)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Line | Item | The weighted average exchange rate of 2018 | | The weighted average exchange rate of 2017 | |
| impact on profit / (loss) | impact on equity | impact on profit / (loss) | impact on equity |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Strengthening the USD by 5% | 20 | 20 | 17 | 17 |
| 2 | 5% weakening of the USD | (20) | (20) | (17) | (17) |
| 3 | Strengthening the euro by 5% | 7 | 7 | 15 | 15 |
| 4 | Easing the euro by 5% | (7) | (7) | (15) | (15) |
| 5 | Strengthening yuan by 5% | 5 | 5 | - | - |
| 6 | Weakening yuan by 5% | (5) | (5) | - | - |

**Interest rate risk**

Interest rate risk is the likelihood of a loss or additional loss or lack of expected income as a result of adverse changes in interest rates. This risk affects both the profitability of the Bank (in the short term) and its economic value (in the long run). Interest risk may occur in the following cases:

* there are differences in terms of returning the funds provided and borrowed;
* availability of discrepancies in bidding for active and passive transactions (fixed rates against variables and vice versa);
* incorrect forecasting of the Bank's yield curve.

Interest rate risk management is carried out using GAP analysis (break / imbalance analysis), as well as by managing the terms on which the Bank attracts or places funds. This analysis is carried out on the basis of simulation calculation of possible losses in different directions of interest rate changes. This allows you to calculate the interest income / loss of the Bank or possible loss of interest income, which enables the management of the Bank to investigate the change in interest rate risk under different economic conditions.

In determining the open interest rate position, assets and liabilities and off-balance sheet liabilities of the Bank that are sensitive to interest rate changes are allocated on appropriate periods of return / repayment (for instruments with a fixed interest rate) or by interest rate changes (for instruments with a variable interest rate).

Interest rate risk management is carried out using the following tools:

* measurement, estimation and comparison of the dynamics of interest rates in the Bank and the average market, as well as the volume of assets and liabilities sensitive to interest rate changes, GAP analysis;
* structuring of assets and liabilities of the Bank in accordance with the rules,

established for liquidity risk management;

* analysis of the gap between assets and liabilities of the Bank in terms of return of assets and repayment of liabilities sensible to change the interest rate and reduce gaps.

In addition, for the rapid response to changing market conditions, the Bank calculates the following indicators, which are set the following internal standards:

* the yield of interest-bearing assets per month (given to the annual) is not less than 15%;
* the value of interest-bearing liabilities per month (given to the annual) is not more than 14%;
* net interest spread not less than 3%;
* net interest margin per month (shown to annual) not less than 5%.

**Table 25.4. General analysis of interest rate risk**

(ths. UAH.)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Line | Item | On demand and less than 1 month. | From 1 to 6 months. | From 6 to 12 months | More than a year | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 8 |
|  | 2018 |  |  |  |  |  |
| 1 | Total financial assets | 95 587 | 73 456 | - | - | 169 043 |
| 2 | Total financial liabilities | 163 | 20 | - | 33 207 | 33 390 |
| 3 | Net interest rate break at the end of December 31, 2018 | 95 424 | 73 436 | - | (33 207) | 135 653 |
|  | 2017 year |  |  |  |  |  |
| 4 | Total financial assets | 142 668 | 7 052 | - | - | 149 720 |
| 5 | Total financial liabilities | 163 | - | - | 23 133 | 23 296 |
| 6 | Net interest rate break at the end of December 31, 2017 | 142 505 | 7 052 | - | (23 133) | 126 424 |

As at 31.12.2018, the Bank had positive gaps between the interest rates and interest obligations for all periods of asset recovery and repayment of liabilities (except for the "Over the year" period, where the subordinated debt is located). In periods with positive discrepancies, a decrease in net interest margin can occur if interest rates on active and passive transactions are reduced. In this case, only a reduction in net interest income can occur, not for one period of return / repayment of assets / liabilities, the Bank is not exposed to a loss on net interest income, therefore the level of interest rate is classified as acceptable.

**Table 25.5. Monitoring of interest rates on financial instruments**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Line | Item | 2018 | | | | 2017 | | | |
| hryvnia | dollars US | euro | other | hryvnia | dollars US | euro | other |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|  | Assets |  |  |  |  |  |  |  |  |
| 1 | Money in other banks | 0,00% | - | - | - | 0,00% | 0,05% | - | - |
|  | Debt securities, which are accounted for at amortized cost | 16,93% | - | - | - | 14,69% | - | - | - |
|  | Obligation |  |  |  |  |  |  |  |  |
| 4 | Term clients' funds | 5,11% | - | - | - | - | - | - | - |
| 5 | Subordinated debt | 11,35% | - | - | - | 9,72% | - | - | - |

Table 25.5 shows the weighted average fixed interest rates based on the daily and monthly reporting submitted to the Board of the Bank.

**Other price risk**

Other price risk is the risk that a fair value or future cash flows from a financial instrument will fluctuate due to changes in market prices (other than those arising from interest or currency risk) or the risk arising from a financial instrument as a result of changes in prices for instruments of its own of capital.

As at 31.12.2018, the Bank did not have any financial instruments that would have exposed the Bank to another price risk.

**Geographic risk**

Geographical risk is measured by types of assets and liabilities by countries in which the counterparties of the bank (Ukraine, OECD and other countries) are registered.

The Bank controls the risk of changes in the legislation and regulatory environment and assesses its impact on the bank's operations. This approach reduces potential losses from fluctuations in the investment climate in Ukraine.

The geographical concentration of assets and liabilities is presented in the tables below.

**Table 25.6. Analysis of the geographical concentration of financial assets and liabilities for 2018**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | Ukraine | Total |
| 1 | 2 | 3 | 4 |
|  | Assets |  |  |
| 1 | Cash and cash equivalents | 3 289 | 3 289 |
| 2 | Debt securities, which are accounted for at amortized cost | 169 043 | 169 043 |
| 3 | Total financial assets | 172 332 | 172 332 |
|  | Obligation |  |  |
| 4 | Clients’ money | 617 | 617 |
| 5 | Other obligations | 4 | 4 |
| 6 | Subordinated debt | 32 754 | 32 754 |
| 7 | Total financial liabilities | 33 375 | 33 375 |
| 8 | Net Balance Sheet for Financial Instruments | 138 957 | 138 957 |

**Table 25.7. Analysis of the geographical concentration of financial assets and liabilities for 2017**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | Ukraine | Total |
| 1 | 2 | 3 | 4 |
|  | Assets |  |  |
| 1 | Cash and cash equivalents | 3 417 | 3 417 |
| 2 | Debt securities, which are accounted for at amortized cost | 149 720 | 149 720 |
| **3** | **Total financial assets** | **153 137** | **153 137** |
|  | Obligation |  |  |
| 4 | Clients’ money | 2 544 | 2 544 |
| 5 | Subordinated debt | 23 296 | 23 296 |
| **6** | **Total financial liabilities** | **25 840** | **25 840** |
| 7 | Net Balance Sheet for Financial Instruments | 127 297 | 127 297 |

**Liquidity risk**

Liquidity risk is the probability of losses or additional losses or shortfall in planned revenues as a result of the bank's failure to provide financing for the growth of assets and / or fulfillment of its obligations in due time.

In terms of liquidity risk management, the Bank continuously determines the needs for current and timely liquidity, and the amount of funding required by the Bank to conduct operations. On a daily and monthly basis, the analysis of the movement of balances and turnover in accounts, the dynamics of the formation of the resource base and the structure and directions of the placement of temporarily free funds is carried out. The Bank's liquidity risk management is based on planning / forward forecasting of the main liquidity parameters and risk scenario modeling. To do this, the Bank:

- Current activity takes into account the possibility of a shortage of liquidity in the event of a crisis in the financial market and / or a deterioration in the Bank's financial position and conducts stress testing on a quarterly basis;

- conducts operational forecasting of liquidity ratios;

- establishes internal limits of liquidity and conducts an analysis of their compliance on a monthly basis;

- in the management of the balance sheet in order to minimize liquidity risk, account shall be taken of the relationship of liquidity risk with other types of Bank's risks, economic and political situation at the moment and in the future.

Liquidity risk management is carried out by the Bank with the following instruments:

- ensuring compliance with liquidity norms and mandatory reserve requirements;

- assessment of the net liquidity position;

- diversification of sources of attraction;

- Measure, evaluate and compare the values ​​of liquidity ratios of the Bank's balance sheet;

- analysis of the Bank's assets and liabilities discontinuities in terms of asset recovery and repayment of liabilities;

- limiting the values ​​of the liquidity ratios of the balance, as well as the magnitude of the breaks

assets and liabilities of the Bank for the terms of return of assets and repayment of liabilities;

- non-working assets are funded by other liabilities and fixed capital;

- The volume of working assets generating income should be greater than the volume of own working capital and urgent customer deposits.

Liquidity management of the Bank is carried out in standard and crisis management regimes. "Asset and Liability Management Policy" and "Provisions on managing major banking risks" regulate liquidity management in the standard mode, while liquidity management in a crisis regime is regulated by the "Regulation on anti-crisis management and the order of interaction of units in the conditions of the liquidity crisis".

In order to ensure the fulfillment of its current liabilities during one operating day, the Bank always has not only the minimum required volume of highly liquid assets, but also the reserve of funds for execution of unforeseen payments. Actual values ​​of the norm of instant liquidity during the reporting year significantly exceeded the normative values ​​and the reporting dates were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| By date | Normative value | Actual value of the normative, % | Normative of Performance reserve, % |
| 01.02.2018 | 20% | 1262,12% | 1242,12% |
| 01.03.2018 | 20% | 17596,90% | 17576,90% |
| 01.04.2018 | 20% | 21052,22% | 21032,22% |
| 01.05.2018 | 20% | 6111,13% | 6091,13% |
| 01.06.2018 | 20% | 46382,53% | 46362,53% |
| 01.07.2018 | 20% | 25337,47% | 25317,47% |
| 01.08.2018 | 20% | 13514,06% | 13494,06% |
| 01.09.2018 | 20% | 21445,61% | 21425,61% |
| 01.10.2018 | 20% | 10535,99% | 10515,99% |
| 01.11.2018 | 20% | 9119,69% | 9099,69% |
| 01.12.2018 | 20% | 27754,29% | 27734,29% |
| 01.01.2019 | 20% | 27961,57% | 27941,57% |

Current liabilities within one calendar month by installing the minimum required amount of assets of the Bank to perform the total liabilities of the period, but the actual indicators of current liquidity show that during the year the Bank had assets with residual maturity up to 31 days, significantly higher than the minimum necessary:

|  |  |  |  |
| --- | --- | --- | --- |
| By date | Normative value | Actual value of the normative, % | Normative of Performance reserve, % |
| 01.02.2018 | 40% | 5910,48% | 5870,48% |
| 01.03.2018 | 40% | 69298,89% | 69258,89% |
| 01.04.2018 | 40% | 74611,02% | 74571,02% |
| 01.05.2018 | 40% | 81239,35% | 81199,35% |
| 01.06.2018 | 40% | 82328,14% | 82288,14% |
| 01.07.2018 | 40% | 77300,34% | 77260,34% |
| 01.08.2018 | 40% | 35829,04% | 35789,04% |
| 01.09.2018 | 40% | 21445,61% | 21405,61% |
| 01.10.2018 | 40% | 10535,99% | 10495,99% |
| 01.11.2018 | 40% | 9119,69% | 9079,69% |
| 01.12.2018 | 40% | 27306,68% | 27266,68% |
| 01.01.2019 | 40% | 27961,57% | 27921,57% |

Current liabilities within one year by installing the minimum required amount of assets of the Bank to perform the total liabilities of the period, but the actual indicators of short-term liquidity show that during the year the Bank had assets with residual maturity up to 1 year which is also considerably higher than the minimum necessary:

|  |  |  |  |
| --- | --- | --- | --- |
| By date | Normative value | Actual value of the normative, % | Normative of Performance reserve, % |
| 01.02.2018 | 60% | 5910,48% | 5850,48% |
| 01.03.2018 | 60% | 69298,89% | 69238,89% |
| 01.04.2018 | 60% | 74611,02% | 74551,02% |
| 01.05.2018 | 60% | 81239,35% | 81179,35% |
| 01.06.2018 | 60% | 82328,14% | 82268,14% |
| 01.07.2018 | 60% | 70631,51% | 70571,51% |
| 01.08.2018 | 60% | 34335,21% | 34275,21% |
| 01.09.2018 | 60% | 20899,06% | 20839,06% |
| 01.10.2018 | 60% | 10403,00% | 10343,00% |
| 01.11.2018 | 60% | 12462,06% | 12402,06% |
| 01.12.2018 | 60% | 26873,67% | 26813,67% |
| 01.01.2019 | 60% | 27054,99% | 26994,99% |

**Table 25.8. Analysis of financial liabilities by maturity in 2018**

(ths. UAH.)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Line | Item | On demand and less than 1 month. | From 1 to 3 months. | From 3 to 12 months. | From 12 months up to 5 years old | More than 5 years | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Customers fund | 597 | 10 | 10 | - | - | 617 |
| 2 | Subordinated debt | 163 | - | - | 32 591 | - | 32 754 |
| 3 | Other obligations | 4 | - | - | - | - | 4 |
| 4 | Total potential future payouts on financial liabilities | 764 | 10 | 10 | 32 591 | - | 33 375 |

**Table 25.9. Analysis of financial liabilities by maturity in 2017**

(ths. UAH.)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Line | Item | On demand and less than 1 month. | From 1 to 3 months. | From 3 to 12 months. | From 12 months up to 5 years old | More than 5 years | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Customers fund: | 2 544 | - | - | - | - | 2 544 |
| 2 | Subordinated debt | 163 | - | - | 23 133 | - | 23 296 |
| 3 | Total potential future payouts on financial liabilities | 2 707 | - | - | 23 133 | - | 25 840 |

**Table 25.10. Analysis of financial assets and liabilities by maturity based on expected maturities in 2018**

(ths. UAH.)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Line | Item | On demand and less than 1 month. | From 1 to 3 months. | From 3 to 12 months. | From 12 months up to 5 years old | More than 5 years | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|  | Assets |  |  |  |  |  |  |
| 1 | Cash and cash equivalents | 3 289 | - | - | - | - | 3 289 |
| 2 | Debt securities, which are accounted for at amortized cost | 95 587 | 25 868 | 47 588 | - | - | 169 043 |
| 3 | Total financial assets | 98 876 | 25 868 | 47 588 | - | - | 172 332 |
|  | Liabilities |  |  |  |  |  |  |
| 4 | Customers fund | 597 | 10 | 10 | - | - | 617 |
| 5 | Other liabilities | 4 | - | - | - | - | 4 |
| 6 | Subordinated debt | 163 | - | - | 32 591 | - | 32 754 |
| 7 | Total financial liabilities | 764 | 10 | 10 | 32 591 | - | 33 375 |
| 8 | Net liquidity break at the end of December 31 | 98 112 | 25 858 | 47 578 | (32 591) | - | 138 957 |
| 9 | The aggregate liquidity gap at the end of December 31 | 98 112 | 123 970 | 171 548 | 138 957 | 138 957 |  |

**Table 25.10. Analysis of financial assets and liabilities by maturity based on expected maturities in 2017**

(ths. UAH.)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Line | Item | On demand and less than 1 month. | From 1 to 3 months. | From 3 to 12 months. | From 12 months up to 5 years old | More than 5 years | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|  | Assets |  |  |  |  |  |  |
| 1 | Cash and cash equivalents | 3 417 | - | - | - | - | 3 417 |
| 2 | Debt securities, which are accounted for at amortized cost | 142 668 | 7 052 | - | - | - | 149 720 |
| 3 | Total financial assets | 146 085 | 7 052 | - | - | - | 153 137 |
|  | Liabilities |  |  |  |  |  |  |
| 4 | Customers fund | 2 544 | - | - | - | - | 2 544 |
| 5 | Other liabilities | 163 | - | - | 23 133 | - | 23 296 |
| 6 | Total financial liabilities | **2 707** | **-** | **-** | **23 133** | **-** | **25 840** |
| 7 | Net liquidity break at the end of December 31 | 143 378 | 7 052 | - | (23 133) | - | 127 297 |
| 8 | The aggregate liquidity gap at the end of December 31 | 143 378 | 150 430 | 150 430 | 127 297 | 127 297 |  |

**Concentration of other risks**

Other banking risks that the Bank may face in its activities are:

**Operating risk**

Operational risk is the probability of occurrence of losses or additional losses or lack of planned revenue due to defects or errors in the organization of internal processes, intentional or unintentional actions of bank employees or other persons, failures in the work of information systems of the bank or as a result of the influence of external factors. According to the source of the risk, the Bank distributes the given risk to the technical and technological, as well as the risk associated with the influence of the human factor. Technical and technological risks include the risk of error in the design of computer programs, network failures or telecommunication channels, inadequate contingency scheduling in the event of a system crash, the risk of errors in procedures, technologies (products) and control systems.

In order to ensure the assessment and management of operational risk, the Bank carries out a number of measures, namely:

- development of standard operating procedures and regulations;

- coordination of procedural issues between structural divisions;

- presence and compliance of technological cards of transactions;

- Implementation of operational procedures in information systems;

- identification of the Bank's clients;

- analysis of the operation before its implementation;

- verification, authorization of documents;

- application of automated information processing systems in the course of operations, which accelerates the speed of execution and processing, reduces the proportion of "manual" information processing;

- a clear division of duties and responsibilities for the implementation of transactions;

- establishment of terms of work execution and control over their implementation;

- improvement of the control system of operational technological processes;

- introduction of modern information technology for data transmission, information security;

- development of job descriptions and thorough performance of their requirements by each employee;

- Collective decision-making on the basis of analysis of forecast calculations of certain types of operations;

- Timely and complete accounting of transactions with clients or counterparties, control over observance of the accounting policy of the Bank and requirements of regulatory acts of the National Bank of Ukraine;

- registration of incoming and outgoing correspondence of the Bank;

- providing current analytical information to the management with the help of automated means;

- creation of backup copies of the ODD, application of duplication and recovery processes.

- personnel training and training;

- encouragement and motivation of personnel in the proper and diligent performance of their official duties;

- double control and verification of the compliance of the performers with particularly important and responsible technological procedures and operations.

**Legal risk**

Legal risk is the probability of occurrence of losses or additional losses, or failure to receive the planned revenues as a result of failure of the parties to fulfill the terms of the contracts due to their non-compliance with the requirements of the legislation. Legal risk can lead to the payment of penalties and administrative penalties, the need for monetary damages, deteriorating reputation, worsening of the Bank's position on the market, narrowing the opportunities for development and reducing the possibilities of legal enforcement of transactions.

The Bank is constantly implementing a number of measures to prevent and minimize legal risk, namely:

* compliance with the Laws of Ukraine and the regulatory documents of the National Bank of Ukraine;
* monitoring changes in legislation that may affect the Bank's financial position or cause changes in its operating parameters;
* conducting a check on the legitimacy and appropriateness of relations with clients and counteragents, including checking the compliance of all contracts and agreements with the current legislation of Ukraine;
* displaying in the regulations, instructions, orders and process charts of each process and operation;
* development of conditions for standard contracts concluded by the Bank and their timely review;
* establishing appropriate control mechanisms (internal and external audit) to ensure compliance with the norms of legislation and regulations, requirements of the internal regulatory framework and concluded agreements.

**Strategic Risk**

Strategic risk is the probability of a loss or additional loss or lack of expected revenue due to improper management decisions and inadequate response to changes in the business environment.

The Bank manages existing strategic risk by agreeing strategic goals, business strategies, resources, and the quality of the Bank's objectives. Strategic risk is assessed both quantitatively and qualitatively, namely:

- Evaluation and identification of strengths and weaknesses, threats and capabilities of the Bank (SWOT analysis);

- calculation of deviations of planned indicators from the actual results of work in fiscal year for a period not less than three years (strategic planning);

- Assessment of the Bank's implementation of the strategic plan (including budget) and analysis of deviations.

The strategic plan, if necessary, is considered and adjusted in accordance with changes in market conditions and needs of the Bank regarding financial, operational, technological and personnel resources.

**NOTE 26. CAPITAL MANAGEMENT**

The Bank's capital management policy based on understanding the nature and character of the bank's activities to the definition of the risks inherent in the Bank's operations and determining their effects on the sufficiency of equity. The Bank recognizes that the primary purpose of capital is to cover a variety of risks and ensure the protection of deposits, financial sustainability and stable operations.

**Table 26.1. The structure of the regulatory capital**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | 2018 | 2017 |
| 1 | 2 | 3 | 4 |
|  | Fixed assets |  |  |
| 1.1 | Actually paid registered authorized capital | 244 000 | 244 000 |
| 1.2 | Reserve funds | 4 044 | 4 044 |
| 1.3 | Additional capital | (262) | (262) |
| 1.4 | Reduction of fixed capital | (63 412) | (63 336) |
| 1.4.1 | Intangible assets minus the amount of wear | (191) | (115) |
| 1.4.2 | Losses of past years | (63 221) | (61 809) |
| 1.4.3 | Estimated loss of current year | - | (1 412) |
| **1.5** | **Total fixed capital** | **184 371** | **184 446** |
|  | Additional capital |  |  |
| 2.1. | Estimated profit for the current year | 13 434 | - |
| 2.1.1 | Profit of the reporting year | 8 151 | - |
| 2.1.2. | Other comprehensive income (result of adjustment of the cost of a financial instrument during initial recognition | 5 352 | - |
| 2.1.3. | Uncovered credit risk | (69) | - |
| 2.1.4. | Accrued income, expiration date | (22) | - |
| 2.1.5. | Part of the amount of the current provision for an active banking transaction, accrued from accrued income that has not been received over 30 days | 22 | - |
| 2.2 | Subordinated debt that is accounted for by capital | 31 100 | 25 600 |
| **2.3** | **Total additional capital** | **44 534** | **25 600** |
| **3** | **Total regulatory capital** | **228 905** | **210 046** |

Actual values of the norm of adequacy of regulatory capital (at the normative value of at least 10%) during the reporting year (compared to the previous year) were not only met, but also had a significant margin of compliance:

|  |  |  |  |
| --- | --- | --- | --- |
| By date | Actual value of the norm, % | By date | Actual value of the norm, % |
| 01.02.2017 | 209,05% | 01.02.2018 | 359,60% |
| 01.03.2017 | 208,42% | 01.03.2018 | 371,37% |
| 01.04.2017 | 206,15% | 01.04.2018 | 372,60% |
| 01.05.2017 | 184,85% | 01.05.2018 | 383,60% |
| 01.06.2017 | 183,76% | 01.06.2018 | 385,90% |
| 01.07.2017 | 181,66% | 01.07.2018 | 387,97% |
| 01.08.2017 | 88,15% | 01.08.2018 | 386,98% |
| 01.09.2017 | 88,18% | 01.09.2018 | 389,83% |
| 01.10.2017 | 85,95% | 01.10.2018 | 386,34% |
| 01.11.2017 | 84,74% | 01.11.2018 | 388,34% |
| 01.12.2017 | 388,69% | 01.12.2018 | 390,12% |
| 01.01.2018 | 359,48% | 01.01.2019 | 380,74% |

**NOTE 27. POTENTIAL LIABILITIES OF THE BANK**

**a) consideration of cases in court**

As at 31.12.2018 the Bank is a party to various litigation and disputes. Potential liabilities for which there is a risk of cash outflows are absent.

**b) the potential tax liabilities of the** bank

As at 31 December 2018, the Bank had no potential tax liabilities.

**c) obligations on capital investments**

As at 31.12.2018, the Bank had no obligations to purchase fixed assets and intangible assets.

**d) liabilities of operational lease**

At 31.12.2018 the Bank has no operational lease liabilities.

**e) lending commitments**

As at 31 December 2018, the Bank had no lending obligations.

As at 31 December 20178, the Bank had no shares in associated companies, but did not carry

joint liability with other investors on the obligations of affiliated companies.

As at 31 December 2018, the Bank had no assets pledged as collateral

with respect to which the restrictions related to possession, use and

order them.

**NOTE 28. FAIR VALUE OF ASSETS AND LIABILITIES**

Fair value is the price that would have been received for the sale of an asset or paid for the transfer of a liability in a normal transaction between market participants at the date of the transaction.

The loans granted (received), placed (attracted) deposits during initial recognition are measured at fair value by the bank, taking into account transaction costs. The fair value of a financial instrument during initial recognition is usually equal to the actual transaction price.

The fair value is best confirmed by existing market prices. The fair value of instruments for which no quotes in the active market are quoted are determined by the Bank using valuation techniques. The estimated fair value of floating interest rate instruments that are not quoted in an active market is equal to their carrying amount. The fair value of non-marketable fixed interest rate instruments was calculated on the basis of estimated future expected cash flows discounted using current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the currency and maturity of the instrument, as well as on the counterparty's credit risk.

**Table 28.1. Fair value and level of input hierarchy used for methods of valuation of assets and liabilities as at 31 December 2018**

(ths. UAH.)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Line | Item | Fair value for different valuation models | | | Total fair value | Carrying value |
| Market quotes (1st level) | Evaluation model using observational data (Level 2) | Evaluation model using indicators not verified by market data (Level 3) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| І | ASSETS |  |  |  |  |  |
| 1 | Cash and cash equivalents | 3 289 | - | - | 3 289 | 3 289 |
| 1.1 | cash funds | 2 479 | - | - | 2 479 | 2 479 |
| 1.2 | funds in the National Bank of Ukraine (except for mandatory reserves) | 356 | - | - | 356 | 356 |
| 1.3 | correspondent accounts, deposits and loans overnight in banks | 454 | - | - | 454 | 454 |
| 2 | Debt securities, which are accounted for at amortized cost | - | - | 169 043 | 169 043 | 169 043 |
| 2.1 | Government bonds | - | - | 120 878 | 120 878 | 120 878 |
| 2.2 | NBU deposit certificates | - | - | 48 165 | 48 165 | 48 165 |
| 3 | Investment Property | - | 27 761 | - | 27 761 | 27 761 |
| 4 | Fixed and intangible assets | - | 28 638 | - | 28 638 | 28 638 |
| 4.1 | buildings, constructions and transmission devices | - | 28 447 | - | 28 447 | 28 447 |
| 4.2 | intangible assets | - | 191 | - | 191 | 191 |
| 5 | Total assets | 3 289 | 56 399 | 169 043 | 228 731 | 228 731 |
| ІІ | LIABILITIES |  |  |  |  |  |
| 6 | Clients’ money | - | - | 617 | 617 | 617 |
| 6.1 | Other legal entities | - | - | 204 | 204 | 204 |
| 6.2 | Individuals | - | - | 413 | 413 | 413 |
| 7. | Customer funds | - | - | 4 | 4 | 4 |
| 7.1 | Other liabilities | - | - | 4 | 4 | 4 |
| 8. | Subordinated debt | - | - | 32 754 | 32 754 | 32 754 |
| **9** | **Total liabilities** | **-** | **-** | **33 375** | **33 375** | **33 375** |

**Table 28.2. Fair value and level of input hierarchy used for methods of valuation of assets and liabilities as at 31 December 2017**

(ths. UAH.)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Line | Item | Fair value for different valuation models | | | Total fair value | Carrying value |
| Market quotes (1st level) | Evaluation model using observational data (Level 2) | Evaluation model using indicators not verified by market data (Level 3) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| І | ASSETS |  |  |  |  |  |
| 1 | Cash and cash equivalents | 3 417 | - | - | 3 417 | 3 417 |
| 1.1 | cash funds | 901 | - | - | 901 | 901 |
| 1.2 | funds in the National Bank of Ukraine (except for mandatory reserves) | 1 837 | - | - | 1 837 | 1 837 |
| 1.3 | correspondent accounts, deposits and loans overnight in banks | 679 | - | - | 679 | 679 |
| 2 | Debt securities, which are accounted for at amortized cost | - | - | 149 720 | 149 720 | 149 720 |
| 2.1 | Government bonds | - | - | 128 629 | 128 629 | 128 629 |
| 2.2 | NBU deposit certificates | - | - | 21 091 | 21 091 | 21 091 |
| 3 | Other financial assets: | - | - | - | - | - |
| 3.1. | other financial assets | - | - | - | - | - |
| 4 | Investment Property | - | 27 808 | - | 27 808 | 27 808 |
| 5 | Property, plant and equipment and intangible assets | - | 28 695 | - | 28 695 | 28 695 |
| 5.1 | buildings, constructions and transmission devices | - | 28 580 | - | 28 580 | 28 580 |
| 5.2 | intangible assets | - | 115 | - | 115 | 115 |
| 6 | Total assets | 3 417 | 56 503 | 149 720 | 209 640 | 209 640 |
| ІІ | LIABILITY |  |  |  |  |  |
| 7 | Customer funds | - | - | 2 544 | 2 544 | 2 544 |
| 7.1 | Other legal liabilities | - | - | 2 544 | 2 544 | 2 544 |
| 8 | Subordinated debt | - | - | 23 296 | 23 296 | 23 296 |
| **9** | **Total liability** | - | **-** | **25 840** | **25 840** | **25 840** |

**NOTE 29. SUBMISSION OF FINANCIAL INSTRUMENTS BY EVALUATION CATEGORIES**

For the purpose of measuring IFRS 9, "Financial Instruments" establishes the following cogeneration of financial assets: (a) financial assets carried at amortized cost; (b) financial assets carried at fair value through other comprehensive income; (c) financial assets that are recorded at fair value through profit / (loss). All financial assets of the Bank as of 31 December 2018 and 31 December 2017 are classified in the category of financial assets lumped at amortized cost in the following structure:

**Table 29.1. Financial assets by rating category**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | Financial assets carried at amortized cost | |
| 2018 | 2017 |
| 1 | 2 | 3 | 4 |
|  | FINANCIAL ASSETS |  |  |
| 1 | Cash and cash equivalents | 3 289 | 3 417- |
| 2 | Investments in securities | 169 043 | 149 720 |
| **3** | **Total financial assets** | 172 332 | 153 137 |

Financial liabilities of the Bank are classified by the Bank as financial liabilities carried at amortized cost and as at 31 December 2018 and 31 December 2017 have the following structure:

**Table 29.2. Financial liabilities by rating category**

(ths. UAH.)

|  |  |  |  |
| --- | --- | --- | --- |
| Line | Item | Financial liabilities that are accounted for at amortized cost | |
| 2018 | 2017 |
| 1 | 2 | 3 | 4 |
|  | FINANCIAL LIABILITIES |  |  |
| 1 | Clients’ money | 617 | 2 544- |
| 2 | Other obligations | 4 | - |
| 3 | Subordinated debt | 32 754 | 23 296 |
| **4** | **Total financial liabilities** | 33 375 | 25 840 |

**NOTE 30. OPERATIONS WITH RELEVANT PARTIES**

In the course of its ordinary activities, the Bank carries out operations with various counterparties. Parties are considered to be related if one party has the ability to control the other party or has a significant influence on the other party when making managerial decisions.

As of December 31, 2018, and December 31, 2017, the sole shareholder of the bank, which owns 100% of the authorized capital of the Bank, was the “BOSE (HONGKONG) KO., LIMITED” (Ukraine).

**Table 30.1. Balances with related parties as at 31.12.2018**

(ths. UAH.)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Line | Item | Major shareholders of the Bank | Leading management | Other related parties |
| 1 | Clients’ money |  |  |  |
| 1.1 | Customer funds (contractual interest rate 0.0%) | 189 | - | - |
| 1.2 | Customer funds (contractual interest rate 9.5%) | - | 10 | - |
| 1.3 | Customer funds (contractual interest rate 8.0%) | - | 10 | - |
| 2 | Subordinated debt (contractual interest rate 0.0%) | 11 900 | - | - |

**Table 30.2. Balances with related parties as of December 31, 2017**

(ths. UAH.)

|  |  |  |
| --- | --- | --- |
| Line | Item | Major shareholders of the Bank |
| 1 | Customer funds (contractual interest rate 0.0%) | 2 538 |

**Table 30.3. Income and expenses from transactions with related parties as of December 31, 2018**

(ths. UAH.)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Line | Item | Major shareholders of the Bank | Leading management | Other related parties |
| 1 | Interest expense | 739 | 1 | - |
| 2 | Commission costs | - | - | 25 |
| 2 | Commission income | 48 | - |  |
| 3 | Result of adjustment of the value of financial instruments during initial recognition \* | 5 352 | - | - |

\* The financial statements are reflected in other comprehensive income

**Table 30.4. Income and expenses from transactions with related parties as at December 31,2017**

(ths. UAH.)

|  |  |  |
| --- | --- | --- |
| Line | Item | Major shareholders of the Bank |
| 1 | Commission income | 126 |

**Table 30.4. Payments to key management personnel**

(ths. UAH.)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Line | Item | 31.12.2018 | | 31.12.2017 | |
| costs | accrued liability | costs | accrued liability |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Current employee benefits | 3 747 | 119 | 2 150 | 53 |

**Operations with business entities related to authorities**

As at 31 December 2018, the Bank's shares are not property of the State, but for almost all of 2017 the Bank was 98.3275% owned by the State under the control of the State Property Fund of Ukraine.

Entities connected with public authorities - controlled entities are under joint control or significant influence of state authorities. Public authorities are government bodies, government agencies and similar bodies of state power.

During the previous financial year, the Bank carried out the following transactions with entities related to the authorities:

(ths. UAH.)

|  |  |
| --- | --- |
|  |  |
| ***Balances with transactions with entities related to government agencies*** | 31.12.2017 |
| Correspondent account with the National Bank of Ukraine | 1 948 |
| Correspondent accounts in other banks | 679 |
| Securities in the bank's portfolio to maturity | 149 720 |
| Subordinated debt | (23 296) |
| ***Income and expenses on operations with economic entities related to state authorities*** | 31.12.2017 |
| Interest income on funds placed on correspondent accounts | 44 |
| Interest income on securities | 9 895 |
| Interest expense on subordinated debt | (7 037) |

**NOTE 31. SUBSEQUENT EVENTS**

After the end of the reporting period and before the date of this report, significant events that could affect the results of these financial statements were not made.

Chairman О. Loktionov

Chief accountant N. Zeleniuk