

**JOINT-STOCK COMPANY
BANK ALLIANCE**

**Management Report,
Financial statements prepared in accordance
with International Financial Reporting
Standards,
Independent Auditor's Report**

31 December 2019

TABLE OF CONTENTS

I. Management Report of JSC BANK ALLIANCE for 2019	4
INTRODUCTION.....	5
1. Perspectives for further development of JSC BANK ALLIANCE	5
2. Information about the development of JSC BANK ALLIANCE	5
3. Information about JSC BANK ALLIANCE entering into derivatives or transactions with derivative securities where they affect the valuation of its assets, liabilities, financial position and income or expenses	7
3.1. Financial risk management objectives and policies, including the insurance policy for each major type of projected transactions subject to hedging.....	7
3.2. Exposure to significant risks	7
4. Litigations involving JSC BANK ALLIANCE	7
5. Penalties imposed on JSC BANK ALLIANCE	7
6. Corporate governance report of JSC BANK ALLIANCE.....	8
6.1. Corporate Governance Code.....	8
6.2. Compliance with the Corporate Governance Code	8
6.3. Information about the General Shareholders Meetings	8
6.4. Information about the Board	14
6.5. Information about the executive body.....	24
6.6. Summary of key characteristics of the internal control and risk management systems	35
6.7. List of persons who directly or indirectly own a significant shareholding	42
6.8. Information relating to any restrictions on the rights of participation and voting of shareholders (participants) at the general meeting.....	42
6.9. Procedure for the appointment and dismissal of officials. Information relating to any remuneration or compensation paid to officials in case of their resignation during the reporting period.....	42
6.10. Powers and authorities of the officers.....	43
6.11. Description of business activities.....	45
6.12. Information relating to significant transactions or interested party transactions or about prior consents given to significant transactions or interested party transactions and information relating to persons interested in the interested party transactions and the circumstances giving rise to the interest	65
II. Independent Auditor's Report	69
III. Annual Financial Statements for 2019	80
Statement of financial position (balance sheet) JSC BANK ALLIANCE as at 31 December 2019.....	81
Statement of profit or loss and other comprehensive income (profit and loss statement) JSC BANK ALLIANCE for the year ended 31 December 2019.....	82
Statement of changes in equity (statement of equity) JSC BANK ALLIANCE for the year ended 31 December 2019	83
Statement of cash flows JSC BANK ALLIANCE for the year ended 31 December 2019	84
Note 1. Information about the Bank.....	85
Note 2. Economic environment in which the Bank operates.....	88

Note 3. Basis of preparation	89
Note 4. Significant accounting policies.	91
Note 5. New and revised standards issued but not yet effective.....	130
Note 6. Cash and cash equivalents.....	131
Note 7. Loans and advances to customers.....	131
Note 8. Investments in securities	135
Note 9. Derivative financial assets	136
Note 10. Property, plant and equipment (PP&E) and intangible assets (IA)	137
Note 11. Right-of-use assets	138
Note 12. Other assets	138
Note 13. Due to banks	139
Note 14. Due to customers	139
Note 15. Derivative financial liabilities.....	140
Note 16. Provisions for liabilities	141
Note 17. Lease liabilities.....	141
Note 18. Other liabilities	142
Note 19. Authorised capital and share premium.....	143
Note 20. Analysis of assets and liabilities by maturities.....	144
Note 21. Interest income and expenses	144
Note 22. Commission income and expenses	145
Note 23. Other operating income	145
Note 24. Administrative and other operating expenses	146
Note 25. Result of transactions with financial instruments at fair value through profit or loss	146
Note 26. Income tax expenses	147
Note 27. Profit/(loss) per ordinary share.....	149
Note 28. Operating segments.....	149
Note 29. Financial risk management	151
Note 30. Capital management	158
Note 31. Contingent liabilities	159
Note 32. Financial derivatives	160
Note 33. Related party transactions.....	161
Note 34. Subsequent events	163

I. Management Report of JSC BANK ALLIANCE for 2019

INTRODUCTION

JOINT STOCK COMPANY BANK ALLIANCE (also referred to as the "Bank" and/or "JSC BANK ALLIANCE") has prepared this Management Report of JSC BANK ALLIANCE for 2019 in compliance with article 40¹ of the Law of Ukraine on Securities and the Stock Market, article 12² of the law of Ukraine on Financial Services and State Regulation of Financial Services Markets and Instruction on the Procedure for Preparing and Disclosing Financial Statements by Ukrainian Banks approved by Resolution No. 373 of the Management Board of the National Bank of Ukraine dated 24 October 2011. The information set out in this Report shall be inspected in compliance with legislative requirements by independent auditor BAKER TILLY UKRAINE LLC.

1. Perspectives for further development of JSC BANK ALLIANCE

Throughout 2019, JSC BANK ALLIANCE has been showing profitable operations, had stable sources of financing. Key sources of financing are funds contributed to its authorised capital in accordance with Resolutions of the General Shareholders Meetings for increasing the Bank's authorised capital by UAH 105,120,000.00 up to UAH 365,120,000.00 by increasing the nominal value of shares through directing a portion of profits earned in 2018 to the authorised capital. Efforts aimed at registering the increase of the Bank's authorised capital are ongoing as at the end of 2019.

The Bank applies a viable business model enabling it to demonstrate advanced growth as compared to the banking system in general. Although the Bank was ranked 38th by its net assets at the beginning of the year, it was ranked 29th (and 12th in the group of banks with private capital) as at 1 December 2019. In addition, the Bank continues to be one amongst the most profitable on the market – the Bank was ranked 26th in terms of profits (and 9th in the group of banks with private capital) as at 1 December 2019.

Corporate lending is the most essential for the Bank in terms of income generation. The Bank expects that the loan portfolio, both for the business and for the public, will continue growing in the medium-term perspective. Moreover, loan portfolio quality will be improving gradually (the protection of creditors' rights has been strengthened / Credit Register of the National Bank has commenced its operations), whilst the lending cost will be reducing (paralleled by the growth of funding, whether due to the funds of public and business or due to the free movement of capital).

Generally speaking, the development of the banking system will take the form of a step-by-step digitalisation of products, automation of business processes, strengthening of the risk management and corporate governance role.

It is appropriate to conclude that the Bank will continue as a going concern for at least the next (but not limited to) 12 months after the reporting date.

2. Information about the development of JSC BANK ALLIANCE

JSC BANK ALLIANCE is a general-purpose bank with an impeccable reputation that provides a full range of banking services to entities and individuals. In accordance with the Strategy of JSC BANK ALLIANCE for 2020-2022 approved by resolution of the Supervisory Board ("the Board") dated 24 December 2019 (minutes No. 82), the Bank sees its mission in creating favourable conditions underlying development of the Ukrainian economy and stable growth of the gross domestic product, whilst maintaining an optimal balance between the interests of customers, shareholders and the Bank.

The Bank has been operating on the market for more than 27 years (registration certificate, dated 10 March 1992, registered under No. 89 with the State Registers of Banks). The Bank offers the comprehensive service to entities and individuals under the indefinite Banking License No. 97 dated 17 November 2011 for the right to provide banking services defined in paragraph three of Article 47 of the Law of Ukraine on Banks and Banking.

The Bank is a member of the Deposit Insurance Fund (certificate No. 023 dated 2 September 1999) and the Independent Association of Banks of Ukraine.

As at 1 January 2020, the Bank has a regional network comprising 20 branches and presented in the biggest cities of Ukraine.

The ultimate beneficiary of JSC BANK ALLIANCE is Mr. Alexander Sosis, a Ukrainian

national, who has acquired a majority interest of 89.289% in the authorised capital of JSC BANK ALLIANCE upon approval by the National Bank of Ukraine in 2016.

JSC BANK ALLIANCE is a member of MasterCard WORLDWIDE international payment systems, approved member of VISA ASSOCIATION and member of the national payment system “PROSTIR”.

In 2018, the Tender Commission of the Ministry of Finance of Ukraine decided, having examined the documentation and analysed the bank’s performance, to recognise JSC BANK ALLIANCE as the authorised bank successful bidder for the right to pay out pensions, cash benefits and salaries to employees of budgetary organisations.

Since 21 December 2018, it is an official member of the International Chamber of Commerce (ICC).

Since 29 August 2018, it has been a member of the European Business Association (EBA).

The target group of the Bank comprises corporate customers of small- and medium-sized businesses. The Bank directs its efforts at forming long-term partnerships with customers, improving their financial well-being and enhancing banking services.

The principal activities of the Bank are as follows: loan and deposit operations, cash and settlement services, purchase and sale of currency, securities trading, consultancy and information services, including transactions in the stock and foreign exchange markets. The Bank actively utilises the instruments of the interbank market for the efficient placement (involvement) of temporarily free funds, as well as for the purposes of foreign exchange transactions.

In 2019, the Bank obtained licenses (permits) to conduct new activities, such as ‘factoring’, ‘finance leasing’, ‘depository activity of a custodian institution’ and ‘securities trading – dealer activity’.

The Bank has signed a Memorandum with the State specifying the general principles of cooperation as far as the implementation of state support of agricultural producers, which contemplates allocation of budgetary funds to support agribusiness. Therefore, all borrowers of the Bank can expect to recover up to 70% of the interest rate from agricultural programmes under this memorandum.

JSC BANK ALLIANCE allows to send or receive instant money transfers globally (either with or without opening an account) via international payment systems, such as WesternUnion, MoneyGram, Welsend, either in US Dollars, Euro, Russian rubbles and in the national currency (within Ukraine).

The Bank is actively involved in a number of international lending programmes. The key priorities are projects aimed at supporting the development of the private sector (small-sized business projects), agriculture lending programmes, economic and social infrastructure projects, including energy efficiency projects.

In 2019, S&P GLOBAL RATINGS has assigned JSC BANK ALLIANCE a high credit rating ‘B-/B’ with a ‘STABLE’ outlook.

On 9 January 2020, RURIK National Rating Agency confirmed the long-term credit rating of JSC BANK ALLIANCE at uaAAA investment category with a stable outlook and the deposit rating at r5-.

The Bank has won the X ALL-UKRAINIAN CONTEST “BANK OF THE YEAR 2018” in the nomination “BANK WITH THE HIGHEST GROWTH DYNAMICS”.

It is a leader in the bank guarantee market within Prozorro procurement system.

According to PFTS Stock Exchange, JSC “BANK ALLIANCE” was ranked TOP 25 largest stock market participants amongst government bond traders by the end of 2017 and 2018.

The Bank actively participates in the inter-bank foreign exchange market of Ukraine being ranked TOP 20 by trading volume. Starting from Q4 2018, the National Bank of Ukraine adds JSC BANK ALLIANCE to the list of banks participating in foreign exchange intervention on a quarterly basis.

The Bank's authorised capital is UAH 365 million and regulatory capital was UAH 438 million as at 1 January 2020. The Bank is 100% compliant with all economic norms and limits applicable to the currency position as established by the National Bank of Ukraine, including the liquidity and capital.

In 2019, the Bank continued its active development. As at 1 January 2020, the Bank's net assets reached UAH 3.5 billion (+ 63% YTD). Current year profit was UAH 97 million. The Bank's growth is planned (i.e. fully meets its development strategy), harmonious (by results of 2016 its total assets grew 2.2 times, by results of 2017 – 2.5 times and in 2018 – 2.7 times) and controlled in terms of risk exposure. The latter is evidenced by an extremely low level of debt.

3. Information about JSC BANK ALLIANCE entering into derivatives or transactions with derivative securities where they affect the valuation of its assets, liabilities, financial position and income or expenses

During the reporting period, JSC BANK ALLIANCE entered into no derivatives or transactions in relation to derivative securities. Accordingly, such transactions had no effect on the valuation of assets, liabilities, financial position and income or expenses of the Bank.

3.1. Financial risk management objectives and policies, including the insurance policy for each major type of projected transactions subject to hedging.

Financial risk objectives and policies are determined by internal regulations: “Risk Management Strategy of JSC BANK ALLIANCE”, “Risk Management Policy of JSC BANK ALLIANCE”. For more details about the functioning of the Bank's risks management system, refer to section 6.6 – Description of the Key Characteristics of Internal Control and Risks Management System.

3.2. Exposure to significant risks

Taking into account the special nature of its operations and business model, the Bank intends to assume and control the following significant risks to achieve its business objectives:

- credit risk (counterparty risk, country risk, transfer risk);
- liquidity risk;
- interest rate risk in the banking book (gap risk, basis risk, optionality risk);
- market risk in terms of currency risk exposure;
- operational risk;
- compliance risk.

Types of risks that the Bank does not intend to assume and retain to achieve its business goals and for which zero risk appetite is set:

- market risks inherent to instruments in the trading book;
- default risk;
- interest rate risk in the trading book;
- credit spread risk;
- volatility risk;
- stock market risk;
- commodity risk.

4. Litigations involving JSC BANK ALLIANCE

There is no information about litigations involving the Bank during 2019, which will not be ruled in its favour, with a claimed amount of least 1% of its assets at the beginning of the reporting year, or about litigations in which the court's ruling has become effective in the reporting year.

5. Penalties imposed on JSC BANK ALLIANCE

Total penalties paid by the Bank to government authorities in 2019 amounted to UAH 1,909.87.

No.	Number and date of resolution on the imposition of the fine	Governing body imposing the fine	Type	Amount payable, UAH	Execution status
1	Resolution no. 296/ET dated 11/07/2019	National Bank of Ukraine	Fine	1,700.00	Paid

2	Inspection certificate no. 8793/26-15-04-09- 20/14360506 dated 20/11/2019	Office of the State Treasury Service in Shevchenkivskyi District, Main Department of the State Treasury of Ukraine in Kyiv	Fine	209.87	Paid
---	--	--	------	--------	------

6. Corporate governance report of JSC BANK ALLIANCE

6.1. Corporate Governance Code

The Corporate Governance Code of JSC BANK ALLIANCE contains rules for the Bank to follow in creating, maintaining and improving its corporate governance system, as well as in managing the risks arising from banking activities, strategic planning and implementation of objectives set out in the Charter.

The code is published at the Bank's official website (available at: https://bankalliance.ua/about_bank/corporate_management).

The Bank does not apply the corporate governance practice in excess of legislative requirements.

Moreover, the Bank does not apply other corporate governance codes; however, being a member of PFTS STOCK EXCHANGE JOINT STOCK COMPANY, STOCK EXCHANGE PERSPEKTYVA PRIVATE JOINT-STOCK COMPANY and other associations, the Bank adheres to the rules and other documents adopted by respective associations and stock exchanges.

6.2. Compliance with the Corporate Governance Code

The Bank and its employees (including executives) have not deviated from provisions of the Corporate Governance Code of JOINT STOCK COMPANY BANK ALLIANCE in conducting their activities.

6.3. Information about the General Shareholders Meetings

The General Meeting is the supreme management body of the Bank. The competence of the General Meeting and the procedure for preparation and holding the General Meeting are described in the applicable laws of Ukraine, the Bank's Charter and Regulation on the General Shareholders Meeting.

The procedure for preparing and holding the General Meeting ensure equal treatment of all shareholders and protection of their rights irrespective of their residence and number of shares held.

Preparation and convocation of General Meetings shall be divided into stages so as to ensure that shareholders have an adequate opportunity to prepare for participation, get a complete notion of the Bank's business and make informed decisions in respect of items on the agenda.

The Bank shall make every reasonable effort to arrange and hold the General Meetings in a manner that shareholder participation gave no rise to significant expense or time loss, whilst ensuring equal treatment of all shareholders irrespective of the number of shares held and their residence.

The Bank shall disclose information related to the General Meeting in a manner prescribed by the laws of Ukraine.

The procedure regulating the registration of shareholders for attending the General Meeting, holding and summarising the results shall not hinder the participation of shareholders and their representatives in the General Meetings, and shall guarantee to all attendant shareholders an equal opportunity to discuss the items of the agenda, express their opinions and raise questions of their concern in respect of the items put on the agenda.

There were no General Shareholders Meetings convened, but not held, in 2019. An ordinary General Shareholders Meeting was held on 25 April 2019. An extraordinary General Shareholders Meeting was held on 27 November 2019.

Information about the general shareholders meeting held and general description of resolutions passed at the meeting

Type of the general meeting	ordinary	extraordinary
	X	
Meeting date	25 April 2019	
Quorum constituted at the meeting	95.402814% of the total voting shares	
Description	<p>AGENDA:</p> <ol style="list-style-type: none"> 1. Electing members of the Counting Commission of the General Shareholders Meeting of JSC BANK ALLIANCE. 2. Electing the Chairperson and Secretary of the General Shareholders Meeting of JSC BANK ALLIANCE. 3. Approving the agenda of the General Shareholders Meeting of JSC BANK ALLIANCE. 4. Considering the Management Board's Report on activities of JSC BANK ALLIANCE for 2018 and approving the measures to be taken based on results of its consideration. Passing resolutions based on results of considering the Management Board's Report. 5. Considering the Supervisory Board's Report on results of activities of JSC BANK ALLIANCE for 2018 and approving the measures to be taken based on results of its consideration. Passing resolutions based on results of considering the Supervisory Board's Report. 6. Approving the Report on Remuneration to Members of the Supervisory Board for 2018. 7. Considering the Audit Opinion (Report) issued by the external auditor in relation to the financial statements of JSC BANK ALLIANCE for 2018 and approving the measures to be taken based on results of its consideration. 8. Approving the annual report of JSC BANK ALLIANCE for 2018. 9. Distributing profits of JSC BANK ALLIANCE for 2018. 10. Designating the main areas of activities of JSC BANK ALLIANCE. 11. Amending the Bank's Charter and approving its new wording. 12. Terminating powers and authorities of the chairperson and members of the Supervisory Board of JSC BANK ALLIANCE. 13. Electing members of the Bank's Supervisory Board. 14. Electing the Chairperson of the Bank's Supervisory Board. 15. Approving terms and conditions of civil law or employment agreements (contracts) to be concluded with the Chairperson and members of the Supervisory Board of the Bank, setting the amount of their remuneration, including incentive and compensation payments, electing the person authorised to sign such agreements (contracts). <p>RESOLUTION PASSED ON THE FIRST ITEM OF THE AGENDA:</p> <p>1.1. The Counting Commission shall be and hereby is elected for the term of office until the General Shareholders Meeting is declared to have ended, in the following composition: O.A. Osadcha shall be the Chairperson of the Counting Commission. S.Y. Fomicheva and H.V. Tsvietkova shall be the members of the Counting Commission. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE SECOND ITEM OF THE AGENDA:</p> <p>2.1. Y.V. Girman, Chairperson of the Supervisory Board of JSC BANK ALLIANCE, shall be and hereby is elected to act as the Chairperson of the General Meeting and T.S. Shymanska, corporate secretary, shall be and hereby is</p>	

	<p>elected to act as the secretary of the General Meeting. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE THIRD ITEM OF THE AGENDA: 3.1. The following rules and procedures of the General Shareholders Meeting of JSC BANK ALLIANCE shall be and hereby approved: - speeches to be delivered on the issues of the agenda of the General Meeting, discussions and answers to questions shall take no more than 10 minutes; - voting on the issues of the agenda of the General Meeting shall take no more than 5 minutes; - counting the votes cast during the voting shall take no more than 10 minutes, declaring voting results by the Chairperson of the Counting Commission shall take no more than 5 minutes. Persons who wish to speak and ask questions relating to issues of the agenda shall show their hands and after the Chairperson gives them floor, a participant of the General Meeting shall speak or ask questions. Issues relating to taking a recess at a General Shareholders Meeting and changing the sequence of considering issues put on the agenda shall be resolved in the manner set out in the law by show of hands. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE FOURTH ITEM OF THE AGENDA: 4.1. The Management Board's Report on results of activities of JSC BANK ALLIANCE for 2018 and the measures set out therein shall be and hereby are approved. 4.2. Operations of the Management Board in 2018 shall be and hereby are recognised as satisfactory and consistent with the objective and profiles of the Bank's activities and provisions of its constituent documents. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE FIFTH ITEM OF THE AGENDA: 5.1. The Supervisory Board's Report on results of activities of JSC BANK ALLIANCE for 2018 and the measures set out therein shall be and hereby are approved. 5.2. Operations of the Supervisory Board in 2018 shall be and hereby are recognised as satisfactory and consistent with the objective and profiles of the Bank's activities and provisions of its constituent documents. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE SIXTH ITEM OF THE AGENDA: 6.1. The Report on Remunerations to Members of the Supervisory Board for 2018 shall be and hereby is approved. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE SEVENTH ITEM OF THE AGENDA: 7.1. The Audit Opinion (Independent Auditor's Report) of BAKER TILLY UKRAINE LLC issued in relation to the financial statements of JSC BANK ALLIANCE for 2018 shall be and hereby is taken into account. 7.2. No need shall be and hereby is found to take actions based on results of considering the Audit Opinion (Independent Auditor's Report) in relation to the financial statements of JSC BANK ALLIANCE for 2018. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE EIGHTH ITEM OF THE AGENDA: 8.1. The annual report of JSC BANK ALLIANCE for 2018 shall be and hereby is approved. The resolution has been passed.</p>
--	---

	<p>RESOLUTION PASSED ON THE NINTH ITEM OF THE AGENDA: 9.1. UAH 111,200,438.52 in profits earned from operations of JSC BANK ALLIANCE in 2018 shall be and hereby are distributed as follows: • some profits of UAH 5,560,022.00 shall be applied towards increasing the reserves of JSC BANK ALLIANCE. • the remaining UAH 105,640,416.52 in profits shall remain retained. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE TENTH ITEM OF THE AGENDA: 10.1. The main areas of activities of JSC BANK ALLIANCE set in a separate document shall be and hereby are approved. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE ELEVENTH ITEM OF THE AGENDA: 11.1. The internal regulation of the Bank shall be approved and published as amended: - Regulation on the Supervisory Board of JSC BANK ALLIANCE; - Regulation on the Management Board of JSC BANK ALLIANCE; - Regulation on Remuneration of Members of the Supervisory Board of JSC BANK ALLIANCE. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE TWELFTH ITEM OF THE AGENDA: 12.1. Powers and authorities of the Chairperson and certain members of the Supervisory Board of JSC BANK ALLIANCE shall be and hereby are terminated: - Yuriy Vasylovych Girman (independent member); - Volodymyr Vasylovych Kartak (independent member); - Nataliia Serhiivna Bakurova (representative of shareholder O.Y. Sosis); - Mykhailo Mykhailovych Nehrych (independent member). 12.2. Powers and authorities of the Chairperson and members of the Supervisory Board of JSC BANK ALLIANCE shall be and hereby are deemed as terminated once the General Shareholders Meeting has passed its resolution. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE THIRTEENTH ITEM OF THE AGENDA: 13.1. The following 5 members of the Bank's Supervisory Board who received the largest number of votes for a period of 3 years shall be and hereby are elected: - Nataliia Serhiivna Bakurova (representative of shareholder O.Y. Sosis); - Oleksandr Olehovich Dekomba (representative of shareholder O.Y. Sosis); - Yuriy Vasylovych Girman (independent director); - Mykhailo Mykhailovych Nehrych (independent director); - Volodymyr Vasylovych Kartak (independent director). 13.2. The members of the Supervisory Board so elected shall be and hereby are ordered to proceed with their official duties with effect from 26 April 2019. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE FOURTEENTH ITEM OF THE AGENDA: 14.1. Yuriy Vasylovych Girman shall be and hereby elected as the Chairperson of the Bank's Supervisory Board. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE FIFTEENTH ITEM OF THE AGENDA: 15.1. The terms and conditions of civil law and/or employment agreements</p>
--	---

	<p>(contracts) to be concluded with the Chairperson and members of the Supervisory Board, with the indication of the amount of their remuneration, incentive and compensation payments as set out in such agreement (contracts) shall be and hereby are approved.</p> <p>15.2. Y.M. Frolova shall be and hereby is elected as the person authorised to sign agreements (contracts) with the Chairperson and members of the Bank's Supervisory Board. The resolution has been passed.</p>	
Type of the general meeting	ordinary	extraordinary
		X
Meeting date	27 November 2019	
Quorum constituted at the meeting	95.791883% of the total voting shares	
Description	<p>The extraordinary General Shareholders Meeting was convened at the initiative of Mr. Alexander Sosis, who held at least 10% of the Bank's voting shares as at the request date.</p> <p>AGENDA:</p> <ol style="list-style-type: none"> 1. Electing members of the Counting Commission of the General Shareholders Meeting of JSC BANK ALLIANCE. 2. Electing the Chairperson and Secretary of the General Shareholders Meeting of JSC BANK ALLIANCE. 3. Approving the agenda of the General Shareholders Meeting of JSC BANK ALLIANCE. 4. Distributing retained earnings of JSC BANK ALLIANCE for 2018. 5. Increasing the authorised capital of JSC BANK ALLIANCE by increasing the nominal value of shares by transferring a portion of profits earned in 2018 to the authorised capital. 6. Increasing the nominal value of shares of JSC BANK ALLIANCE. 7. Making amendments to the Charter of JSC BANK ALLIANCE related to the increase of the authorised capital by increasing the nominal value of shares and approving the new wording of the Charter. <p>RESOLUTION PASSED ON THE FIRST ITEM OF THE AGENDA:</p> <p>1.1. The Counting Commission shall be and hereby is elected for the term of office until the General Shareholders Meeting is declared to have ended, in the following composition:</p> <p>O.A. Osadcha shall be the Chairperson of the Counting Commission.</p> <p>S.Y. Fomicheva and H.V. Tsvietkova shall be the members of the Counting Commission. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE SECOND ITEM OF THE AGENDA:</p> <p>2.1. Y.V. Girman, Chairperson of the Supervisory Board of JSC BANK ALLIANCE, shall be and hereby is elected to act as the Chairperson of the General Meeting and T.S. Shymanska, corporate secretary, shall be and hereby is elected to act as the secretary of the General Meeting.</p> <p>The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE THIRD ITEM OF THE AGENDA:</p> <p>3.1. The following rules and procedures of the General Shareholders Meeting of JSC BANK ALLIANCE shall be and hereby approved:</p> <ul style="list-style-type: none"> - speeches to be delivered on the issues of the agenda of the General Meeting, discussions and answers to questions shall take no more than 10 minutes; - voting on the issues of the agenda of the General Meeting shall take no more 	

	<p>than 5 minutes;</p> <p>- counting the votes cast during the voting shall take no more than 10 minutes, declaring voting results by the Chairperson of the Counting Commission shall take no more than 5 minutes.</p> <p>Persons who wish to speak and ask questions relating to issues of the agenda shall show their hands and after the Chairperson gives them floor, a participant of the General Meeting shall speak or ask questions.</p> <p>Issues relating to taking a recess at a General Shareholders Meeting and changing the sequence of considering issues put on the agenda shall be resolved in the manner set out in the law by show of hands. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE FOURTH ITEM OF THE AGENDA:</p> <p>4.1. Some of the Bank's retained earnings for 2018 in amount of UAH 105,120,000.00 shall be and hereby are applied towards increasing its authorised capital.</p> <p>4.2. The remaining retained earnings of UAH 520,416.52 shall be and hereby remain retained. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE FIFTH ITEM OF THE AGENDA:</p> <p>5.1. The authorised capital of JSC BANK ALLIANCE shall be and hereby is increased by UAH 105,120,000.00 up to a total of UAH 365,120,000.00 by increasing the nominal value of shares from UAH 16.25 up to UAH 22.82 by directing a portion of the Bank's profits of 105,120,000.00 earned for 2018 to its authorised capital. The resolution has been passed.</p> <p>RESOLUTION PASSED ON THE SIXTH ITEM OF THE AGENDA: 6.1. Nominal value of shares of JSC BANK ALLIANCE (USREOU code 14360506, located at 04053, Kyiv, 50 Sichovykh Striltsiv Street) shall be and hereby is increased by UAH 6.57 up to a total of UAH 22.82 per share by issuing 16,000,000 of ordinary shares with a new nominal value of UAH 22.82 per share. The Resolution on increasing the nominal value of shares shall be and hereby is approved (appendix 1 to the resolution).</p> <p>6.2. The Chairperson of the Management Board shall be and hereby is ordered to take all necessary actions for the issue of shares having a new nominal value with the right of substitution.</p> <p>RESOLUTION PASSED ON THE SEVENTH ITEM OF THE AGENDA:</p> <p>7.1. Amendments shall be and hereby are made to the Charter of JSC BANK ALLIANCE related to the increase of the authorised capital by increasing the nominal value of shares and new wording of the Charter shall be and hereby is approved.</p> <p>7.2. Y.M. Frolova, Chairperson of the Bank's Management Board, shall be and hereby is authorised to sign the Charter as amended.</p> <p>7.3. Chairperson of the Bank's Management Board shall be and hereby is ordered to take all necessary actions for state registration of the new wording of the Charter of JOINT STOCK COMPANY BANK ALLIANCE with the right of substitution. The resolution has been passed.</p>
--	--

The body that last registered shareholders for participation in the General Shareholders Meeting

	Yes	No
Registration commission appointed by the person who convened the general meeting	X	

Shareholders		X
Depository institution		X
Other (specify)		

The body that controlled registration of shareholders or their representatives for participation in the last general meeting

	Yes	No
The National Securities and Stock Market Commission		X
Shareholders who hold in aggregate more than 10%		X

Manner of voting on items last time put on the agenda of general meeting

	Yes	No
Showing cards		X
Voting bulletins (secret ballot)	X	
Showing hands		X
Other (specify)		

No general shareholders meeting has been held in the form of absentee voting in the reporting year.

6.4. Information about the Board

Composition of the Board

	Number of persons
members of the Board who are shareholders	-
members of the Board who are representatives of shareholders	1
members of the Board who are independent directors	3

Committees comprising the Board

	Yes	No
Audit Committee	X	
Appointments Committee		X
Remuneration Committee		X
Other (specify)		

23 meetings of the Audit Committee have been held during 2019.

Personal composition of the Board

Given name, patronymic and surname	Position	Independent member	
		Yes	No
Yuriy Vasylovych Girman	Chairperson of the Board	X	
Nataliia Serhiivna Bakurova	Member of the Board		X
Volodymyr Vasylovych Kartak	Member of the Board	X	
Mykhailo Mykhailovych Nehrych	Member of the Board	X	

Requirements to the members of the Board set out in the Bank's internal documents

	Yes	No
Knowledge of and professional experience in the industry	X	
Expertise in finance and management	X	
Personal qualities (honesty, responsibility)	X	
No conflict of interest	X	
Age qualification		X
Any requirements not available		X
Other (specify)	The Chairperson and/or a member of the Board of the Bank shall meet the qualification requirements and independent members shall also meet the requirements for their independence.	

During the last election of a new member of the board, such member has reviewed his or her rights and duties as follows:

	Yes	No
The new member of the Board has independently reviewed the contents of internal documents of the joint stock company	X	
A meeting of the Board has been held to make the new member of the Supervisory Board aware of his or her rights and duties		X
A special training has been arranged for the new member of the Board (dedicated to corporate governance or financial management)	X	
All members of the Board have been re-elected for a new term or no new member has been elected		X
Other (specify)		

Determining the remuneration payable to the members of the Board

	Yes	No
The remuneration is a fixed amount	X	
The remuneration is a percentage of net profits or increased market value of the shares		X
The remuneration is paid in the form of the company's securities		X
Members of the Board receive no remuneration		X
Other (specify)		

Report on Remunerations to the members of the Board

1. Accrual and payment

In consideration for the functions and duties fulfilled as a member of the Board, as prescribed by the Regulation on the Remuneration to the Members of the Supervisory Board of JSC BANK ALLIANCE and the Agreement, the Chairperson / member of the Board shall be paid each month a cash remuneration (pay) at the expense of the Bank's funds and in accordance with the cost estimate set out in the Agreement made with the Bank.

The Bank shall pay remuneration in Ukrainian hryvnias, the national currency of Ukraine, by wire transfer of cash to the current account of the Board member specified in the payment details section of the Agreement or in a separate notice (letter) given by the Board member.

The Bank shall pay remuneration to:

- Chairperson / members of the Board, with whom an employment agreement (contract) has been made and who are recorded as members of the Bank's staff, twice a month (an advance for the first half of the month is paid on the 16th day of the current month; final settlement for the month is made on the last day of the current month). If the pay day falls on a day-off, holiday or non-working day, the salary shall be paid on the day before. The advance shall be paid to an employee for the period of actual work and calculated as official wage payable to the employee and paid annual leaves for the part of the month until the 16th day.

- Chairperson / members of the Board, with whom civil law agreement (contract) is made, under the procedure and within the time limits set out in such agreement (no later than by the 5th day of the month following after the month of accrual).

Upon paying the remuneration in cash to a Board member, the Bank shall deduct from the remuneration and pay all necessary taxes, duties, mandatory charges required under the laws of Ukraine to be deducted upon paying income to individuals (including, but not limited to, the salary).

Extra pays, raises, bonuses and other benefits payable to a Board member shall be set out in resolution of the Bank's General Shareholders Meeting in compliance with the Regulation on Remuneration to Members of the Board.

The Bank may, pursuant to supporting documents, compensate to a member of the Board costs and expenses incurred by him or her in connection with the fulfilment of the functions (works) as a member of the Board, including, but not limited to: business trips, including daily allowances for the time of the business trip and the cost of travel to the place of destination and back, as well costs and expenses for the rent of residential premises, which may be or shall be compensated under the laws of Ukraine.

A member of the Board may be provided with funds for entertainment expenses, including those in foreign currency (if he or she was on a business trip abroad).

2. Remuneration for 2019

The total amount of salaries paid to members of the Bank's Board in 2019 was UAH 1,337,511.32.

In 2019, there were no compensations for costs and expenses related to business trips of the Board members.

No compensations from legal entities related by control or affiliated have been accrued nor paid.

No additional remuneration has been accrued or paid to members of the Board for special services falling outside of the usual functions.

No compensation has been paid to members of the Board in connection with the termination of their activities in 2019.

Shares, options to shares and other financial instruments have not been accrued or paid to members of the Board.

Report of the Board

1. Assessing its composition, structure and activities as collegiate body

The composition of the Board covers all areas of the Bank's activity under the Board's control and meets requirements of the law of Ukraine, and the size, special features of the Bank's activity, nature and volume of banking and other financial services, risk profile of the Bank.

According to the law of Ukraine and the Charter, the Board comprises five (5) members.

The Board consists of the Chairperson and members of the Board. Since 3 September 2019, the Board comprised 4 members (including 3 independent directors) due to the resignation of a member of the Board – Oleksandr Olehovych Dekomba (Minutes No. 60 dated 22 August 2019).

Board	Position	Full name
	Chairperson of the Board	Yuriy Vasylovych Girman
	Member of the Board	Nataliia Serhiivna Bakurova
	Member of the Board	Volodymyr Vasylovych Kartak
	Member of the Board	Mykhailo Mykhailovych Nehrych
	Member of the Board	Vacant position

The Board is a collegial body that protects the rights of depositors, other creditors and shareholders of the Bank and, within its competence as defined by the Charter and Ukrainian law, controls and regulates the activities of the Management Board. Upon conducting its operations, the Board shall be governed by the Law of Ukraine on Banks and Banking, the Law of Ukraine on Joint Stock Companies, laws of Ukraine, regulations of the National Bank of Ukraine, Bank's Charter and Regulation on the Supervisory Board. The Board's purpose is representing the interests and protecting the rights of shareholders, ensuring efficiency of their investments, assisting in achievement of the Bank's objectives, developing strategy aimed at increasing the Bank's profitability and competitiveness. The General Meeting may decide that the Board shall be delegated with powers and authorities falling within the competence of the General Meeting, other than those which, under the laws of Ukraine, fall within the exclusive competence of the General Meeting. Acting under the procedure set out in the laws of Ukraine, the Board may establish regular or provisional committees from amongst its members to preliminarily examine preliminarily and prepare for consideration at meetings the matters falling within the competence of the Board.

A Board member shall, acting within his or her competence and powers and authorities in line with the applicable laws of Ukraine, the Bank's Charter, the Regulation on the Board, fulfil the following functions (works):

- participating in work and meetings of the Board, including the control over the compliance with the decisions made by it;
- participating in the formation of agenda of meetings, making proposals to be put issues on the agenda;
- participating in discussions and exchange of thoughts at meeting of the Board upon reviewing issues put on the agenda of meetings;
- cooperating / interacting with shareholders, Chairperson and members of the Management Board, internal audit service and other employees of the Bank.
- ensuring the functioning and control over the efficiency of the risk management system, approving a list of limits (restrictions) with respect to each risk and escalation procedures in relation to violations of the risks limits, making decisions to approve material changes in the Bank's activities, approving appointments and dismissals of managers of the risk management (CRO) and compliance (CCO) units, taking actions to prevent any conflicts of interest within the bank, facilitating their settlement and giving notice to the National Bank of any conflicts of interest faced by the Bank;
- ensuring the functioning of the Bank's internal control system and monitoring its effectiveness;
- participating in control over the activities of the Bank's Management Board, making proposals for its improvement;
- making proposals for optimisation and improving the organisational structure of the Bank;
- acting within his or her powers and authorities, controlling the Bank's Management Board, Chairperson and members of the Bank's Management Board rectifying the deficiencies identified by the National Bank of Ukraine and other government authorities exercising supervision over the activities of the Bank, internal audit service and the audit firm (based on the external audit findings);

- controlling that the Bank publishes true and accurate reports and statements, information and details in relation to the Bank's activities in accordance with the laws of Ukraine;
- participating in determining (preparing) the agenda of general shareholders meetings of the Bank and other matters related to the convocation and holding of general shareholders meetings of the Bank, as falling within the competence of the Board;
- participating in the work of and chairing committees of the Board pursuant to resolutions of the Board;
- preparing proposals falling within the expertise of his or her committee and, acting in under the procedure designated by the Board, reporting on results of its activities;
- participating in the assessment of performance of the Internal Audit Service, operations of the Bank and operations of the Management Board in general and work of the Chairperson and each member of the Management Board individually;
- participating in the assessment of reports of the Internal Audit Service, opinions / recommendations of the Bank's external auditors on results of the Bank's operations in general its separate unit and structural subdivisions individually;
- potential presiding at meetings of the Board if the Chairperson of the Board is not absent, pursuant to the relevant resolutions of the Board;
- performing other functions and powers and authorities set out in the laws of Ukraine, the Bank's Charter, Regulation on the Board, internal regulations of the Bank as may be necessary for efficient operation of the Board and falling with the functions and powers and authorities of the Board.

The organisational form of the Board's work shall be a meeting. The Board meetings shall be held where necessary but at least once a quarter. The meeting of the Board for the next year shall be planned and approved by the Board in advance. Meetings of the Board shall be convened at the initiative of the Chairperson of the Board or at the request of one of the members of the Board, the head of the Internal Audit Service of the Bank, the Chairperson of the Management Board, one of the members of the Management Board or the National Bank of Ukraine.

During 2019, the Bank's Board has held 83 meetings and passed resolutions for:

- implementation of the Bank's strategy for 2018-2020;
- approval of work plans of the Board, Committee, Internal Audit Service;
- approval of budgets of the Bank, Board and controlling units;
- decisions in respect of active transactions falling within the competence of the Board;
- audit findings obtained by the Internal Audit Service;
- control over operations of the Management Board (reports on the implementation of budgets, strategies, target indicators, performance of tasks set by the Board, risks);
- review of reports on the compliance risk and internal control system of the Bank;
- review of management reports relating to the risk positions;
- convening, arranging and holding of general meetings of shareholders;
- approval of limits of decision-making powers;
- approval of internal documents within the powers of the Board;
- activities of the Board and the Audit Committee;
- selection of an independent valuer;
- approval of the organisational structure of JSC BANK ALLIANCE;
- approval of the personal distribution of powers and authorities of the Chairperson and members of the Supervisory Board;
- approval of the personal distribution of powers and authorities of the Chairperson and members of the Management Board;
- authorisation of significant transactions;
- payment of bonuses;
- changes in the composition of the Management Board, Supervisory Board, other appointments and terminations of employment;
- establishments of branches;
- approval of securities-related matters;

- other matters within the powers of the Board.

All meetings of the Board shall be deemed as competent if all of them were attended by at least a half of all members of the Board. All decisions shall be made within the powers and authorities defined and set out in the Bank's Charter and Regulation on the Supervisory Board of JSC BANK ALLIANCE.

2. Assessing the competence and efficiency of each member of the board, including information relating to their activities as an officer with other legal entities or other activities, whether paid or not.

Members of the Board shall be elected by shareholders at the General Meeting for three years. The powers of a member of the Board shall be valid from the moment of his or her election by the General Meeting. Powers and authorities of the shareholder's representative who is a member of the Board shall arise and cease to exist pursuant to the laws of Ukraine.

Candidates nominated for election as members of the Board shall have an impeccable business reputation.

All members of the Bank's Board shall have higher education and professional experience in the industries necessary for making efficient decisions relating to key areas of the Bank's activities.

All members of the Bank's Board shall at all times improve their knowledge, professional skills and managerial expertise by participating in such professional events as annual forums, dedicated seminars; conferences, etc.

The Board members shall meet qualification requirements relating to the business reputation and professional suitability, jointly have the knowledge, managerial and professional experience necessary for Bank's Board to exercise their powers and authorities, understanding properly the spheres in which the Bank operates, and also have experience and skills to manage the Bank efficiently (risk management, finances, retail and corporate business, information technologies, investment activities, and corporate governance).

The Board members have no actual or potential conflicts of interest. Sufficient time is available to fulfil functions, subject to duties of each of the Board members. All of the Board members have impeccable business reputation. Members of the Supervisory Board act in compliance with the standards of business practice and professional ethics.

The Board operates efficiently due to a high level of organisational work, optimal frequency of meetings and sufficient time being available for Board members to perform their duties efficiently. At the Board meetings, a lot of time is dedicated to discussing issues, including the analysis of the Bank's current financial position and development strategy.

The Board's activities have achieved an efficient interaction between the Supervisory Board and Management Board of the Bank and, as a result, financial / management reports meet the completeness, timeliness and understandability requirements, and there is an availability of necessary internal documents, efficient protection interests of shareholders, depositors and other participants of corporate relations.

Assessing the competence of each member of the Supervisory Board

The competence shall be understood as Board members having a sufficient level of knowledge, skills, professional and managerial experience enabling to resolve tasks successfully, make better decisions and ensure that efficient control is in place in relation to the Bank's activities, approved Bank's Development Strategy, subject to the functions assigned.

Assessment of sufficiency of knowledge (education) amongst members of the Bank's Board

<i>Main activities of the Bank</i>	<i>Availability of primary and/or additional education</i>	<i>Loss</i>
Risks management	N.S. Bakurova	Sufficient
Finance	N.S. Bakurova M.M. Nehrych	Sufficient

Retail and corporate business	Y.V. Girman N.S. Bakurova	Sufficient
Information technology	N.S. Bakurova	Sufficient
Investing activities	N.S. Bakurova	Sufficient
Treasury	-	-
Corporate governance	Y.V. Girman N.S. Bakurova M.M. Nehrych V.V. Karak	Sufficient

Assessment of sufficiency of managerial experience amongst members of the Bank's Board

<i>Main activities of the Bank</i>	<i>Availability of managerial experience</i>	<i>Loss</i>
Risks management	Y.V. Girman N.S. Bakurova M.M. Nehrych V.V. Karak	Sufficient
Finance	Y.V. Girman N.S. Bakurova M.M. Nehrych V.V. Karak	Sufficient
Retail and corporate business	Y.V. Girman N.S. Bakurova V.V. Karak	Sufficient
Information technology	N.S. Bakurova	Sufficient
Non-performing asset management	Y.V. Girman M.M. Nehrych V.V. Karak	Sufficient
Investing activities	Y.V. Girman N.S. Bakurova M.M. Nehrych	Sufficient
Treasury	-	-
Corporate governance	Y.V. Girman N.S. Bakurova M.M. Nehrych V.V. Karak	Sufficient

Assessment of sufficiency of professional experience amongst the professional experience

<i>Main activities of the Bank</i>	<i>Availability of professional experience</i>	<i>Loss</i>
Risks management	Y.V. Girman N.S. Bakurova M.M. Nehrych V.V. Karak	Sufficient
Finance	N.S. Bakurova M.M. Nehrych	Sufficient
Retail and corporate business	Y.V. Girman N.S. Bakurova V.V. Karak	Sufficient
Information technology	N.S. Bakurova	Sufficient
Investing activities	Y.V. Girman N.S. Bakurova M.M. Nehrych V.V. Karak	Sufficient
Treasury	N.S. Bakurova	Sufficient
Corporate governance	Y.V. Girman N.S. Bakurova M.M. Nehrych V.V. Karak	Sufficient

The sufficient level of knowledge, skills, professional and managerial experience of the Board members will enable the Board to resolve tasks successfully, make better decisions and ensure efficient control in relation to the Bank's activities, subject to the functions assigned.

According to the law of Ukraine and regulations of the National Bank of Ukraine, the Bank has carried out an annual assessment of the Board members and for compliance with qualification requirements and independent directors for compliance with independence requirements.

As a result of the assessment, it was concluded that the Board members comply with qualification requirements and independent directors comply with independence requirements.

3. Assessing the independence of each independent member of the Board

Independent members of the Bank's Board:

Chairperson of the Board	Yuriy Vasylovych Girman
Member of the Board	Volodymyr Vasylovych Kartak
Member of the Board	Mykhailo Mykhailovych Nehrych

All independent members of the Bank's Board meet the requirements set out in article 53-1 of the Law of Ukraine on Joint Stock Companies in relation to the independence, so that they are members of the Board who are not exposed to any influence by other persons upon making their decisions and discharging duties of an independent member of the Board.

4. Assessing the competence and efficiency of each member of the Board committees, including, in particular, information relating to a list and personal composition of the committee, their functional powers and authorities, number of held meetings and description of key issues addressed by the committees

In order to maintain close cooperation between the Management Board and Supervisory Board, the Bank has an Audit Committee ("the Committee") established by the Supervisory Board in 2018. The Committee is represented by 3 members of the Board, including 2 independent members. The

Committee is headed by an independent member of the Board, who has the required qualification and certification.

Committee (of the Board)

Audit Committee	Chairperson of the Committee	Mykhailo Mykhailovych Nehrych
	Member of the Committee	Nataliia Serhiivna Bakurova
	Member of the Committee	Volodymyr Vasylovych Kartak

The purpose of the Committee is to assist the Board in supervising the completeness and accuracy of financial statements, reliability and efficiency of internal control system, independence of external and internal audits.

The competencies of the Committee include the following:

- to prepare materials for the meetings of the Board and report to the Board on matters falling within the expertise and responsibility of the Committee;
- to monitor the preparation of financial statements and the financial performance of the Bank;
- to monitor the Bank's implementation of accounting policies, best accounting practices, including accounting estimates and financial disclosures;
- to monitor the integrity of the Bank's financial statements and any official statements related to its financial performance;
- to supervise the internal control system,
- to review reports prepared by the Internal Audit Service,
- to select and cooperate with an external auditor, and supervision of compliance with laws and internal procedures.

The Committee has held 23 meetings during the reporting year which reviewed matters related to the work plan of the Internal Audit Service, audit findings and audit response status, internal controls assessment report, reports of the Internal Audit Service, etc.

The objectives set for the Committee in 2019 are fully achieved. The Committee's performance is adequate and satisfactory.

Assessing the Board's compliance with objectives:

In 2019, the Board was assigned with the following objectives:

- protection of rights and interests of depositors, other creditors and shareholders of the Bank;
- control over implementation of the strategy of JSC BANK ALLIANCE for 2018-2020;
- control over the achievement of the planned financial performance of the Bank;
- strengthening of the Bank's market positions and stable financial position;
- ensuring adequate corporate governance in the Bank;
- adequate performance of functions and responsibilities by the Council.

Decisions made by the Board in 2019 targeted the implementation of both short- and long-term objectives and were based on the results of a regular and careful analysis of the Bank's business, discussion of ways to enhance its performance.

The Board has timely taken the actions scheduled, including the Plan of Meetings for 2019 in full. The outcome of the Board's operations in 2018 is the successful implementation of the Bank's Strategy for 2018 to 2020, an improved comprehensive, adequate and efficient risk management system to cover Bank's exposures, including the enhanced role of the Board in the Bank's risk

management system; improvement and development of the corporate governance system in the Bank; the Bank's compliance with its own Code and Rules of Corporate Ethics.

The composition of the Bank's Board and changes for the year, including the committees

Board	Position	Full name	Decision, date and number of appointment	Decision, date and number of resignation / termination of powers
	Chairperson of the Board	Yuriy Vasylovych Girman	Minutes No. 1/2018 of the Annual General Shareholders Meeting of JSC BANK ALLIANCE, dated 17 April 2018	Minutes No. 1/2019 of the Annual General Shareholders Meeting of JSC BANK ALLIANCE, dated 25 April 2019
			Minutes No. 1/2019 of the Annual General Shareholders Meeting of JSC BANK ALLIANCE, dated 25 April 2019	-
	Member of the Board	Nataliia Serhiivna Bakurova	Minutes No. 1/2018 of the Annual General Shareholders Meeting of JSC BANK ALLIANCE, dated 17 April 2018	Minutes No. 1/2019 of the Annual General Shareholders Meeting of JSC BANK ALLIANCE, dated 25 April 2019
			Minutes No. 1/2019 of the Annual General Shareholders Meeting of JSC BANK ALLIANCE, dated 25 April 2019	-
	Member of the Board	Volodymyr Vasylovych Kartak	Minutes No. 1/2018 of the Annual General Shareholders Meeting of JSC BANK ALLIANCE, dated 17 April 2018	Minutes No. 1/2019 of the Annual General Shareholders Meeting of JSC BANK ALLIANCE, dated 25 April 2019
			Minutes No. 1/2019 of the Annual General Shareholders Meeting of JSC BANK ALLIANCE, dated 25 April 2019	-
	Member of the Board	Mykhailo Mykhailovych Nehrych	Minutes No. 1/2018 of the Annual General Shareholders Meeting of JSC BANK ALLIANCE, dated 17 April 2018	Minutes No. 1/2019 of the Annual General Shareholders Meeting of JSC BANK ALLIANCE, dated 25 April 2019
			Minutes No. 1/2019 of the Annual General Shareholders Meeting of JSC BANK ALLIANCE, dated 25 April 2019	-
	Member of the Board	Oleksandr Olehovich Dekomba	Minutes No. 1/2019 of the Annual General Shareholders Meeting of JSC BANK ALLIANCE, dated 25 April 2019	Minutes No. 52, dated 22 August 2019

Committees (the Board)				
Audit Committee	Chairperson of the Committee	Mykhailo Mykhailovych Nehrych	Minutes No. 39 of the meeting of the Board, dated 18 April 2018	
			Appointed on 2 May 2019 (minutes of the Board no. 33)	
	Member of the Committee	Nataliia Serhiivna Bakurova	Minutes No. 39 of the meeting of the Board, dated 18 April 2018	-
			Appointed on 2 May 2019 (minutes of the Board no. 33)	
	Member of the Committee	Volodymyr Vasylovych Kartak	Minutes No. 39 of the meeting of the Board, dated 18 April 2018	
			Appointed on 2 May 2019 (minutes of the Board no. 33)	-

According to the law of Ukraine and regulations of the National Bank of Ukraine, an assessment (self-assessment) was conducted on results of the Board's operations for 2019.

By results of self-assessment, the overall efficiency of the Board, as a governing body, is considered quite high.

6.5. Information about the executive body

In accordance with the Charter of JSC BANK ALLIANCE, the executive body of the Bank shall be the Management Board.

As provided in clause 14.3 of the Bank's Charter, the Management Board shall consist of at least three (3) members: the Chairperson, Deputy Chairpersons and members of the Management Board appointed by the Board of the Bank.

At the close of 2019, the Bank's Management Board consisted of seven (7) members:

Yuliia Mykolaivna Frolova, Chairperson of the Management Board, started discharging her duties with effect from 29 December 2018.

Pavlo Pavlovych Shcherban, First Deputy Chairperson of the Management Board, started discharging his duties with effect from 11 January 2019.

Viktor Hryhorovych Burkytsia, Deputy Chairperson of the Management Board, started discharging his duties with effect from 8 December 2017.

Oleksandr Vasyliovych Kruk, Deputy Chairperson of the Management Board, started discharging his duties with effect from 6 February 2019.

Nataliia Anatoliivna Bochkovska, Chief Accountant and member of the Management Board, started discharging her duties with effect from 28 December 2015.

Kostiantyn Vasyliovych Moiseienko, Head of Risk Control Department and member of the Management Board, started discharging duties of a member of the Management Board with effect from 1 September 2017.

Olha Oleksandrivna Laktionova, Head of Financial Monitoring and member of the Management Board, started discharging her duties with effect from 2 November 2018.

Changes in the Management Board during 2019:

Pavlo Pavlovych Shcherban, First Deputy Chairperson of the Management Board, started discharging his duties with effect from 11 January 2019.

Oleksandr Vasyliovych Kruk, Deputy Chairperson of the Management Board, started discharging his duties with effect from 6 February 2019.

Kostiantyn Vasylovych Moiseienko, Director for Analysis and Credit Administration and member of the Management Board reassigned on 7 March 2019 to Director of Agribusiness Analysis and Development Programmes (minutes of the Board no. 19 dated 7 March 2019).

Kostiantyn Vasylovych Moiseienko, Director of Agribusiness Analysis and Development Programmes and member of the Management Board reassigned on 24 September 2019 to Head of Risk Control Department and member of the Management Board (minutes of the Board no. 60 dated 24 September 2019).

Information about meetings held

The operation of the Management Board shall be organised through meetings. The Management Board meetings shall be held in the form of a joint presence of the Management Board members at a designated place for discussing and voting on the matters put on the agenda.

Decisions of the Management Board shall be made by a simple majority vote of the members attending the meeting. In the case of a tie vote, the Chairperson of the Management Board (or the persons who acts for him or her) shall have a casting vote.

During the voting, the Chairperson and each member of the Management Board shall have one vote. Any Management Board member shall have no right to transfer his/her vote to any other person.

A Management Board member who does not agree with decisions passed at the meeting shall be entitled, no later than in two business days from the meeting date, to put in writing and provide his or her comments to the Chairperson of the Management Board.

If there is no consent with the decision of the Management Board, the Chairperson of the Management Board shall be entitled to refer the discussed issue to the Bank's Board. If so, the Board's decision shall be final.

The Management Board shall pass its resolutions independently from personal interests of members of the Management Board. The decisions made by the Bank's Management Board shall take into account all interests of the shareholders, the Bank and its depositors.

Meeting minutes shall be kept at meetings of the Management Board and finally executed by the Secretary of the Management Board within three (3) business days of the day of the meeting.

Each member of the Management Board who attended the meeting shall affix his or her signature with respect to each item of the agenda of the Management Board meeting (in each line of the minutes, pro, contra, abstained).

The Chairperson of the Management Board (or person who acts for him or her) shall sign the minutes of the Management Board meeting.

Summary of resolutions passed

During 2019, the Bank's Management Board has held 119 meetings and passed resolutions for:

- approving the Bank's internal documents that fall within the competence of the Management Board;
- making decisions to approve active transactions falling within the competence of the Management Board;
- setting up committees, working groups, making changes to composition of the Bank's Management Board;
- reviewing reports of structural units, committees of the Bank's Management Board on the works performed;
- considering monthly indicators of financial monitoring;
- changes in the organisational chart and staff arrangement of the Bank;
- limiting powers and authorities of the credit committee for certain officers making decisions on their own;
- considering reports on results of monitoring the internal control system;
- rewarding the Bank's employees;
- considering preliminarily the Bank's draft budgets, strategies and development business plans;

- giving sponsorship assistance;
- approving the system of distance learning for the Bank's employees;
- approving the measures to be taken based on reports issued by the Internal Audit Service;
- approving a package of main reports to the interim financial report, etc.;
- review of management reports relating to the risk positions;
- other organisational issues.

All meetings of the Management Board shall be deemed as competent if all of them were attended by at least a half of all members of the Management Board.

All decisions of the Management Board shall be made within the powers and authorities defined and set out in the Bank's Charter and Regulation on the Management Board.

Executive Body's Report

Composition of the executive body	Functional duties
<p>At the close of 2019, the Bank's Management Board was composed of:</p> <ol style="list-style-type: none"> 1. Yuliia Mykolaivna Frolova, Chairperson of the Management Board. 2. Pavlo Pavlovych Shcherban, First Deputy Chairperson of the Management Board. 3. Viktor Hryhorovych Burkytsia, Deputy Chairperson of the Management Board. 4. Oleksandr Vasyliovych Kruk, Deputy Chairperson of the Management Board. 5. Nataliia Anatoliivna Bochkovska, Chief Accountant and member of the Management Board. 6. Kostiantyn Vasylovych Moiseienko, Head of the Risk Control Department and member of the Management Board. 7. Olha Oleksandrivna Laktionova, Head of Financial Monitoring and member of the Management Board. 	<p>The competence of the Management Board, in particular (but not limited to), shall include the resolution of all issues related to the management of the day-to-day operations of the Bank, except for issues related to the exclusive competence of the General meeting and the Board of the Bank:</p> <ul style="list-style-type: none"> - preparation of the draft budget, strategy and business development plan of the Bank for approval by the Board of the Bank; - implementation of the strategy and business plan of the Bank; - determination of the form and establishment of the procedure for monitoring the Bank's activities; - implementation of the risk management strategy and policy approved by the Board of the Bank, ensuring the implementation of risk identification, assessment, control and monitoring procedures; - formation of the organisational structure of the Bank determined by the Board of the Bank; - development of regulations governing the activities of structural and separate divisions of the Bank in accordance with the development strategy of the Bank; - approval of internal documents of the Bank, except for those referred to the competence of the General Meeting and the Board of the Bank; - security of the Bank's information systems and systems used to store the assets of clients; - informing the Board of the Bank about the Bank's performance, revealed violations of the current legislation of Ukraine, internal regulations of the Bank and any deterioration in its financial position or potential deterioration, the level of risks arising in the course of business; - organisation of implementation of decisions of the Board and the General meeting of the Bank; - preliminary consideration of all issues that are subject to consideration by the General meeting or the Board of the Bank according to the Charter, preparation of relevant materials and proposals on these issues;

	<ul style="list-style-type: none"> - approving the list of records constituting commercial secrets and confidential information with respect of the Bank's activities, defining the procedure for use and protection thereof. Implementation of the Bank's mode of work with information with restricted access, in particular on the maintenance of Bank secrecy, trade secrets and confidential information; - resolution of issues on the current management of the Bank, its separate divisions, ensuring performance of the tasks assigned to them and observance of the General budget (estimate) of Bank; - making decisions on write-off of financial instruments and accounts receivable from the Bank's balance sheet against reserves charged, as well as fixed assets or other assets within the authority established by the Board; - approval of the staff schedule and its changes within the budget approved by the Board; - approval of the staff of the regular boards/committees, commissions of the Bank, appointment of their heads and deputy heads, and resolution of organisational issues on their activities in accordance with the regulations approved by the Management Board; - resolution of issues related to the management of the Bank's day-to-day operations, except for matters within the exclusive competence of the General meeting and the Board of the Bank.
--	--

Composition of the Management Board of JSC BANK ALLIANCE and its changes in 2019

<i>Full name</i>	<i>Position</i>	<i>Decision of the Board for appointment / election</i>	<i>Decision of the Board for termination of powers / removal from office</i>
Yuliia Mykolaivna Frolova	Chairman of the Board	Minutes No. 105, dated 31/10/2018	-
Pavlo Pavlovych Shcherban	Deputy Chairperson of the Management Board	Minutes No. 54, dated 01/06/2018	Minutes No. 2, dated 10/01/2019
	First Deputy Chairperson of the Management Board	Minutes No. 2, dated 10/01/2019	-
Viktor Hryhorovych Burkytsia	Deputy Chairperson of the Management Board	Minutes No. 94, dated 07/12/2017	-
Kruk Oleksandr Vasyliovych	Deputy Chairperson of the Management Board	Minutes No. 9, dated 05/02/2019	-
Nataliia Anatoliivna Bochkovska	Chief Accountant and member of the Management Board	Minutes No. 71, dated 28/12/2015	-

Kostiantyn Vasylovych Moiseienko	Director for Analysis and Credit Administration and member of the Management Board	Minutes No. 66, dated 30/08/2017	Minutes No. 19, dated 07/03/2019
	Director of Agribusiness Analysis and Development Programmes and member of the Management Board	Minutes No. 19, dated 07/03/2019	Minutes No. 60, dated 24/09/2019
	Head of Risk Control Department and member of the Management Board	Minutes No. 60, dated 24/09/2019	-
Olha Oleksandrivna Laktionova	Head of Financial Monitoring and member of the Management Board	Minutes No. 107, dated 02/11/2018	-

Assessing the composition of the Management Board.

All of the members of the Bank's Management Board have higher education and meet the qualification requirements for business reputation and professional suitability.

The Management Board members have no actual or potential conflicts of interests.

Each member of the Management Board has enough time to perform his or her functions as assigned.

The Management Board members have skills to defend their views and to influence the collective decision-making process, and can efficiently oversee the resolutions passed by the Bank's Management Board and their implementation.

All members of the Management Board have impeccable business reputation characterised by the absence of material and/or systematic violations of the laws related to banking, foreign exchange, taxation, financial services, financial monitoring, securities, joint stock companies and stock exchange, the absence of failures to comply with financial obligations, and by the fact that activities of the Management Board members meet the standards of business and professional ethics.

1. Assessing the composition and efficiency of the Management Board.

The competence shall be understood as Management Board members having a sufficient level of knowledge, skills, professional and managerial experience enabling to resolve tasks successfully, make better decisions and ensure efficient control in relation to the Bank's activities in general, subject to the functions and tasks assigned to the Management Board.

The Management Board jointly have the knowledge, managerial and professional experience necessary for the Bank's Management Board to exercise their powers and authorities, to understand properly the lines of the Bank's business, and also have experience and skills to manage the Bank efficiently, including, but not limited to: risk management, control over the compliance with rules (compliance), corporate governance, financial accounting and reporting, information technology and safety management, managing the Bank's business (all lines of business), strategic planning, non-performing asset management, investment activities, treasury and professional discussion of issues pending resolution.

The sufficient level of knowledge, skills, professional and managerial experience of the Board members will enable the Bank's Management Board to resolve tasks successfully, make better decisions and ensure that efficient control in relation to the Bank's activities in general, subject to the functions assigned to the Management Board.

Activities of the Bank's Management Board resulted in positive changes in financial and commercial activities of the Bank for 2019.

Key indicators of financial and business activities of the Bank in 2019

Item	Reporting year	Previous year
1	3	4
Total assets	3,453,459	2,114,167
Loans and advances to customers	2,347,173	1,398,873
Due to customers	2,860,617	1,665,238
Equity	497,587	401,044

Item	Reporting year	Previous year
1	3	4
Net interest income	151,901	129,240
Commission income	133,643	115,527
Profit before tax	118,413	135,974
Profit	96,543	111,200

Therefore, the total growth of funds due to customers based on results of 2019 amounted to UAH +1,195 million, whilst the loan portfolio grew by UAH +948 million and aggregate assets grew by UAH +1,339 million.

Growing balance sheet indicators have caused a significant increase in interest income which was by UAH +23 million higher than the similar figure in the previous reporting period.

At the same time, the Bank has been expanding its network of branches and a range of services rendered, increasing the quality of settlement and cash service of customers, which increased the Bank's commission income by UAH +18 million.

Growth paces of the Bank's balance sheet figures have significantly overcome similar figures in the banking system in general. Moreover, the Bank remains one of the most profitable in Ukraine (annual return on assets is 3% and return on equity is 22%).

Financial results of activities in 2019 show that the Bank's executive body has been successfully operating and give significant certainty that the Bank will accomplish the strategic goals set for 2018-2020.

Report on remunerations to the members of the executive body

Accrual and payment

In consideration for the functions and duties fulfilled as a member of the Bank's Management Board and set out in the Regulation on the Remuneration to the Members of the Management Board, the Chairperson / member of the Bank's Management Board shall be paid each month a cash remuneration (pay) at the expense of the Bank's funds and in the amount set out in the cost estimate set out in the Agreement made with the Bank.

A salary payable to a member of the Management Board for a month worked shall be paid together with the salary payable to all other categories of the Bank's employees for the relevant period pursuant to applicable laws of Ukraine.

The Bank shall pay the remuneration in Ukrainian hryvnias, national currency of Ukraine, by wire transfer of funds to the current account of the Management Board member as indicated in the payment details section of the Agreement.

The Bank shall pay the remuneration in cash twice a month:

- on the 16th day of the current month – an advance for the first half of the month;
- on the last days of the current month – final settlement for the month.

If the pay day falls on a day-off, holiday or non-working day, the salary shall be paid on the day before. The advance shall be paid to an employee for the time actually worked and calculated as official wage payable to the employee and paid annual leaves for the part of the month until the 16th day.

Cash remuneration shall be paid to members of the Bank's Management Board in compliance with the requirements set out in the Regulation on the Procedure for Accruing, Keeping Records of and Paying Salaries in JSC BANK ALLIANCE.

Extra pays, raises, bonuses and other benefits shall be paid to Management Board members, including in compliance with the Regulation on the Remuneration to the Members of the Management Board and the Regulation on Rewarding and Extra Pays to Employees of JSC BANK ALLIANCE.

The Bank may, pursuant to supporting documents, compensate to a member of the Bank's Management Board the costs and expenses incurred by him or her in connection with the fulfilment of the functions (works) as a member of the Bank's Management Board, including, but not limited to: business trips, including daily allowances for the time of the business trip and the cost of travel to the place of destination and back, as well costs and expenses for the rent of residential premises, the compensation of which is explicit or implicit in the laws of Ukraine.

A member of the Bank's Management Board may be provided with funds for entertainment expenses, including those in foreign currency (if he or she was on a business trip abroad).

All contracts made with members of the Bank's Management Board shall be for indefinite period.

If the Contract is terminated, the Bank shall make settlements with the member of the Bank's Management Board as of the date of removal in relation to the salary, warranted, compensatory and other benefits.

Remuneration for 2019

Salaries paid to members of the Bank's Management Board in 2019 totalled UAH 8,828,504.39, including non-purposeful material benefits of UAH 18,830.00 and bonuses of UAH 684,767.32.

No compensations from legal entities related by control or affiliated have been accrued nor paid.

No additional remuneration has been accrued or paid to members of the Management Board for special services falling outside of the usual functions.

No compensation has been paid to members of the Management Board in connection with the termination of their office in 2019.

No shares, shares options and other financial instruments have been accrued or paid to members of the Management Board.

As at 1 January 2020, there are 4 Management Board committees in the Bank:

- Credit Committee;

- Asset and Liability Committee;
- Tariff Committee;
- Operational Risk Management Committee.

Credit Committee

As at 1 January 2020

Name	Member	Position at the date of decision	Appointment details	Note
1	2	3	4	5
Credit Committee	P.P. Shcherban	Deputy Chairperson of the Management Board	Minutes No. 1 dated 03/01/2019	Chairperson of the Credit Committee
Credit Committee	V.V. Suraiev	Director of the Department for Documentary and Lending Transactions	Minutes No. 93 dated 25/09/2019	Deputy Chairperson of the Credit Committee
Credit Committee	Y.M. Frolova	Chairman of the Board	Minutes No. 1 dated 03/01/2019	Member of the Credit Committee
Credit Committee	A.S. Ivanchenkov	Head of Banking Security	Minutes No. 152 of the Management Board, dated 15/11/2018	Member of the Credit Committee
Credit Committee	O.A. Osadcha	Head of Legal	Minutes No. 152 of the Management Board, dated 15/11/2018	Member of the Credit Committee
Credit Committee	K.V. Moiseienko	Head of Risk Control	Minutes No. 93, dated 25/09/2019, item 3	Member of the Credit Committee

Information relating to changes in the Credit Committee for 2019

Full name	Position at the date of decision	Term of office from__ until__	Note
1	2	3	4
Y.M. Frolova	Chairperson of the Management Board	from and including 03/01/2019 until present	Member of the Credit Committee, Minutes No. 1 of the Management Board dated 03/01/2019
P.P. Shcherban	Deputy Chairperson of the Management Board	from 03/01/2019	Head of the Credit Committee, Minutes No. 1 of the Management Board dated 03/01/2019
P.P. Shcherban	First Deputy Chairperson of the Management Board	from 07/05/2019 until present	Head of the Credit Committee, Minutes

			No. 48 of the Management Board dated 07/05/2019
S.A. Kravchenko	Deputy Head of Risk Control	from 16/11/2018 until 09/05/2019	Excluded from the Credit Committee. Minutes No. 48 of the Management Board dated 07/05/2019
A.V. Holub	Head of Risk Control	from 10/05/2019 until 09/09/2019	Included to the Credit Committee. Minutes No. 48 of the Management Board dated 07/05/2019
A.V. Holub	Head of Risk Control	from 10/05/2019 until 09/09/2019	Excluded from the Credit Committee. Minutes No. 88 of the Management Board dated 09/09/2019
S.A. Kravchenko	Deputy Head of Risk Control	from 09/09/2019 until 25/09/2019	Included to the Credit Committee Minutes No. 88 of the Management Board dated 09/09/2019
S.A. Kravchenko	Deputy Head of Risk Control	from 09/09/2019 until 25/09/2019	Excluded from the Credit Committee Member of the Credit Committee, Minutes No. 93 of the Management Board dated 25/09/2019
K.V. Moiseienko	Director of Agribusiness Analysis and Development Programmes and member of the Management Board	from 15/11/2018 until 25/09/2019	Excluded from the Credit Committee, Deputy Chairperson of the Credit Committee Minutes No. 93 of the Management Board dated 25/09/2019
K.V. Moiseienko	Head of Risk Control Department and member of the Management Board	from 25/09/2019 until present	Included to the Credit Committee. Member of the Credit Committee, Minutes No. 93 of the Management Board dated 25/09/2019
V.V. Suraiev	Director of the Department for Documentary and Lending Transactions	from 25/09/2019 until present	Included to the Credit Committee, Deputy Chairperson of the Credit Committee Minutes No. 93 of the Management Board dated 25/09/2019
V.Y. Hrytsenko	Head of Lending Transactions	from 15/11/2018 until 25/09/2019	Excluded from the Credit Committee, Member of the Credit Committee. Minutes No. 93 dated 25/09/2019

The Tariff Committee has held 210 meetings as at 1 January 2020 (for 2019) that addressed 151 issues and passed decisions in respect of the following:

- setting limits applicable to transactions with counterparty banks;
- charging allowances for amounts due from customers on cash and settlement service, trade receivables, potential losses on lending transactions, amounts due from customers on fees arising from asset-side transactions, receivables from financing activities;
- lending to entities;
- lending to individuals;
- reduction/cancellation of the amount/non-imposition of penalties stipulated by contracts concluded;
- provision of guarantees to entities;
- returning of fees stipulated by guarantee agreements;
- changes to the terms of lending underlying lending agreements;
- changes to guarantee agreements concluded;
- commencement of clam-related work in respect of debt;
- repo transactions with securities;
- payments on demand;
- payment of insurance for insured events;
- granting permission to assign (sale and purchase) the rights of claim under lending agreements;
- stock-taking of the allowance for corporate loans as at 1 January 2019 taking into account the identified inconsistencies and its recalculation;
- establishing limits;
- granting consent to the next mortgage;
- taking bills of exchange (promissory notes) into account;
- limiting the financing through factoring;
- limiting the avalisation of tax anticipation bills;
- cancellation of commission fees;
- repayment of debts on credit agreement;
- accounting for mortgage agreement;
- reversal of commission accrued in order to discharge the financial accounts receivable;
- discharge of financial accounts receivable;
- establishing limits for documentary letters of credit;
- potential/bad debt with a breakdown of debtors owing to JSC BANK ALLIANCE.

Asset and Liability Committee

As at 1 January 2020, the Asset and Liability Committee (“ALCO”) of JSC BANK ALLIANCE was composed of:

Chairperson of the ALCO:

- **P.P. Shcherban** – Deputy Chairperson of the Management Board.

Deputy Chairperson of the ALCO:

- **K.V. Moiseienko** – Head of Risk Control and member of the Management Board.

Members of the ALCO:

- **Y.M. Frolova** – Chairperson of the Management Board;
- **N.A. Bochkovska** – Chief Accountant and member of the Management Board;
- **S.V. Khliakin** – Head of Treasury

During 2019, the Head of Operating Department (O.A. Hryshchenko) was excluded from the ALCO.

Constant control has been conducted during the reporting period in relation to changes in the personal composition of the ALCO, if any.

From **1 January 2019 to 31 December 2019**, the ALCO has held 74 meetings and passed decisions in respect of the following:

- setting and updating interest rates on deposit products for retail customers (individuals) and corporate customers (entities);
- setting and updating interest rates on corporate and retail lending transactions;
- setting interest rates for individual customers of the Bank in relation to deposit programmes, balances available on current accounts, placement periods, etc.;
- setting and updating cash desk limits, as well as limits and structure of the portfolio of domestic government loan bonds, etc.

Tariff Committee

As at 1 January 2020, the Tariff Committee was composed of:

Chairperson of the Tariff Committee

Chief Accountant and member of the Management Board

N.A. Bochkovska

Deputy Chairperson of the Tariff Committee

Deputy Head of Risk Control

S.A. Kravchenko

Members of the Tariff Committee:

Head of Documentary Transactions Administration

V.V. Borovytskyi

Deputy Head of Software

Information Technology Department

I.K. Lebedko

Deputy Head of Operating Department

V.V. Ilchenko

Deputy Chief Accountant

V.H. Rehuretska

In 2019, the Tariff Committee has held 120 meetings and passed decisions in respect of the following:

- approving **standard terms and conditions** for servicing customers, both individuals and legal entities, (updating existing and approving new tariffs and tariff packages of settlement and cash service for corporate and retail customers, approving tariffs for servicing MasterCard cards (including social cards); promotional terms and conditions for servicing corporate customers; fees payable to contractors upon engaging individuals for issuing social paying cards);
- approval of the progress report of the Corporate Business Development Department on the implementation of the business plan contemplating the placement of a POS (point of sale) terminal at a car dealership;
- approving **individual terms and conditions** for servicing customers who are legal entities (100 issues in total):
 - ✓ in the context of settlement and cash servicing of corporate customers (accepting cash from individuals (though cash desk of JSC BANK ALLIANCE) and making transfers to legal entities, approving tariffs for settlement and cash service, including subscriber fee for using iBank 2 UA system, withdrawal of cash from an account; purchasing and selling foreign currencies on the interbank FX market of Ukraine and making payments in foreign currency);
 - ✓ in the context of setting a fee for issuing bank guarantees (touring agents; for participating in tenders and entering into agreements based on bidding results).

Operational Risk Management Committee

As at 1 January 2020, the Operational Risk Management Committee (“ORMC”) of JSC BANK ALLIANCE was composed of:

Chairperson of the ORMC: Head of Risk Control and member of the Management Board	Kostiantyn Vasylovych Moiseienko
Deputies of the ORMC: Deputy Chief Accountant	Victoriia Henadiivna Rehuretska
Members of the ORMC:	
Head of Documentary Transactions Administration	Oleksandr Oleksiiiovych Nekhomiazh
Acting Head of Operating Department	Victoriia Volodymyrivna Ilchenko
Head of Information Technology Department	Oleksandr Vitaliiiovych Drahin
Head of Legal	Oksana Andriivna Osadcha
Head of Information Security	Vladyslav Ivanovych Zimenko

The Committee has convened 5 meetings in 2019.

The work of the Committee includes supervision over effective functioning of the operational risk management system at the Bank’s units, development of tools for identification, assessment, monitoring and control of operational risks; approval and review of key risk indicators; control over compliance with limit values set for key indicators of operational risk and violation analysis; participation in the designing of procedures and methods for the effective management of operational risk; analysis of identified operational risks, identification of risk causality and implications, provision of recommendations and measures to prevent risks in the future.

The Committee addressed the following issues:

- incidents of operational risk that required collegiate decisions and engagement of relevant units to enhance information systems and minimise operational risks;
- reviewing and approving limit values for key operational indicators, including information risk;
- review of financial statements by operational risks;

The Secretary of the Committee monitored on an ongoing basis the execution of orders by those responsible as decided at the Committee meetings. The efficiency of the Committee is adequate.

6.6. Summary of key characteristics of the internal control and risk management systems

Key characteristic of the operations control system

The Bank has no Audit Committee.

In accordance with the Charter of JSC BANK ALLIANCE, the following management bodies shall be competent to deal with certain issues related to the Bank's operations:

	General Shareholders Meeting	Board	Executive body	Outside the competence of any body
Identification of key business areas (strategy)	Yes			
Approval of action plans (business plans)		Yes		
Approval of the annual financial report, balance sheet or budget	Yes			

Election and termination of powers of the chairperson and members of the executive body		Yes		
Election and termination of powers of the chairperson and members of the Supervisory Board	Yes			
Election and termination of powers of the chairperson and members of the Audit Committee				Yes
Determination of the remuneration payable to the chairperson and members of the executive body		Yes		
Determination of the remuneration payable to the chairperson and members of the Supervisory Board	Yes			
Making decisions to prosecute members of the executive body		Yes		
Making decisions for additional issue of shares	Yes			
Making decisions for repurchasing, selling and placing its own shares	Yes			
Approval of external auditor		Yes		
Approval of agreements, for which there is a conflict of interest		Yes		

The policy for preventing conflicts of interest provides that there should be no conflicts of interest: Managers and employees shall not be entitled to participate in voting on any issues that may give rise to a conflict of interest.

Clauses regarding the conflict of interest, i.e., conflict between personal interests of an officer and a related party, and the duty to act in the best interests of the Bank, are set out in the Regulation on Conflicts of Interest of JSC BANK ALLIANCE.

The Bank is striving to improve the system that is designed to minimise (avoid) the risk of conflicts of interest in the Bank.

The Bank has the following documents to control its activities:

	Yes	No
Regulation on the General Meeting of Shareholders	X	
Regulation on the Supervisory Board	X	
Regulation on the Executive Body	X	
Regulation on the Officers of the Joint Stock Company		X
Regulation on the Audit Committee (or Auditor)		X
Regulation on the Shares in the Joint Stock Company	X	
Regulation on the Profit Distribution Procedure		X
Other (specify)		

Shareholders may receive information relating to Bank's activities as follows:

	Information disseminated at general meetings	Information published in the press or publicly available in databases of the NSSMC related to the securities market	Documents made available for review directly by the joint stock company	Copies of documents provided at a shareholder's request	Information posted at the official webpage of the joint stock company
Financial statements, business results	Yes	Yes	Yes	Yes	Yes
Information relating to the shareholders holding 10% or more of the authorised capital	Yes	Yes			Yes
Information relating to the composition of the company's management bodies	Yes	Yes			Yes
Charter and internal documents	Yes		Yes	Yes	Yes
Minutes of the general shareholders meetings after they were held	Yes		Yes	Yes	Yes
Amount of remuneration payable to officers of the joint stock company	Yes				

The Bank's financial statements are prepared in compliance with the international financial reporting standards.

Information about the frequency at which the Bank is audited each year by an independent auditor (audit firm) during the reporting period:

	Yes	No
Not audited at all		X
Less than once a year		X
Once a year		X
More often than once a year	X	

Information relating to the body who made decision to approve the independent auditor (audit firm):

	Yes	No
General Shareholders Meeting		X
Board	X	
Executive body		X
Other (specify)		

Information relating to what body initiated an inspection by audit committee (controller) last time:

	Yes	No
On its own initiative		X
On instruction of the general meeting		X
On instruction of the Supervisory Board		X
At request of the executive body		X
At request of the shareholders holding more than 10% of votes		X
Other (specify)		

Internal Control System

JSC BANK ALLIANCE has implemented an efficient internal control system consisting of efficient procedures for protecting against potential errors, violations, expenses and losses and ensuring that banking transactions are reliable, lawful, efficient and safe.

Rules and requirements to the functioning of the Bank's internal control system are set out in the Regulation on Organising the Internal Control System at JSC BANK ALLIANCE.

The functioning of internal controls of the Bank is achieved through the following:

- *firstly*: all internal regulations of the Bank introduce procedures for performing certain functions with the end result being provided in a form of document (receipt, memorial slip, contract, order, etc.);

- *secondly*: the person responsible for internal control checks the availability of transaction-related documents and draws conclusions on their compliance of the transaction itself, examines powers of the Bank's employees and control officers (two-man rule).

Functional units – in conducting business transactions, owners of business processes exercise control over the following banking transactions on a daily basis: monitoring of compliance with the laws and internal regulations of the Bank that regulate the conduct and decision-making procedures in respect of such transactions, and monitoring of completeness, timeliness and accuracy of disclosures in accounting records and financial statements, monitoring of whether the Bank's property is retained, assessment of economic feasibility and efficiency of transactions, monitoring of risks and taking action for their minimisation and aversion, current risk management and mitigation, etc.

Internal controls of the Bank follow the following hierarchy:

- supervision of heads of structural units for fulfilment of functional duties by employees in accordance with the job descriptions (the job descriptions are reviewed as necessary);
- supervision by the Management Board over the work (activities) of structural units of the Bank (including the Bank's branches);
- supervision by the Supervisory Board over activities of the Management Board in accordance with the Charter.

To assess the performance of internal control system, the Compliance Department considers the following criteria:

1) the Bank has an organisational structure for the internal control system, which contemplates allocation of functions between controllers and the ability to clearly identify the persons responsible for performing these functions;

2) availability of documents regulating the following:

- principles underlying the design of internal control system;
- functions and powers of the Bank's employees and units within the internal control system;
- procedure for interaction and allocation of powers between the Bank's units in exercising internal controls;

- procedure for identifying deficiencies and organising reports on the functioning of the internal control system;

- control of the effectiveness of internal controls system;

3) responsibility of each individual employee of the Bank for the performance of each specific function;

4) taking measures to supervise all material operations and products of the Bank;

5) compliance of the Bank's policies and procedures with laws and regulations of the National Bank, intrabank documents, standards of professional associations applying to the Bank.

Availability and key characteristics of the risk management system

The Bank's risk management strategy defines methods for assessing, limiting and reducing risks, as well as a risk management procedure that reflects the distribution of functions related to risk and capital management between the Supervisory Board, the Management Board, committees and units of the Bank that are perform risk management functions.

The purpose for which the Strategy has been implemented is:

- meeting expectations of shareholders interested in long-term activities and successful functioning of the Bank, so that the investments generate returns;

- ensuring effective operation of the risk management system, thus, increasing reliability for all stakeholders: the Bank's customers and creditors, employees and others;

- compliance with requirements of the National Bank of Ukraine.

In the context of risk management by the Bank, the following key tasks are expected to be resolved:

- identifying and assessing significant risks;
- assessing, aggregating, forecasting and stress-testing significant risk exposures;
- creating mechanisms for managing the structure and scope of risks assumed by the Bank, including establishment of a system of limits to restrict (control) the risks;

- monitoring and controlling the scope of risk accepted, implementing measures to reduce the level of acceptable risk and maintaining it within the established external and internal limits;

- complying with mandatory rules and restrictions imposed by the NBU;

- ensuring efficient allocation of resources to optimise the risk and returns of the Bank;

- assessing the adequacy of available financial resources to cover for significant risks;

- capital planning based on results of comprehensive assessment of significant risks, testing of the Bank's resilience to internal and external risk factors, business development strategy benchmarks, and capital adequacy requirements of the NBU;

- preparing reports and their timely submission to the respective collegial bodies of the Bank in the prescribed / agreed formats and terms;

- Developing risk culture and risk management competences within the Bank with due regard to the best global practices.

Taking into account the specifics of the risks:

- credit risk;
- liquidity risk;
- interest rate risk in the banking book;
- market risk;
- operational risk;

- compliance risk.

The Bank views these risks as significant on a permanent basis.

For effective risk management and due to the need to minimise the conflict of interest between risk acceptance, risk limitation and control, and the audit of the risk management system, the Bank's organisational structure is built to take into account the need to divide functions and responsibilities between the Bank's departments in accordance with the principle of "three lines of defence":

- at the level of the Bank's structural units that carry out operations and directly assume risks (front offices), and structural units that register operations (back offices), i.e. first level control or linear control;
- at the level of risk management units and compliance unit, i.e. second level control;
- at the level of performance assessment of the risk management system by the Internal Audit Service, i.e. third level control.

Entities below are subjects of the Bank's management system:

- Bank's Supervisory Board;
- Management Board;
- Credit Committee of the Bank's Management Board;
- Assets and Liabilities Committee of the Bank's Management Board;
- Operation Risk Management Committee of the Bank's Management Board;
- Internal Audit Unit;
- Risk Management Unit;
- Compliance Unit.

The Bank's Supervisory Board defines the general risk management strategy in the Bank, whilst the Bank's Management Board operates the risk management process. The Risk Control Department ensures that the operation of the risk management system is effective, whilst the Compliance Department ensures compliance control.

According to its functions, the Bank's Supervisory Board shall:

- be responsible for creating a comprehensive, adequate and effective management system for the risk the Bank is exposed to in its activities;
- control that the risk management system is complete, adequate and efficient;
- ensure the operation and control over the effectiveness of the risk management system;
- define the main principles of the Bank's organisational structure, information system for risk management and internal control, which ensure effective risk management;
- approve the list of limits (restrictions) for each type of risk and the procedure for escalating violations of the limits of risks;
- approve the appointment and dismissal of risk management unit managers (CROs) and compliance control department (CCOs);
- determine the nature, format and scope of risk information, considers management risk reporting and, if the risk profile of the Bank does not correspond to the approved risk appetite, immediately decide on the application of appropriate measures to mitigate the risks;
- take measures to prevent conflicts of interest in the Bank, promote their settlement and inform the National Bank of conflicts of interest arising at the Bank.
- perform other functions as required by laws of Ukraine, the Bank's Charter and the Regulation on the Bank's Supervisory Board.

The Bank's Management Board interacts with the Bank's Supervisory Board with respect to risk management issues and:

- prepares and submits to the Supervisory Board of the Bank's management reporting of the risks faced by the Bank, which includes information relating to new types of products or significant changes in the Bank's activities;
- prepares and submits to the Supervisory Board of the Bank of proposals for the necessity of making changes to the risk management strategy and policy;

- controls the communication with relevant structural subdivisions and Bank's employees of information relating to the changes made to the risk management strategy and policy, other internal risk management documents;
- develops measures for the prompt elimination of deficiencies in the functioning of the risk management system, implementation of recommendations and observations on the results of risk assessment, audits of the internal audit unit, external auditors and supervisory bodies;
- approves the limit values for each type of risk in accordance with the list of limits (restrictions) set out by the Supervisory Board;
- determines forms and establishes the procedure for monitoring the Bank's activities;
- ensures the security of the Bank's information systems and systems used to store the customers' assets;
- informs the Supervisory Board about the performance of the Bank, revealed violations of the laws, internal regulations of the Bank and any deterioration of the financial position of the Bank or such potential deterioration, the level of risks arising in the course of business;
- fulfil other functions as required by laws of Ukraine, the Bank's Charter and the Regulation on the Bank's Management Board.

In order to control and reduce the level of significant risks, the Bank may make decision to hedge risks, including through insurance. In particular, in accordance with the Credit Policy, and to the extent that the credit risk reduces, the Bank accepts collateral pledged under credit operations in accordance with the principle of preservation that contemplates an existence of a contract for collateral insurance against loss / damage, wherein the Bank acts as a beneficiary.

In line with the risk management strategy, the risk management involves establishing a level of risk tolerance for the Bank by identifying a system of limits (risk limitation). The decision to carry out any transaction shall be made only after a detailed and complete analysis of the risks arising from such a transaction. All transactions shall be carried out by observing internal normative and/or organisational and administrative documents. No new transactions exposed to significant risks, when there are no internal normative, organisational and administrative documents or relevant decisions of collegiate bodies regulating the procedure for their implementation, shall be allowed.

The Bank's Supervisory Board shall set and review the Bank's tolerance levels for risks at least once a year (based on the Bank's performance for the year or in the event of significant changes in the Bank's business model, significant changes in the structure and quality of the assets and liabilities portfolios).

As at 1 January 2020, the Bank's levels of tolerance were set for the following risks:

- credit risk;
- liquidity risk;
- interest rate risk;
- market risk;
- currency risk;
- operational risk.

The Risk Management Department reports to the Supervisory Board on the compliance with the established levels of tolerance on a quarterly basis.

The Bank is continuously improving the risk management system to mitigate risks.

At the reporting date, the Bank complies with all economic norms and limits applicable to the currency position as established by the National Bank of Ukraine, including the liquidity and capital. Information on the structure of regulatory capital, capital ratios, and significant types of risks is disclosed in the Annual Financial Statements of JSC BANK ALLIANCE for 2019.

Violations of internal rules by the members of the supervisory board and the financial institution's executive body, which have caused damage to the financial institution or consumers of financial services

During 2019, there were no violations of internal rules by the members of the Bank's Supervisory Board and the members of the Bank's Management Board, which could have caused damage to the Bank or consumers of financial services provided by the Bank.

6.7. List of persons who directly or indirectly own a significant shareholding

The owner of significant shareholding (including the person controlling the financial institution) in the Bank is Ukrainian national, Oleksandr Yosypovych Sosis, who as at 31 December 2019 owns shares comprising 89.289006% of the authorised capital of the Bank. The owner meets requirements set out in the laws. The Bank had no other holders of at least 5% of shares in the bank's authorised capital in 2019. There were no changes in the owners of significant shareholding in the Bank in 2019.

6.8. Information relating to any restrictions on the rights of participation and voting of shareholders (participants) at the general meeting

The Bank's Charter does not provide for additional restrictions on the rights to participate and vote at the general shareholders meeting for holders of ordinary registered shares of the Bank, except for the limitations provided by the laws of Ukraine. The Bank did not place any preference shares.

As at 31 December 2019, according to the register of holders of registered shares created by PJSC National Depository of Ukraine, the Bank has placed 16,000,000 of ordinary registered shares in total, whilst the total number of voting shares of JSC BANK ALLIANCE comprises 15,866,053 of ordinary registered shares and the number of voting shares for which the voting right was transferred to another person is 0.

The issuer did not initiate and was subject to no restrictions on the circulation of the issuer's securities in the reporting period, and there is no need to obtain such securities from the issuer or other holders of such securities.

Voting limitations at the general meetings of shareholders may arise only under the Law of Ukraine "On the Depository System of Ukraine" (shareholders did not conclude with a depository institution any agreement for servicing the securities account on their own behalf, nor transferred ownership of securities to their own securities account or depository institution discontinued its operations).

The information about any restrictions on the rights of participation and voting of shareholders at the general meeting of the issuer, which took place on 25 April 2019 and 27 November 2019, the registers comprised information up to 19 April 2019 and 21 November 2019, respectively; information presented in the registers in respect of voting shares is identical:

Total number of shares	Number of restricted shares	Basis for restriction	Date of restriction
16,000,000	133,947	The Law of Ukraine on the Depository System of Ukraine	11/10/2013

6.9. Procedure for the appointment and dismissal of officials. Information relating to any remuneration or compensation paid to officials in case of their resignation during the reporting period

Procedure for the election (appointment) and dismissal of members of the Bank's Supervisory Board.

The Bank's Board is elected by the General Meeting from the Bank's shareholders, their representatives and independent directors. The Board shall consist of the Chairperson and other members of the Board.

The election of the Bank's Board shall be carried out exclusively by cumulative voting. Members of the Board shall be elected by shareholders at the General Meeting for three years. The powers of a member of the Board shall be valid from the moment of his or her election by the General Meeting. Powers and authorities of the shareholder's representative who is a member of the Board shall arise and cease to exist pursuant to the laws of Ukraine.

The National Bank of Ukraine, in accordance with the procedure established by it, approves the appointment of the Chairperson and members of the Bank's Board (candidates for these positions). The National Bank refuses approving the Chairperson and/or member of the Bank's Board (a candidate for these positions), if the candidate does not meet the qualification requirements, and, in the case of independent directors, and/or independence requirements.

The powers of the members of the Board shall be terminated, except for the powers to prepare, convene and hold an annual General Meeting, if the annual Bank's General Meeting was not held within the time limit established by the laws of Ukraine.

Without the decision of the General Meeting, the powers of a member of the Board shall be terminated early:

- at his or her own request with a 14 calendar days' written notice sent to the Board;
- In case of impossibility of performance of duties of the member of Board due to health condition;
 - Where the court judgment or decision has become effective, under which he/she is sentenced to punishment, which precludes the fulfilment of duties as the member of the Board;
 - if he or she dies, or is recognised incapable, partially incapable, missing or dead;
 - if the Bank receives a written notice of replacement of a member of the Board who is the shareholder's representative;
- in case the Bank receives the requirements of the National Bank of Ukraine to terminate the powers of a member of the Chairperson or a member of the Board due to improper performance of the functions entrusted;
- if the Bank receives the requirements of the National Bank of Ukraine for the replacement of a member of the Board due to the inconsistency of his professional suitability and business reputation with the applicable laws of Ukraine.

Procedure for appointment and dismissal of members of the Bank's Management Board.

The Chairperson of the Management Board, his or her deputies and members of the Management Board shall be appointed by the Bank's Board. The decision to appoint the Chairperson and members of the Management Board shall be made by a simple majority of votes of the members of the Board participating in the meeting of the Bank, and the vote of the Chairperson of the Board shall be a deciding vote in case of equal distribution of votes. Voting shall be held separately on each nomination for membership in the Bank's Management Board.

The National Bank of Ukraine shall define the professional suitability and business reputation of candidates for the positions of Chairperson, Deputy Chairpersons and Members of the Bank's Management Board. Qualification requirements for business reputation and professional suitability of the Chairperson, his or her deputies and Members of the Bank's Management Board shall be established by the National Bank of Ukraine.

The Chairperson of the Bank's Management Board shall enter upon office after its approval by the National Bank of Ukraine only.

The powers of the Chairperson, Deputy Chairpersons and members of the Bank's Management Board shall be terminated by decision of the Bank's Board.

During 2019, the remuneration paid to officials amounts to UAH 684,767.32 and the compensation paid to the former members of the Management Board in connection with their termination is UAH 0.00.

The total amount of compensation for officials who retired during the reporting period was UAH 0.00.

6.10. Powers and authorities of the officers

The Chairperson and members of the Bank's Management Board, for the purpose of implementing competences set out in Article 13.7 of the Bank's Charter in general and acting as a collegial body, shall be charged with the following powers:

Member of the Board:

- receive complete, accurate and timely information relating to the Bank required to perform

their functions. Review documents of the Bank, receive copies of them, as well as copies of documents of the structural units of the Bank;

- within the timeframes stipulated by this Regulation, receive the agenda and information package for the meetings of the Supervisory Board;
- demand convening of extraordinary meetings of the Board;
- in case of disagreement, submit written comments to the decisions of the Supervisory Board or issues previously considered by the relevant Committee of the Board;
- participate in regular and extraordinary General Meetings;
- hear reports of the Management Board and the Bank's official on specific issues related to the Bank's activities;
- participate in meetings of the Management Board;
- engage experts for examining specific issues related to the Bank's activities.

The Chairperson of the Supervisory Board organises operations of the Supervisory Board, convenes and presides at meetings of the Supervisory Board, organises the keeping of meeting minutes of the Supervisory Board, and has the same powers as the Supervisory Board members.

The Chairperson and members of the Bank's Management Board, for the purpose of implementing the competences set out in Article 14.14 of the Bank's Charter in general and acting as a collegial body, shall be charged with the following powers:

The Chairperson of the Management Board:

- without a power of attorney, represents the Bank in relations with any state bodies, enterprises, institutions, organisations of all forms of ownership and public organisations, all law enforcement and controlling bodies; execute any transactions on behalf of the Bank and carry out all legally significant actions;
- issue powers of attorney for and on behalf of the Bank;
- convene meetings of the Management Board, determine their agenda and vote on the agenda items;
- allocate responsibilities between members of the Management Board, the Deputy Chairpersons of the Management Board and determine their functional powers, delegate certain powers to the members of the Management Board and to the Deputy Chairpersons of the Management Board, as well as to other employees of the Bank, including on the basis of issued power of attorney;
- hire and dismiss employees of the Bank, take measures to reward them by results of their work and impose disciplinary sanctions. Approve job descriptions of Bank employees;
- issue orders, orders and give instructions, which are obligatory for all Bank employees, including separate subdivisions;
- represent the employer to the labour collective, sign the collective agreement on behalf of the administration. Require the convening of extraordinary meetings of the Bank's Board, take part in meetings of the Board in advisory capacity. Take part in the General Meetings;
- dispose of the Bank's assets and funds in accordance with the applicable laws of Ukraine and the Bank's Charter;
- take measures for the pre-trial settlement of disputes, sign claims and complaints, sign all documents relating to litigation claims and complaints, represent the interests of the Bank in courts with all rights granted by law to the plaintiff, the defendant, a third party to the proceedings, including to fully or partly waive the claim, admit the claim, change the subject of the claim, conclude settlement agreement, appeal the decision of the court, file a writ of execution to recover or issue a power of attorney to perform the relevant actions to another person.
- submit issues related to the activities of the Bank to the Management Board, Board, General Meeting in accordance with the established procedure;
- Submit proposals to the Bank's Board with candidates for election to the Management Board.

All members of the Bank's Management Board shall ensure the implementation of the tasks, decisions of the Bank's Supervisory Board on the implementation of the risk management system, including risk management strategy and policy, risk management culture, procedures, methods and other measures for effective risk management.

All members of the Bank's Management Board shall be authorised to:

- obtain complete, accurate and timely information needed to perform its functions;
- make proposals for, participate in discussions of, and vote on, any agenda item at the Management Board meetings. Apply for consideration by the Chairperson of the Board proposals for improvement of the Bank's activities in matters within the competence of a member of the Management Board;
- initiate the convening of meetings, including meetings of the Bank's Management Board and other meetings;
- act on behalf of the Bank on the basis of a power of attorney issued by the Chairperson of the Management Board;
- submit written comments to decisions of the Supervisory Board. initiate convening of extraordinary meetings of the Board;
- initiate the convening of extraordinary General Shareholders Meetings in cases stipulated by the applicable laws of Ukraine;
- demand from the employees of the Bank's subordinated units, according to the organisational structure of the Bank, timely and qualitative fulfilment of the duties assigned to them, in compliance with the requirements of the Bank's internal documents. Control the Bank's subordinated structural subdivisions complying with the set tasks.

6.11. Description of business activities

The purpose of the Bank's activities

As provided in clause 4.1. of the Charter of the JSC BANK ALLIANCE approved by the annual General Shareholders Meeting of the JSC BANK ALLIANCE (Minutes No. 1/2018 dated 17 April 2018),

The purpose of the Bank is to meet the public needs for banking and other financial services (except for insurance services), other banking activities as defined by the applicable legislation of Ukraine; attraction, accumulation, propulsion and redistribution of monetary flow, as well as profit-earning based on results of activities not prohibited by the applicable law of Ukraine.

Organisational structure of the issuer, subsidiaries, affiliates, representative offices and other separated structural units with the name and location, role and prospects of development, changes in the organisational structure according to the previous reporting periods

Alliance-Credit Bank Commercial Joint Stock Bank was established as a public company of open-ended type according to the decision of the Constituent Meeting of Founders (Minutes No. 1 dated 9 March 1992) and registered with the National Bank of Ukraine on 10 March 1992 under No. 89. In accordance with the decision of the General Shareholders Meeting (Minutes No. 11 dated 31 March 1993), Alliance-Credit Bank Commercial Joint Stock Bank changed its name to the Alliance-Credit Bank Joint Stock Commercial Bank, amendments registered by the National Bank of Ukraine on 30 July 1993. Alliance-Credit Bank Joint Stock Commercial Bank acted as a legal successor of all rights and obligations of Alliance-Credit Bank Commercial Joint Stock Bank. In accordance with the decision of the General Shareholders Meeting (Minutes No. 52 dated 24 May 1996), Alliance-Credit Bank Commercial Joint Stock Bank changed its name to the Alliance Joint Stock Commercial Bank, which amendments were registered with the National Bank of Ukraine on 24 July 1996. Alliance Joint Stock Commercial Bank acted as a legal successor in respect of all rights and obligations of Alliance-Credit Bank Commercial Joint Stock Bank. In pursuance of the requirements of the Law of Ukraine on Joint Stock Companies and in accordance with the decision of the General Shareholders Meeting (Minutes No. 2/2010 dated 23 April 2010), Alliance Joint Stock Commercial Bank changed its name to BANK ALLIANCE PUBLIC ACCOUNTING COMPANY who acted as a legal successor in relation to all rights and obligations of Alliance Joint Stock Commercial Bank.

Under the decision of the General Shareholders Meeting dated 17 April 2018, the name of the Bank has been changed to the BANK ALLIANCE JOINT STOCK COMPANY, which acts as a legal successor in respect of all rights and obligations of BANK ALLIANCE PUBLIC JOINT STOCK

COMPANY.

As at 31 December 2019, the Bank's organizational structure comprised the head office in Kyiv and 20 branches:

- Head Office at 50 Sichovykh Striltsiv Street, Kyiv, 04053;
- Central Office at 50 Sichovykh Striltsiv Street, Kyiv, 04053;
- Kyiv Branch No.3 at 8 Illinska Street, Kyiv, 04053;
- Zaporizhia Branch at 17 Metalurhiv Avenue, Zaporizhia, 69032, Zaporizhia Region;
- Lviv Branch at 15 Illinska Street, apt. 2, Lviv, 79000, Lviv Region;
- Lviv Branch No. 1 at 66 Ivana Franka Street, apt. 2A, Lviv, Lviv Region;
- Chernivtsi Branch at 8 Tsentralna Square, 58002, Chernivtsi, Chernivtsi Region;
- Kharkiv Branch at 65 Chernyshevska Street, Kharkiv, 61002, Kharkiv Region;
- Odesa Branch at 5/1 Bazarna Street, Odesa, 65125, Odesa Region;
- Kyiv Branch No. 1 at 43/4 Metrolohichna Street, 03143, premises 44, Kyiv;
- Mykolaiv Branch, 14 Soborna Street, Mykolaiv, 54017, Mykolaiv Region;
- Chornomorsk Branch at 5R Myru Avenue, Chornomorsk, 54017, Odesa Region;
- Kremenchuk Branch at 16-A Haharina Street, Kremenchuk, 54017, Poltava Region;
- Ch�nihiv Branch at 4 Piatnytska Street, Ch�nihiv, 14000, Ch�nihiv Region;
- Cherkasy Branch, 31 Nebesnoi Sotni Street, Cherkasy, 18007, Cherkasy Region;
- Kyiv Branch No.2 at 112 Velyka Vasylkivska Street, Kyiv, 03150;
- Dnipro Branch at 28 Voskresenska Street, Dnipro, 49000, Dnipropetrovsk Region;
- Kyiv Branch No.4 at 2/35 Haharina Street, Kyiv, 02105;
- Korosten Branch at 44 Mykhaila Hrushevskoho Street, Korosten, 11501, Zhytomyr Region;
- Vinnytsia Branch at 78 Keletska Street, Vinnytsia, 21021, Vinnytsia Region;
- Sumy Branch at 9-ho Travnia Street, Sumy, 40000, Sumy Region.

In 2019, the Bank set up 7 new separate units of the Bank. Further expansion of the regional network is expected to continue in 2020.

According to the Bank's business model and for the purpose of implementing the Strategy of JSC BANK ALLIANCE for 2020-2022 ("the Strategy") approved by decision of the Supervisory Board dated 24 December 2019 (minutes no. 82) and the Bank's Budget for 2020 approved by decision of the Supervisory Board dated 24 December 2019 (minutes no. 82) on the expansion of the distribution channels.

The basic principles of building an organisational structure of the Bank are: the hierarchy of the organisational structure; standardisation and unification; clear division of functions between divisions; optimal staffing.

The Banks has no representative offices and branches in Ukraine and/or in other countries.

The average number of staff members, average number of non-staffed, dual job holders and part-time employees (day, week) (persons), payroll fund. In addition, changes in the size of the payroll fund, its increase or decrease in relation to the previous year shall be indicated. The personnel programme of the Bank is aimed at providing the level of skills of employees consistent with operational needs of the Bank.

Considering the needs and development of employees as an intellectual capital is one of the most effective strategies for a successful business. Therefore, the Personnel Management Strategy of the Bank is based on the professionalism, efficiency, motivation and attraction of each employee to achieve the Bank's strategic objectives.

The average number of staff members (persons) of the accounting staff at the Bank in 2019 was 296. 6 people are freelancers. 5 people are dual job holders. 4 people are part-time (day or week) employees.

The payroll fund of JSC BANK ALLIANCE (full-time employees) for 2019 was UAH 96,724,769.00 and grew significantly as compared with the payroll fund for 2018, which was UAH 51,310,333.18. The increase of the payroll fund was UAH 45,414,435.82.

Issues relating to the organisation of labour and conditions of employment with the Bank are governed by applicable labour laws of Ukraine, the Bank's personnel management policy, Collective

Bargaining Agreement, Internal Labour Regulation Rules, Regulation on Training of Employees, Regulation on the Procedure for Labour Standardising and Payment, Regulation on Rewarding and Extra Payments to Employees, Regulations on Forming and Developing the Human Resource Reserve. They stipulate payments to employees at all levels, wage changes and the payment of material assistance.

The Bank respects human rights and does not allow discrimination against political, religious, national, gender or other motives. Equal opportunities in employment, professional and personal growth are provided to all employees.

The gender composition of the Bank's employees: 224 women (64%) / 126 men (36%).

Age of employees of the Bank:

CATEGORY	QUANTITY	SHARE
under the age of 30	44	12%
31 to 40 years old	144	41%
41 to 50 years old	114	33%
more than 51 years old	48	14%
TOTAL:	350	100%

Much attention is paid to the training the employees (attending seminars, conferences, etc.), since investment in staff is an investment in the future of the organisation. The expenses of the Bank for training employees in 2019 amounted to **UAH 612,720.60**.

Corporate events are held on a regular basis to allow for and develop an favourable atmosphere within the team.

the affiliation of the issuer with any associations of enterprises, the name and location of the association, the description of the activities of the association, functions and term of the issuer's participation in the relevant association, position of the issuer in the structure of the association

JSC BANK ALLIANCE is a member of the Independent Association of Banks of Ukraine, Ukrainian Credit-Banking Union, Association of Ukrainian Banks, Ukrainian National Committee of the International Chamber of Commerce of Ukraine, European Business Association, UkrSWIFT, Ukrainian Stock Traders and Professional Association of Capital Markets and Derivatives.

JSC BANK ALLIANCE is not a member of other associations, consortia, concerns, corporations and other associations of enterprises.

The Ukrainian National Committee of the International Chamber of Commerce (ICC Ukraine) is authorised by the World Business Organization to represent modern business trends in the national territory and promote international cooperation.

The International Chamber of Commerce is represented in 127 countries and has a network of 94 National Committees. ICC cooperates with such influential international organisations as UN, WTO, World Bank, IMF, OECD.

The Ukrainian National Committee of the International Chamber of Commerce (ICC Ukraine) is the first national committee on the territory of the CIS countries. Established in 1998, today it combines national and non-resident companies representing large and medium-sized businesses.

ICC Ukraine is a non-profit organisation. According to the Charter, it is registered as the Association of Enterprises Ukrainian National Committee of the International Chamber of Commerce at 19B Reitarska Street, Kyiv, 01034, Ukraine. Its mission is defined as promoting international trade and investment through the implementation of best international practices.

The Bank is a member of ICC Ukraine since 2018.

The **European Business Association (EBA)** was founded in 1999 with the support of the European Commission in Ukraine. Since then, the Association has grown to become the most influential and largest business association in Ukraine.

Combining more than 1,000 companies, the European Business Association is one of the largest business communities operating in the Ukrainian market.

The European Business Association and its team are helping to establish partnerships with the government, which is the way to establish business ties with the best international and Ukrainian companies. EBA members are leading companies that share the best of European business values.

Areas of activity of the association:

- protection of interests of foreign and domestic investors at the highest state level;
- promotion of cooperation between member companies and establishing close contacts between them;
- assistance to enterprises in development in the Ukrainian market, including PR capabilities;
- providing member companies with comprehensive information relating to what's going on in the country and its regulatory environment.

The registered office address of EBA is: 1A Andriivskyi Descent, Kyiv, 04070, Ukraine.

The Bank is an EBA member since 2018.

Ukrainian Stock Traders Association is located at 30 Voznesenska Street, Dnipro 49000.

USTA is a union of professional securities market participants engaged in securities trading, depository activity of a custodian institution, securities management activities.

The Association acts as a self-regulatory organisation in the securities market (SRO), an association created to protect the interests of its members, owners of securities and other participants in the securities market and financial services markets.

The Association promotes the development of an open and equitable securities market in Ukraine, ensures the activities of professional stock market participants who are Association members. The Bank is a member of USTA since 10 July 2009 (SRO certificate No. 728).

Independent Association of Banks of Ukraine is located at 72 Velyka Vasylkivska (Krasnoarmiiska) Street, 3rd entrance, 3rd floor, office 96, Kyiv. NABU is a non-governmental non-profit contractual association of Ukrainian banks.

The main purpose of the Association's activity is:

- protection of the rights and legitimate interests of the Association members;
- representation of the Association members in relations with state bodies, institutions and other persons;
- formation of the position of the Association members on important issues related to the functioning of the banking system, their representation and support in relations with third parties;
- assistance in creation of an effective regulatory framework for effective functioning of the banking system in Ukraine;
- participation in the development of state programmes for the development of the banking system;
- solving specific problems and common problems arising in the banking industry and affecting the rights and interests of the Association members;
- establishing relations with banks and banking associations of other countries;
- creation of a positive image of the banking system of Ukraine;
- promotion of the development and improvement of skills of the banking sector of Ukraine's economy. The tasks of the Association are:
- representation and protection of the interests of the Association members in relations with

the National Bank of Ukraine and other state bodies and institutions;

- providing Association members with information, legal, organisational and other support;
- establishment of international relations of the Association with foreign banks and their associations;
- participation in the process of development and adoption of normative documents related to banking activities;
- increase of the people's confidence in the banking system of Ukraine;
- coordination of actions of the Association members for the implementation of joint projects.

Association of Ukrainian Banks is located at 15 Yevhen Sverstiuk, Kyiv, Ukraine.

The main goals and objectives of the Policy are:

- protection of rights and interests of the Association members, whilst providing legal safeguards of their activity;
- articulation of the position of the Association members on important issues related to the functioning of the banking system, its representation and support in relations with third parties;
- promoting establishment of a legal framework for the banking, financial and other business activities;
- designing and formation of ways and areas of development for the Ukrainian economy and banking system in the form of a single comprehensive solution;
- promotion of upskilling and professionalism amongst financial specialists;
- informing the public about activities of the Association members and their role in the economic life of Ukraine;
- facilitating implementation of antitrust laws in the financial sector;
- ensuring mutual trust, reliability, honesty and business partnership in relations between members of the Association and clients;
- ensuring and providing access to the means of non-state independent consideration of disputes through establishment and operation of a permanent arbitration at the Association;
- informing members of the Association about the draft laws and regulations, judicial practices.

The Association does not carry out independent business activity and does not control or manage business activity of its members. The Association exercises its powers and performs tasks on a not-for-profit basis.

UkrSWIFT Association is located at 21-A Observatory Street, Kyiv, Ukraine.

The Association is a form of existence of the Ukrainian National Group of Members and Users of SWIFT.

UkrSWIFT acts as an advisory body to the SWIFT Board of Directors and supports the Ukrainian community of consumers in identifying, researching and solving problems related to international and local financial telecommunications.

The Ukrainian National Team of Members and Users of SWIFT has been existing since 1993. The registration of a legal entity in the form of the UkrSWIFT Association took place in June 2004.

The association brings together members and users of the international payment system SWIFT and is an independent non-profit association.

The supreme body of the Association is the General Meeting.

The Association's activities are managed by the UkrSWIFT Board consisting of representatives of SWIFT members and users in Ukraine.

The Executive Management Board of UkrSWIFT carries out current activities for the

Association.

As of today, 66 Ukrainian financial institutions are new members of the Association. The first eight Ukrainian banks were connected to the SWIFT network in September 1993. Accession to this Association allows the Bank to participate directly in conducting a unified policy in matters relating to the use and development of the SWIFT system in Ukraine, make a centralised order of the hardware and software necessary to ensure the efficient and continuous functioning of the international payment system SWIFT.

The advantages of the Issuer's participation in the Association are:

- legal and accounting support of document circulation connected with the use of the SWIFT system;

- regular update of SWIFT software and hardware;

- receiving operational information relating to new SWIFT services and more.

The Bank is a member of the association since 2013.

The Ukrainian Credit and Bank Union Association is located at 9/2 Kloviskyi Descent, apt. 67, Kyiv, Ukraine, 01021.

The association was created with the purpose of promoting the stable development and activity of the banking system of Ukraine, protecting the rights and legitimate interests of the members of the Banking Union, providing them with comprehensive assistance, coordination of their efforts to address the issues facing the monetary system.

Professional Association of Capital Markets and Derivatives (PACMD) (located at 19 Yevhenia Sverstiuka Street, office 415, Kyiv, Ukraine) is a professional association in the Ukrainian stock market.

The Association was established in 1996 to represent the interests of all national depository institutions and securities traders.

In 2017, the PACMD reaffirmed its status as a self-governing organisation (SGO) conducting a professional activity (depository activity), and as at 2015 it additionally obtained an SGO status in securities trading.

Since the establishment of the Association, its representatives have participated in the development of a number of specialised regulations: from laws to regulations of advisory nature on the depository activity, securities trading, foreign investment, financial monitoring, corporate governance, disclosure of information, protection of personal data and combating of terrorist financing.

PACMD conducts on a regular basis educational, scientific and practical events dedicated to various aspects of professional activities of stock market participants.

Representatives of the Association are also members in consultative and advisory bodies of the state authorities. Experts of the Association are permanent members of the Committees and working groups at the NSSMC, the State Committee for Financial Monitoring, the State Committee for Regulatory Policy and Entrepreneurship, the Anti-monopoly Committee of Ukraine.

The Bank became a member in PACMD in April 2019 (membership certificate no. 325 dated 4 April 2019).

the joint activities that the issuer conducts with other organisations, enterprises, institutions, whilst the amount of deposits, the purpose of the deposits (profit, other purposes) and the received financial result for the reporting year for each type of joint activity are indicated

The Bank did not co-operate with other organisations, enterprises and institutions.

any proposals for reorganisation by third parties that took place during the reporting period, the conditions and results of these proposals

During the year 2019, JSC BANK ALLIANCE did not receive any proposals for reorganisation by third parties.

description of the chosen accounting policy (depreciation method, method of inventories valuation, method of accounting for and valuation of financial investments, etc.)

The Bank's accounting policies are based on the accounting rules in accordance with the requirements of laws and regulations of the National Bank of Ukraine, which take into account the requirements and principles of International Financial Reporting Standards (IFRS). Financial assets and/or financial liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of financial instruments. All regular way (ordinary) acquisitions of financial assets are recognised by the Bank on a settlement date. Assets and liabilities of the Bank are measured and recognised in accounting records with reasonable prudence in order to avoid the possibility of carrying forward the existing financial risks to future reporting periods. An asset is recognised when an inflow of future economic benefits is probable and the asset has a cost or value that can be reliably measured. A liability is a present obligation of the Bank arising from past events, the repayment of which entails the outflow of the Bank's resources.

Initial recognition of financial instruments

Financial Assets

According to the International Financial Reporting Standards (IFRS) 9, financial assets are classified in one of three categories:

- at amortised cost (AC);
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL).

At initial recognition, financial assets are evaluated at fair value plus (in case of investments not classified as financial assets at FVTPL) directly attributable transaction costs.

If on the date of initial recognition, the fair value of financial asset differs from the transaction price (excluding the transaction costs), the Bank reflects this difference as follows:

- for transactions with shareholders: in equity;
- for other transactions: in profit or loss.

All standard financial asset transactions are reflected on the date of transaction, that is, on the date when the Bank assumes an obligation to acquire the asset.

Classification and measurement of financial assets reflect the business model of managing the financial assets and characteristics of their cash flows.

A financial asset is measured at AC, if the following conditions are met simultaneously:

- an asset is held within a business model aimed at holding assets to collect contractual cash flows;
- the contractual terms of a financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial asset is classified for further measurement at FVOCI, if it is held within the business model whose objective is to hold assets both to collect contractual cash flows and sell financial assets; and the contractual terms of a financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank may take an irrevocable decision to reflect further changes in the fair value of the instrument in other

comprehensive income. This choice is made for each investment separately, and mainly concerns strategic investments that are not investments in subsidiaries.

All other financial assets, that is, financial assets that fail to meet the requirements of classification at AC or FVOCI are classified for further measurement at FVTPL. In addition, the Bank has the right, at initial recognition, without the possibility of changing the recognition methods, to subsequently designate an asset for the financial asset at FVTPL, if such a choice eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on different bases.

Financial liabilities

After the initial recognition, the Bank measures and records in accounting all financial liabilities at AC, except for:

- financial liabilities at FVTPL;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or the continuing involvement principle applies;
- financial guarantee, avalisation and surety agreements;
- commitments to provide a loan at a below-market interest rate;
- contingent consideration that arose from a business combination falling within the scope of IFRS 3 Business Combinations. Such a contingent consideration is subsequently measured at FVTPL.

Impairment of financial assets

The calculation of expected credit losses (ECLs) requires the use of accounting estimates and judgments when applying the Bank's accounting policy.

The Bank evaluates, on a forward-looking basis, the ECLs for asset-side debt instruments measured at AC and FVTPL and for the exposures arising from loan commitments, lease receivables and financial guarantees. The Bank charges an ECL allowance at each reporting date.

An estimate of ECLs reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions available without undue cost or effort at the reporting date.

An estimate of ECL allowance for financial assets at AC or at FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and debt servicing status.

Significant judgments required when applying the accounting requirements to estimate ECLs include:

- determination of criteria for a significant increase in credit risk;
- selection of appropriate models and assumptions to measure the ECLs;
- determination of the number and relative weights of the forecast scenarios for each type of product / market and relevant ECLs;
- determination of groups of similar financial assets to measure ECLs.

For the Bank, the credit risk is determined by the risk of incurring financial losses, if any counterparty, customer or market partner fails to fulfil its contractual obligations. The credit risk arises mainly under the interbank, commercial and consumer loans, as well as loan commitments granted in connection with such lending activities, but may also arise from pledging a security in the form of financial guarantees, letters of credit and bills of acceptance.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time.

The assessment of credit risk for a portfolio of assets entails further estimations of the probability of default, associated loss ratios and default correlations between counterparties. The Bank estimates the credit risk using probability of default (PD), exposure at default (EAD) and amount of loss given default (LGD).

IFRS 9 provides for a three-step model of impairment based on changes in the credit quality of the instrument since the initial recognition. According to this model, a financial instrument that is not credit-impaired at initial recognition is classified in Stage 1, and its credit risk is subject to further continuous monitoring. If a significant increase in credit risk has occurred since the initial recognition, the financial instrument is transferred to Stage 2, but it is not yet considered credit-impaired. If a financial instrument is credit-impaired, it is transferred to Stage 3.

Financial instruments in Stage 1 have their ECLs measured at an amount equal to the portion of lifetime ECLs that may result from default events during the next 12 months. Financial instruments in Stage 2 or Stage 3 have their ECLs measured based on the credit losses expected from the default events for the entire lifetime of the instrument.

According to IFRS 9, when calculating the ECLs, it is necessary to take into account the forward-looking information. Purchased or originated financial asset that are credit-impaired are financial assets that are credit-impaired on initial recognition. The ECLs for such instruments are always measured based on the lifetime ECLs.

Impairment of property, plant and equipment and intangible assets.

Depreciation (amortisation) represents a systematic allocation of the depreciable amount of an asset over its useful life.

Property, plant and equipment (intangible assets) are depreciated (amortised) over the period of their useful lives set by the Bank on initial recognition, and are reviewed at each financial year-end during the annual stocktaking and adjusted as appropriate.

Depreciation of property, plant and equipment is calculated using the straight-line method based on their cost, residual value and useful life, for which the annual amount of depreciation is determined by dividing the depreciable amount of an asset by its useful life.

Useful lives of property, plant and equipment are presented as follows:

Buildings and constructions	50 years
Vehicles	7 years
Furniture	5 years
Computer and other equipment	5 years
Tools, fixtures and fittings	5 years
Other PP&E	12 years
Improvement of leased space	until the end of the lease term

Depreciation of low-value non-current tangibles is charged in the first month of an asset's use in the amount of 100% of its value.

Useful lives of intangible assets range from 2 to 10 years.

Main services that earned the Bank 10 or more percent of income for the reporting year

During 2019, the Bank demonstrated strong growth rates for all key performance indicators, in particular, as at 1 January 2020:

- the balance-sheet total amounted to UAH 3,453 million (+63.35% at the end of the year);
- credit portfolio of customers – UAH 2,468 million (+67.79%);
- amounts due to customers – UAH 2,861 million (+71.78%);
- capital – UAH 498 million (+24.32%).

This, in turn, resulted in the growth of returns in certain business areas and the Bank's profitability as a whole. Thus, at the close of 2019, the Bank's profit totalled UAH 96,543 million. At the same time, the return on assets was 3%, whilst the return on equity was 22%.

The total revenue was UAH 654,361 million, including:

INCOME ITEM	AMOUNT, UAH '000	SHARE, %
Interest income	392,426	60.00 %
Commission income	133,643	20.40 %
Trading result	93,384	14.30 %
Income from other operations	34,908	5.30 %
TOTAL:	654,361	100,00 %

Therefore, the majority of the Bank's income is the interest income, the main component of which is the interest income from corporate lending (93% of total interest income of the Bank). **Corporate lending** is a priority area of the Bank's development. The strategy of corporate business development involves financing in the segment of small- and medium-sized businesses in the following promising areas of the economy:

- agriculture;
- foreign economic activities;
- mechanical engineering;
- oil and gas;
- energy sector;
- transport and infrastructure;
- processing industry;
- wholesale trade, including in energy carriers, mineral fertilisers, etc.;
- medical services;
- companies servicing the industries above.

The Bank carries out a balanced credit policy and pays considerable attention to the formation of a qualitative loan portfolio. Credit operations are carried out with the observance of interest rates in accordance with the standard conditions of banking products. The Bank does not set interest rates lower than the break-even rate.

In 2019, the portfolio of **documentary business** of the Bank continued to grow. In the guarantee service segment, the Bank issues bid bonds, performance bonds, payment guarantees, advance repayment guarantees, IATA payment guarantees. The share of commission income in the documentary business is the most significant in the structure of commission income and amounts to 41% of the total commission income or 8% of the total income of the Bank.

In addition to the asset-side transactions, the Bank actively expands the range of settlement and cash services and other services for both corporate and retail segments. In developing and implementing new products, the Bank takes into account the individual needs and activities of its clients. In general, the Bank's activities are not seasonal, but they depend, to some extent, on the seasonality of its clients. The total share of **commission income from customer service** (excluding documentary operations) at the end of 2018 was 12.1%.

JSC BANK ALLIANCE is one of the leaders of the interbank market of Ukraine. The Bank conducts purchases and sales of foreign currency in the interbank foreign exchange market of Ukraine (IFEMU) and foreign exchange translations in international markets. In the previous year, JSC BANK ALLIANCE actively participated in the trade of securities in the Ukrainian stock market. At the end of the year, the Bank earned UAH 93 million in **trading income**.

Below is the table of discrepancies with a breakdown of key indicators of the Bank's performance in comparison to the Strategy as at 1 January 2020:

KEY INDICATOR	TARGET	ACTUAL	Δ
Credit portfolio of customers	2,604,461	2,468,495	-5%
Portfolio of amounts due to customers	2,272,138	2,860,617	+26%
Net assets	2,934,587	3,453,459	+18%
Operating profit	358,640	402,705	+12%
Total profit	59,636	96,543	+62%

The Bank exceeded the plan with several key performance indicators, e.g. the year-end total profit is more than 1.5 times higher than the target figure. The results of 2019 provide significant confidence in achieving the strategic objectives set by the Bank for 2020-2022.

Detailed information relating to financial performance of the Bank based on the results of the reporting year is provided in the annual financial statements of JSC BANK ALLIANCE for 2019.

Basic acquisitions or disposals of assets over the past five years. If an enterprise plans any significant investments or acquisitions related to its business activities, they must be described, including material terms of purchase or investment, their cost and method of financing

Key acquisitions of assets for the last five years were as follows:

For 2015:

JSC BANK ALLIANCE acted as a banking institution within the limits of the licences and permits obtained, its expenses and investments connected with economic activity did not make a significant share in relation to total volumes of banking operations.

For 2016:

- Oracle database software product licence – UAH 1,026,555.28;
- ABS SR-Bank Operating Day software products – UAH 1,268,483.34;
- Personal computers, MFPs, laptops, routers, UPS – UAH 1,121,157.91;
- Skoda motor car – UAH 428,778.17.

For 2017:

- Informer BS Analytics Software products – UAH 378,298.48;
- SED Component software products – UAH 240,000.00;
- software modules for SR-Bank software – UAH 307,600.00;
- Lenovo Flex System server – UAH 2,799,063.68;
- TopSeller data storage system – UAH 355,266.52;
- Signboards – UAH 413,734.50;
- Cash equipment – UAH 298,043.00;
- Personal computers, MFPs, laptops, routers – UAH 1,356,642.48;
- Cash collection vehicles (leasing) – UAH 2,507,403.44.

For 2018:

- Fudo software products and modules – UAH 415,806.40;

- Win Server software products – UAH 398,213.01;
- Cash equipment – UAH 761,632.65;
- Personal computers, MFPs, laptops, routers – UAH 4,473,843.94;
- Lock boxes – UAH 566,874.00;
- Cash collection vehicles (leasing) – UAH 2,700,000.00.

For 2019:

- Megapolis.DocNet e-document flow software – UAH 907,000.00;
- Internet banking – UAH 876,726.82;
- VMware VSphere 6 Standard Acceleration Kit for 6 processors – UAH 338,627.25;
- Integrated Software Package to Preventing Abuses in Financial Practices – UAH 502,239.40;
- CaaS software for the cryptographic protection of information of automated systems – UAH -300,000.00;
- Splunk Enterprise Security - Term License with Standard Success Plan - 10GB/day UAH 435,820;
- De Novo data centre server – UAH 7,217,139.82;
- De Novo data centre switch – UAH 454,159.36;
- De Novo CC data centre switch – UAH 454,159.36;
- e-safe ES1500 – UAH 303,315;
- Cash equipment – UAH 391,600.00;
- Personal computers, MFPs, laptops, routers – UAH 2,418,843.02;
- POS terminals – UAH 596,878.56;
- Safes – UAH 187,570.82;
- RENAULT DUSTER vehicles (leasing) – UAH 563,017.39;
- Signboards – UAH 234,610.00;
- Cash collection vehicles (transfer of ownership) – UAH -2,507,403;

There were no alienations of key assets during the last five years.

There have been no alienations of assets in excess of the limits established in the charter of the financial institution.

Transactions with major shareholders, members of the supervisory board or members of the executive body, affiliates, including, in particular, all transactions concluded during the reporting year between the issuer or its subsidiaries / affiliated enterprises, separate units, on one hand, and major shareholders, members of the supervisory board, or members of the executive body, on the other hand. These transactions include: the date, the parties to the transaction, scope of transaction, amount, basis of conclusion and pricing method used by the issuer to determine the transaction amount and, if necessary, other information

General information relating to these transactions is provided by the Bank in Note 33 Related Party Transactions to the annual financial statements of JSC BANK ALLIANCE. Detailed information relating to the dates, parties to the transaction, scope, amounts, basis for conclusion and pricing methods used by the Bank to determine the amounts of transactions is information relating to bank secrecy within the limits specified in Article 60 of the Law “On Banks and Banking Activities”,

the disclosure of which was not consented by transaction participants.

The Bank's principal assets, including leased assets and any significant Bank's transactions with such assets; production capacity and wear and tear; way of holding assets, location of property, plant and equipment. In addition, it is necessary to describe environmental issues that may affect the use of enterprise assets, plans for capital construction, expansion or improvement of property, plant and equipment, the nature and causes of such plans, the amount of expenditures, including those already made, description of financing method, projected dates of beginning and end of activity and expected growth of production capacity after its completion

Name of PP&E (at residual value)	PP&E owned (UAH '000)		PP&E rented (UAH '000)		PP&E, total (UAH '000)	
	beginning of the period	end of the period	beginning of the period	end of the period	beginning of the period	end of the period
1. Production purpose:	16,395	34,406	4,725	2,753	21,120	37,159
buildings and structures	0	0	0	0	0	0
machinery and equipment	8,590	24,986	0	0	8,590	24,986
vehicles	330	3,901	4,725	2,753	5,055	6,654
land plots	0	0	0	0	0	0
other	7,475	5,519	0	0	7,475	5,519
2. Non-production purpose:	0	0	0	0	0	0
buildings and structures	0	0	0	0	0	0
machinery and equipment	0	0	0	0	0	0
vehicles	0	0	0	0	0	0
land plots	0	0	0	0	0	0
investment property	0	0	0	0	0	0
other	0	0	0	0	0	0
Total	16,395	34,406	4,725	2,753	21,120	37,159

Useful life of PP&E by main groups:

- machinery and equipment – 3-5 years;
- vehicles – 7 years;
- other PP&E – 1-12 years;
- (improvement of the rented premises) – until the end of the lease term.

As at 31 December 2019, the cost of property, plant and equipment was UAH 57,905 thousand and the amount of depreciation charged was UAH 20,746 thousand. Wear and tear of property, plant and equipment is 35.23%. The cost of fully depreciated property, plant and equipment amounted to UAH 799 thousand.

The Bank rents premises at the following addresses:

1. 50 Sichovykh Striltsiv Street, 1st and 2nd floors, Kyiv;
2. 50 Sichovykh Striltsiv Street, 5th and 6th floors, Kyiv, and two parking spaces in the underground parking lot;
2. 17 Metalurhiv Avenue, Zaporizhia;
3. 8 Illinska Street, Kyiv;
4. 28 Voskresenska Street, Dnipro, Dnipropetrovsk Region;

5. 15 V Stefanyka Street, apt. 2, Lviv, Lviv Region;
 6. 66 I. Franka Street, apt. 2A, Lviv, Lviv Region;
 7. 5/1 Bazarna Street, Odesa, Odesa Region;
 8. 65 Chernyshevskaya Street, Kharkiv, Kharkiv Region;
 9. 8 Tsentralna Square, Chernivtsi, Chernivtsi Region;
 10. 44 Metrolohichna Street, premises 43/4, Kyiv;
 11. 14 Soborna Street, Mykolaiv, Mykolaiv Region;
 12. 5R Myru Avenue, Chornomorsk, Odesa Region;
 13. 16-A Haharina Street, Kremenchuk, Poltava Region;
 14. 44 Mykhaila Hrushevskoho Street, Korosten, Zhytomyr Region;
 15. 78 Keletska Street, Vinnytsia, Vinnytsia Region;
 16. 2/35 Haharina Street, Kyiv;
 17. 4 9-ho Travnia Street, Sumy, Sumy Region;
 18. 11 Teatralna Street, office 44, Bila Tserkva;
 19. 112 Velyka Vasylkivska Street, Kyiv;
 20. 44 Metrolohichna Street, premises 43/5, Kyiv;
 21. 5/5 Bazarna Street, Odesa, Odesa Region;
 22. 31 Nebesnoi Sotni Street, Cherkasy, Cherkasy Region;
 23. 4 Piatnytska Street, Chernihiv, Chernihiv Region;
- No capital construction is expected.

Issues that affect the issuer's activities; the degree of dependence on legislative or economic constraints (significant risk factors that affected the activities throughout the year)

Amongst the key risks affecting the Bank's operations, the Bank distinguishes the following:

- military escalation in eastern Ukraine, threatening macroeconomic efficiency and stability;
- presidential and parliamentary elections in 2019, as well as local elections in 2020, accompanied by social reforms and initiatives;
- negative dynamics in the growth of external debt, which increases the risk of default and the risk of the currency crisis;
- development of the non-banking and fintech sector and, as a result, increased competition in the financial market and an increase in the cost of customer involvement in servicing the Bank;
- stagnation of real estate prices, high depreciation and low liquidity reduce the value of collateral and, accordingly, increase the level of credit risk;
- the government losing the PrivatBank lawsuit, which will carry negative consequences for the banking system and national economy.

In addition, the National Bank of Ukraine implemented a number of legislative and economic reforms that had and will have a significant effect on the Bank's operations. In particular, regulations applicable to banking operations (the need to reorganise the Bank's risk management and corporate governance system / introduction by the regulator of a new bank monitoring model using the SREP system / gradual implementation of new capital requirements (capital buffers, changing methods for calculating the regulatory capital, creating capital for operating risks, etc.) / introduction of new liquidity ratios (LCR and NSFR / etc.), which led to, on one hand, a significant increase in the Bank's cost of operation and, on the other hand, a shortfall in the Bank's earnings, since it is forced to hold a larger amount of liquid assets (increasing the margin of safety), thus, reducing the return on equity and limiting opportunities for increasing it.

Description of the chosen policy for financing activities, the sufficiency of working capital for current needs, possible ways to improve liquidity according to expert estimates

The key ways of increasing the authorised and, accordingly, regulatory capital of the Bank are profits earned from the Bank's current operations for 2019-2021. In addition, to increase the financial resilience of the Bank, it is planned to make additional shareholder contributions to increase the Bank's authorised capital, and to raise funds on the basis of subordinated debt.

The capitalisation plan is based on a range of assumptions, takes into account the need to follow laws and regulations of the National Bank of Ukraine on the minimum regulatory capital ratio and

capital (conservation) buffer and contemplates the Bank's compliance with the following conditions:

- in order to maintain the pace of intensive development, the Bank will actively raise additional funds, primarily from individuals and entities;
- average size of allowances for asset-side transactions will not grow;
- the Bank will continue to adhere to the policy of strict control of regular non-operating costs. This will allow to optimise the level of administrative and economic costs, in the context of expansion of the network of regional branches of the Bank, which, in turn, will have a positive effect on the overall level of the Bank's profit;

- The management of the Bank plans to continuously monitor the overall level of capital adequacy risk based on the monitoring of product, sectoral and regional risks and keep the Supervisory Board informed about the trends of these risks;

- The Bank plans to invest in intangible assets, in particular, to implement a number of IT projects, comply with the requirements of the National Bank of Ukraine on the quality of the Information Security Management System. This will allow us to adhere to the appropriate technical level of the Bank's development to ensure financial and economic activity.

Actions above will lead to an increase in regulatory capital, which will allow to maintain the Bank's solvency at an adequate level and thereby comply with the capital ratios N1, N2 and N3, ensuring the level of growth of assets in accordance with the Bank's strategic objectives.

Cost of concluded but not yet executed agreements (contracts) at the end of the reporting period (total) and expected returns from execution of these agreements

As at 1 January 2020, the Bank's account 9210 Currency and Precious Metals for Delivery under Spot Transactions,

account 9231 Currency and Precious Metals for Delivery under Forward Contracts at FVTPL settled on a net basis (without shipping the underlying asset), account 9238 Commitment for Delivery of Currency under Net-settled Currency Swap Contracts at FVTPL (without Delivery of the Underlying Asset) under forward contracts totalled UAH 1,791,040,355.21. The profit from these transactions amounted to UAH 56,412,752.94.

The further activity strategy for at least a year (regarding expansion of production, reconstruction, improvement of financial condition, description of significant factors that may affect future activities)

The management has a high level of responsibility for preparing the Bank's Development Strategy for years to come and for monitoring its implementation on a regular basis. Thus, the Supervisory Board decided on 24 December 2019 (Minutes No. 82) to approve the updated version of the Strategy of JSC BANK ALLIANCE for 2020-2022.

In the context of the approved Strategy, JSC BANK ALLIANCE confirms its commitment to the principles of transparency and accountability in its daily activities and makes efforts to achieve high standards of service at the Bank with 100 % Ukrainian capital.

In addition to the key goals the management is focused on the following:

- Creation of a roadmap for development in the coming years.
- Account for existing opportunities in the banking market.
- Concentration of efforts and resources in the priority areas.
- Business development:
 - increasing the volume of transactions and the number of customers;
 - capitalisation of business and growth of its value;
 - growth of return on equity (ROE);
 - enhancing brand awareness.
- Ensuring a sustainable business model:

- capital adequacy;
- caution in conducting credit operations;
- optimal ratio of interest to commission income.
- Structure, technology and process optimisation.
- Increasing the quality of customer service.
- Involvement of independent external resources (including from international organisations).
- Corporate governance improvement.

In accordance with the Bank's business model, to achieve its strategic goals, the Bank identifies the following priority business areas:

- Corporate banking;
- Retail banking;
- Investment banking.

Corporate customer service is the highest priority for the Bank in 2020-2022, corporate banking will remain key to the Bank and will form the major part of the loan portfolio and revenues to the Bank. The key priority of the Bank is the segment of small- and medium-sized companies. The logic of choosing this segment is to limit excessive dependence of the Bank on large customers and to prevent overloading by a large number of transactions specific to micro-customers. A separate segment of customers is international companies and banks with which the Bank plans to cooperate in a number of projects concerning financing of separate sectors (in particular, agriculture) and the economy of Ukraine as a whole. In its activities, the Bank adheres to the policy of environmental and social responsibility, therefore "green" financing is considered one of the priority lending areas – projects on renewable energy sources, energy efficiency, modernisation of buildings and structures, etc.

Retail Business Development Strategy aims to increase the customer base, improve quality of customer service by introducing an optimal product range, design a model of selling retail products in branches, balanced credit policy, optimise business processes, improve the Bank's technological effectiveness. In the retail group, the Bank focuses on the private banking segment, which underscores its selective approach to servicing retail customers, including by benefiting from their connection with the corporate segment at the level of top management and business owners, which is another priority of the Bank.

Investment banking comprises operations in the interbank market and securities market. Interbank operations will be carried out mainly for the Bank to earn trading income from operations in the interbank exchange market of Ukraine and the international foreign exchange market, and to manage the instant and current liquidity of the Bank by reference to risks and value in order to ensure that the Bank is solvent and timely fulfils its obligations to its customers and counterparties. In order to timely execute transactions with banks as contractors, as well as for the prospect of business development, additional income and expansion of banking services, a collection unit has been established in the organisational structure of the Bank. The strategy for the development of transactions with securities and monetary instruments for 2020-2022 contemplates further development of the Bank in three areas: investing in securities and monetary instruments, trading with securities and provision of custody services.

In order to ensure efficient operation, growth and development of the Bank, introduction of the latest technologies and modern banking services, the Bank has the following strategic objectives for information systems and banking technologies:

- continuous improvement of the quality of IT services for internal users and external customers of the Bank through automation of banking processes;

- continuous development and improvement of the level of information security of the Bank's information infrastructure, including for confronting external and internal cyber threats;
- continuous development and improvement of the level of continuity of the Bank's information infrastructure;
- development and improvement of the Bank's information infrastructure;
- introduction of new technologies into the Bank's information systems;
- promoting the best use of the Bank's resources.

The business lines generating sufficient revenues will enable achieving both the financial goals of the Bank's activities and non-financial ones.

The main criteria for measuring success are achieving the financial targets, implementation of key projects, compliance with the established levels of risk appetite and full compliance with the requirements of regulators and the laws of Ukraine in general.

Taking into account the rapid development of the Bank, the Bank believes that one of its strategic objectives for the near future is to prepare a KPI (Key Performance Indicators) system based on quantitative and qualitative indicators of the Bank's activities and strategic development objectives. At the moment, the key indicators of the Bank's activities are financial performance indicators, including in comparison with the planned values of similar indicators determined in the Bank's Development Strategy for 2020-2022.

Social responsibility

Since 2016, JSC BANK ALLIANCE has been implementing its own social and charity programmes, works on creating a positive image and tries to get involved in solving social problems of the country as often as possible. Charity projects are not a one-off spontaneous manifestation of charity, but a separate focus of the development strategy and an opportunity to have positive effect on society.

By providing sponsorship and charity support, JSC BANK ALLIANCE:

- supports initiatives related to education, culture and conducts children's sports competitions, supports sports teams;
- makes targeted charitable donations;
- helps cancer patients.

In terms of social activities, the priority beyond doubt is to help children. The Bank pays attention to both charity and sports and culture development programmes. For the last three years on the 19th day of December, JSC BANK ALLIANCE has been directing a part of its annual income to charity. In 2018, the Bank donated washing and drying machines, rehabilitation room furniture, fruit and sweets to Zinkivskiy Orphanage named after O.V. Siniahovskiy that accommodates 129 children suffering from defects of varying severity degrees, cerebral palsy and mental retardation.

In May 2019, JSC BANK ALLIANCE joined #Mamaporuch ('the mother is near' – translator's note) flash mob organised by Zaporuka foundation. The purpose of flash mob was to help build a new Dacha centre, which may serve as a home for the time of treatment of children with cancer. Dacha centre is the only residential building in Ukraine, where children with cancer and their family members may come from all parts of Ukraine, live and get treatment. The bank could not help but make a corporate donation to support the construction of the Dacha centre for children with cancer.

Traditionally, at the end of the year, the Bank sends help to children who are currently in need of help. Partly owing to our clients, the Bank transferred sterilisation equipment to a children operating room of the National Cancer Institute. Every year the National Cancer Institute provides treatment for 300 children from all parts of Ukraine. These children have the severest types of

malignancies. Each child undergoes surgery or any other procedure that uses sterile tools. Availability of a high-quality sterilisation equipment in the operating room ensures modern conditions of surgery.

The most valuable results of social investments in future generations for the Bank are healthy, educated and happy children, who will further become the foundation of the Ukrainian nation.

Description of research and development policy, amount of research and development costs for the reporting year

The Bank carries out marketing researches to make strategy-related managerial decisions in a particular area, enter new markets / niches, promote new products / services, set tariff policies, use advertising tools and methods for promoting products / services, etc.

The marketing researches are carried out exclusively within the limits of the budget approved by the Supervisory Board, with the involvement of a third party in accordance with internal regulations of the Bank. Both business units and the Marketing Department may initiate marketing researches.

During the reporting year, the Bank used marketing research services only once – the scope of the study was webpage content. The cost of the study was UAH 2.5 thousand.

Information relating to the results of the operation of the internal audit (control) system during the year, as well as the data specified in the notes to the financial and consolidated financial statements in accordance with the accounting rules (standards)

The internal control system implemented by the management of JSC BANK ALLIANCE covers all areas of the Bank's activities and is aimed at preserving assets, efficiency of banking operations and efficient management of risk, assets and liabilities, ensuring the completeness, timeliness and reliability of accounting, compilation and providing financial, statistical reporting, etc. One of the components of the internal control system is the Internal Audit Service. The Service verifies and assesses the processes that ensure the Bank's activities and puts potential risks, determines the effectiveness and adequacy of the work of risk management systems, the Bank's management processes and the compliance of these systems / processes with the types and volumes of operations performed, including on the prevention of the use of the banking system for the legalisation of criminal incomes / terrorist financing. Auditors have special powers to perform their functional duties, whilst respecting the principles of independence, objectivity and impartiality, due diligence, professional competence and ethics. Based on the internal regulatory documents and procedures for carrying out an audit in 2019, the Service performed 11 audits in the following areas: the Bank's compliance with the laws of Ukraine on anti-money laundering, counter-terrorism financing and proliferation of mass destruction weapons; lending; transactions with securities; cash and settlement operations; leasing out deposit boxes; opening, maintenance and termination of corporate and retail current accounts; operations of 5 branches of the Bank (Odesa Branch, Zaporizhzhya Branch, Chornomorsk Branch, Mykolaiv Branch, Kyiv Branch No. 1). The audits assessed the effectiveness and adequacy of internal controls, compliance of the Bank's structural units with legal requirements, effectiveness of officers in performing their duties and risk exposures inherent in the Bank's activity. The results of the audit were reported to the Supervisory Board, the Committee of the Supervisory Board for Auditing and the Management Board. Auditor's recommendations for improving operations and internal control system and minimising risks are being introduced in the Bank's works in accordance with approved plans. The Internal Audit Service monitors the implementation of the recommendations.

The monitoring of internal controls revealed that employees involved in the Bank's operating processes ensure the accuracy and completeness of accounting records; comply with International

Financial Reporting Standards; prepare statistical reports in a timely manner; prevent errors and fraud; ensure the safety of property; control the process of compliance with regulations and the implementation of internal and accounting orders; ensure tax payments are complete and timely. The current accounting control is preliminary (before the transaction is recorded in the accounting), current (in the process of accounting for the transaction) and subsequent (after the transaction).

The Bank's employees ensure the implementation of internal control procedures within the Bank in accordance with their functional responsibilities.

To ensure the improvement of the internal control system, the Bank constantly upgrades the qualification of its staff (including organisation and control of the training process).

As a result of monitoring the Bank's activities and internal controls during 2019, minor irregularities were identified that did not lead to risks and were eliminated upon identification.

The current internal control system of the Bank indicates that the implemented internal controls are adequate and are being effectively used. The Bank's internal control system requires continued improvement and development.

Information relating to the recommendations of the authorities that carry out the state regulation of financial services markets regarding the auditor's report

Recommendations of the regulators of financial services markets regarding the auditor's report based on results of the audit of the annual financial statements of JSC BANK ALLIANCE for the year ended 31 December 2019 were not provided.

Information relating to the external auditor of the Bank

In 2019, BAKER TILLY UKRAINE LLC, identification (USREOU code) number is 30373906 and registered at 3 Hrekova Street, apt. 9, Kyiv, 04112, Ukraine was appointed as the auditor of JSC BANK ALLIANCE.

Total experience of auditing:

BAKER TILLY UKRAINE LIMITED LIABILITY COMPANY is an independent Ukrainian company that provides audit, business consultancy, independent valuation and accountancy services; it is one of the leaders on the national market, an independent member of Baker Tilly International. The company is one of the largest auditing companies in Ukraine. The total experience since it was included in the register of audit firms and auditors is more than 19 years (ACU Certificate No. 98 dated 26 January 2001).

• the number of years during which the Bank's audit services are provided by:

BAKER TILLY UKRAINE LLC has been providing JSC BANK ALLIANCE with services related to the audit of annual financial statements for four years: 2016, 2017, 2018 and 2019.

list of other audit services provided to the Bank during the year:

During 2019, BAKER TILLY UKRAINE LLC provided the following audit services to JSC BANK ALLIANCE: review of the Bank's interim condensed financial statements for Q1 2019; review of the Bank's interim financial statements for nine months ended 30 September 2019.

there were no conflict of interest and/or combining functions of an internal auditor:

There were no cases of conflict of interest and/or combining functions of an internal auditor for 2019.

rotation of auditors of the Bank during the last five years:

The annual financial statements for 2015 were audited by AUDIT-SERVIS INK Limited Liability Company (identification (USREOU) code 13659226). The annual financial statements for

2016, 2017, 2018 and 2019 were audited by BAKER TILLY UKRAINE LLC (identification (USREOU) code 30373906).

Penalties imposed by the Auditing Chamber of Ukraine on the auditor during the year and untrue accounts submitted by the Bank, as confirmed by the auditor's report and revealed by bodies that carry out the state regulation of the financial services markets:

There is no information relating to penalties imposed on BAKER TILLY UKRAINE LLC by the Auditing Chamber of Ukraine in 2019. There are no facts that JSC BANK ALLIANCE submitted misstated financial statements, as confirmed by the auditor's report and found by the bodies that regulate financial services markets.

Bank's protection of rights of consumers of financial services

In order to ensure appropriate protection of rights of consumers of financial services, the Bank has established certain procedures that outline the sequence of actions to be taken by its employees when interacting with customers and responsible units of the Bank particularly when receiving, reviewing, examining and answering customer complaints. The Bank takes all appropriate measures to prevent any incidents related to violation of rights of consumers of financial services, which may lead to violations of the law of Ukraine and regulations issued by regulating authorities, internal regulations of the Bank, reputational risk, etc.

The Bank monitors on a regular basis the receipt of customer complaints / appeals to analyse the reasons of complaint and to take the necessary measures to minimise them in accordance with internal banking procedures.

In 2019, the Bank carried out an inspection for compliance with the requirements of consumer protection law, which identified no violations.

The Bank received no reports on violations of the financial services consumer protection law.

- the status of the Bank's complaints regarding the provision of financial services during the year (nature, number of complaints received and the number of satisfied complaints): None.

- Legal claim filed in relation to the provision of financial services by the Bank and the results of their consideration: None.

Measures of influence applied by the government bodies to the Bank during the year, including members of its supervisory board and executive body

In addition to the penalties specified in paragraph 5, no measures of influence were applied in 2019 to the Bank and the Bank's officers.

Transactions with related parties, including within one industrial and financial group or other association during the year

As provided in article 52 of the Law of Ukraine of Banks and Banking, transaction with Bank's related parties may not be made on more favourable terms and conditions than the transactions made with other parties.

Balances of related party transactions as at 31 December 2019

<i>In thousands of UAH</i>	Majority participants (shareholders) of the Bank	Key management personnel	Other related parties
Due to customers (contractual interest rate 0-15%)	13,419	8,810	16,098

Loans and advances to customers (contractual interest rate 18-21 %)	230	2,491	87,606
Provision for loan impairment as at 31 December	18	687	6,945

Income and expenses on related party transactions for 2019 (Year To Date)

<i>In thousands of UAH</i>	Majority participants (shareholders) of the Bank	Key management personnel	Other related parties
Interest income	0	420	13,449
Interest expenses	2,096	102	1,029
Results from transactions with securities in the bank's trade portfolio	0	0	0
Commission income	0	0	56
Administrative and other operating expenses	0	23,180	2,720

Total amount of loans issued to related parties and reimbursed by the related parties within 2019 (Year To Date)

<i>In thousands of UAH</i>	Majority participants (shareholders) of the Bank	Key management personnel	Other related parties
Amount of loans issued to related parties for the period	1,690	9,133	136,450
Amount of loans repaid by related parties for the period	1,610	8,256	94,438

Executive management remuneration (UAH '000)

Line	<i>In thousands of UAH</i>	31/12/2019		31/12/2018	
		expenses	accrued liabilities	expenses	accrued liabilities
1	Current payments to the employees	17,910	2,889	10,906	1,863
2	Layoff costs	-	-	360	-

6.12. Information relating to significant transactions or interested party transactions or about prior consents given to significant transactions or interested party transactions and information relating to persons interested in the interested party transactions and the circumstances giving rise to the interest

During 2019, the Bank did not submit to the General Shareholders Meeting any issues related to granting consent to enter into significant transactions or interested party transactions, nor made any decisions for granting prior consents to such transactions.

In the reporting period, the Bank did not enter into interested party transactions, which is why no information was provided about parties involved in interested-party transactions.

In the reporting period, the Bank concluded the following significant agreements and the Supervisory Board issued the following resolutions on the preliminary approval of the execution and subsequent approval of significant transactions:

Date	Authorised body that issued the resolution	Market value of assets or services underlying the transaction (UAH '000)	Market value of the issuer's assets under the latest annual financial statements (UAH '000)	Ratio of market value of assets or services underlying the transaction to the value of issuer's assets under the latest annual financial statements (per cent)	Scope	Transaction date
05/11/2019	Supervisory Board, resolution on the preliminary approval	300,000	2,114,167	14.19	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 300,000 thousand with a placement period until 06/11/2019 and an interest rate of 13.50% per annum.	05/11/2019
28/11/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	300,000	2,114,167	14.19	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 300,000 thousand with a placement period until 07/11/2019 and an interest rate of 13.50% per annum.	06/11/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	440,000	2,114,167	20.81	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 440,000 thousand with a placement period until 02/12/2019 and an interest rate of 13.50% per annum.	29/11/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	270,000	2,114,167	12.77	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 270,000 thousand with a placement period until 03/12/2019 and an interest rate of 13.50% per annum.	02/12/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	390,000	2,114,167	18.45	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 390,000 thousand with a placement period until 04/12/2019 and an interest rate of 13.50% per annum.	03/12/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	495,000	2,114,167	23.41	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 495,000 thousand with a placement period until 05/12/2019 and an interest rate of 13.50% per annum.	04/12/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	420,000	2,114,167	19.87	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 420,000 thousand with a placement period until 06/12/2019 and an interest rate of 13.50% per annum.	05/12/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	235,000	2,114,167	11.12	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 235,000 thousand with a placement period until 09/12/2019 and an interest rate of 13.50% per annum.	06/12/2019

					annum.	
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	320,000	2,114,167	15.14	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 320,000 thousand with a placement period until 10/12/2019 and an interest rate of 13.50% per annum.	09/12/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	400,000	2,114,167	18.92	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 400,000 thousand with a placement period until 11/12/2019 and an interest rate of 13.50% per annum.	10/12/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	290,000	2,114,167	13.72	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 290,000 thousand with a placement period until 12/12/2019 and an interest rate of 13.50% per annum.	11/12/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	350,000	2,114,167	16.55	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 350,000 thousand with a placement period until 13/12/2019 and an interest rate of 13.50% per annum.	12/12/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	260,000	2,114,167	12.3	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 260,000 thousand with a placement period until 17/12/2019 and an interest rate of 11.50% per annum.	16/12/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	250,000	2,114,167	11.82	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 250,000 thousand with a placement period until 18/12/2019 and an interest rate of 11.50% per annum.	17/12/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	320,000	2,114,167	15.14	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 320,000 thousand with a placement period until 20/12/2019 and an interest rate of 11.50% per annum.	19/12/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	340,000	2,114,167	16.08	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 340,000 thousand with a placement period until 21/12/2019 and an interest rate of 11.50% per annum.	20/12/2019
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	480,000	2,114,167	22.7	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 480,000 thousand with a placement period until 23/12/2019 and an interest rate of 11.50% per annum.	21/12/2019

					annum.	
24/12/2019	Supervisory Board, resolution on the subsequent approval of significant transaction	260,000	2,114,167	12.3	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 260,000 thousand with a placement period until 24/12/2019 and an interest rate of 11.50% per annum.	23/12/2019
09/01/2020	Supervisory Board, resolution on the subsequent approval of significant transaction	310,000	2,114,167	14.66	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 310,000 thousand with a placement period until 26/12/2019 and an interest rate of 11.50% per annum.	24/12/2019
09/01/2020	Supervisory Board, resolution on the subsequent approval of significant transaction	250,000	2,114,167	11.82	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 250,000 thousand with a placement period until 27/12/2019 and an interest rate of 11.50% per annum.	26/12/2019
09/01/2020	Supervisory Board, resolution on the subsequent approval of significant transaction	390,000	2,114,167	18.45	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 390,000 thousand with a placement period until 28/12/2019 and an interest rate of 11.50% per annum.	27/12/2019
09/01/2020	Supervisory Board, resolution on the subsequent approval of significant transaction	425,000	2,114,167	20.1	Purchase of deposit certificates of the National Bank of Ukraine; the value of the asset underlying the significant transaction is UAH 425,000 thousand with a placement period until 03/01/2020 and an interest rate of 11.50% per annum.	28/12/2019

Authorised for issue and signed by

18/02/2020

Chairman of the Board
JSC BANK ALLIANCE



Y.M. Frolova

II. Independent Auditor's Report

28, Fizkultury St.
Kyiv, 03150
Ukraine

T: + 380 (44) 284 18 65
F: + 380 (44) 284 18 66

info@bakertilly.ua
www.bakertilly.ua

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of Financial Statements

Opinion

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

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

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

Basis for opinion

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

Emphasis of matter

We draw attention to Note 34 to the financial statements regarding the potential effect of the COVID-19 pandemic on business, which cannot be quantified at the moment, resultant implications for the Bank's business and returns and the economy as a whole. One cannot rule out that this might cause an economic slowdown with potential implications, such as negative effects on the business performance and financial position of the Bank in a manner not currently determinable. Our opinion on this matter has not been modified.

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

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have identified that the matters below are key audit matters that should be presented in our report.

Key audit matters	How our audit considered the key audit matters
<i>Provision for impairment losses on loans and advances to customers, balances on correspondent accounts in other banks – UAH 122,673 thousand.</i>	
<i>Refer to Notes 6, 7, 4.39</i>	
<p>We have focused our attention on this matter as a key audit matter due to the materiality of the balances on items "Loans and advances to customers", "Loans and advances to banks" and the subjective nature of judgements used in calculating the impairment.</p> <p>Provision for impairment losses reflect the management's estimate of expected losses based on the portfolios of loans and advances to customers at the reporting date.</p> <p>The measurement of expected credit losses of a financial instrument is carried out in a way that reflects: an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, time value of money and all reasonable and supportable information about past events, current conditions and forecasts of future conditions by reference to all reasonable and supportable information, including that which is forward-looking.</p> <p>Identifying whether there has been a significant increase in credit risk, impairment and determining the recoverable amount involves certain assumptions and analysis of different factors, including the borrower's financial position, expected future cash flows, observable market prices, fair value of collateral.</p> <p>The use of different models and assumptions can lead to different outcomes in provisioning for impairment losses on loans and advances to customers.</p>	<p>Our procedures included, among others, the following:</p> <ul style="list-style-type: none"> - Familiarising with the internal controls system implemented by the management personnel with a focus on the calculation of provisions for impairment losses on loans and advances to customers both on an individual and collective basis. - We also independently evaluated the appropriateness of the management's judgements regarding the calculation methodology and inputs about past events, current conditions and forward-looking information to calculate the probability of default, as well as the recoverable amounts and collateral value. - We have conducted a selective test of assumptions underlying the calculation of impairment and its quantification, including the analysis of the borrowers' financial position, forecasts about future cash flows and collateral measurement. For loan impairment provisions that showed no individual indications of impairment, we tested the models and inputs used in those models, as well as their mathematical accuracy. <p>We identified no material mismatches as a result of these tests.</p>

Other information

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

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

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

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

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

Responsibility of management and those charged with governance for financial statements

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

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

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

Auditor's responsibility for the audit of financial statements

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

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

- identify and assess the risks of material misstatement of financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that would be sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or neglect of internal controls;
- obtain an understanding of internal controls related to the audit in order to design audit procedures that would be appropriate in the circumstances and not to express an opinion on the effectiveness of internal controls;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

ADVISORY • ASSURANCE • TAX • ACCOUNTING

BAKER TILLY UKRAINE LLP trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

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

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

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

Report on other legal and regulatory requirements

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

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

Audit objective and duration

We were appointed as auditors by decision of the Supervisory Board of the Bank dated 19 September 2018 (minutes no. 94) to conduct a statutory audit of the Bank's financial statements for the year ended 31 December 2019. The period of total uninterrupted statutory audit of the Bank's financial statements, including the previous renewals and reappointments, is 3 years.

Non-audit services and auditor independence

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

We have provided to the Bank or its controlled entities the following services, other than statutory audit services, that were not disclosed in the financial statements or in the Management Report: assessment of the quality of the Bank's assets and collateral adequacy on loans as at 1 January 2019 within the requirements of the Terms of Reference to assess the resilience of Ukrainian banks and banking system approved by Resolution of the Management Board of the National Bank of Ukraine No. 97-PLU dated 5 February 2019.

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

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

Consistency of the management report with the financial statements

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

- the management report of JSC BANK ALLIANCE for 2019, which includes the corporate governance report as a separate section, is prepared in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", "Guidance on the Procedure for the Preparation and Publication of Financial

ADVISORY · ASSURANCE · TAX · ACCOUNTING

BAKER TILLY UKRAINE LLP trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

Statements in Ukrainian Banks” approved by Resolution of the NBU No. 373 dated 24 October 2011 and other applicable laws and regulations, and the information presented there is consistent with the financial statements;

- we identified no material misstatements in the management report.

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

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

Identification and assessment of potential risks related to violations

In identifying and assessing the risks of material misstatement with regard to identifying violations, in particular, those related to fraud and non-compliance with laws and regulations, our procedures included, among others, the following:

- inquiries to the management and those charged with governance, including the receipt and review of supporting documentation on the Bank's policies and procedures with regard to:
 - identification, evaluation and compliance with laws and regulations and availability of records about any instances of their violation;
 - identification and response to risks of fraud and availability of records about any factual, suspected or anticipated fraud; and
 - internal controls implemented to reduce risks related to fraud or non-compliance with laws and regulations.
- discussions between audit team members to determine under which circumstances and at what stage may the Bank's financial statements be most vulnerable to material misstatement due to fraud, including fraud techniques. As part of this discussion, we identified a potential fraud with regard to the following: income recognition, management's negligence of controls; and
- obtaining an understanding of laws and regulations that apply to the Bank and constitute a regulatory framework for its operations. At the same time, special attention was given to those laws and regulations that directly affected the financial statements or which had a fundamental impact on the Bank's operations. Key laws and regulations that we considered in this context included the Law of Ukraine "On Banks and Banking Activities" and regulations of the National Bank of Ukraine on licensing and prudential supervision, Law of Ukraine "On Securities and Stock Market" and applicable regulations of the National Securities and Stock

Actions responsive of assessed risks

As a result of our risk identification and assessment procedures, we have not identified any matters related to the risk of fraud or non-compliance with laws and regulations that could be used as key audit matters.

Our procedures in response to other identified risks, among others, included the following:

- review of disclosures to financial statements and testing of supporting documentation in order to assess compliance with the applicable laws and regulations set out in this section;
- inquiring from management and those charged with governance and internal lawyers with regard to the existing and potential lawsuits and claims;
- performance of analytical procedures to detect any unusual or unexpected relationships that might point to risks of material misstatements due to fraud;
- familiarisation with the minutes of meetings of those charged with governance and review of internal audit reports;
- testing the compliance of accounting information and adjustments; assessment of whether judgements and decisions made by the management in determining accounting estimates indicate a bias; evaluation of the economic feasibility of significant transactions that are unusual or outside the ordinary course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all members of the audit team and remained alert throughout the audit to any indications of fraud or non-compliance with laws and regulations.

Identification and assessment of potential risks related to violations

Actions responsive of assessed risks

Market Commission, Law of Ukraine "On Financial Services and State Regulation of the Financial Services Markets".

Other matters

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

- the information illustrated in the corporate governance report as part of the Management Report of JSC BANK ALLIANCE for 2019 in accordance with paragraphs 1-4 part 3 Article 40¹ of the Law of Ukraine "On Securities and Stock Market" was prepared in accordance with the Law of Ukraine "On Securities and Stock Market" and other applicable laws and regulations is consistent with the financial statements;
- in our opinion, the corporate governance report as part of the Management Report of JSC BANK ALLIANCE for 2019, which is responsibility of the Bank's management, presents all the information required by paragraphs 5-9 part 3 Article 40¹ of the Law of Ukraine "On Securities and Stock Market".

Other laws and regulations

Reporting as required by the Law of Ukraine "On Banks and Banking Activities" and "Regulation on the Procedure for a Bank to Submit an Audit Report on the Findings of the Annual Audit of Financial Statements to the National Bank of Ukraine" approved by the Resolution of the National Bank of Ukraine No. 90 dated 2 August 2018.

According to the Law of Ukraine "On Banks and Banking Activities" and requirements of the Regulation on the Procedure for a Bank to Submit and Audit Report on the Findings of the Annual Audit of Financial Statements approved by the Regulation of the National Bank of Ukraine No. 90 as of 2 August 2018, the audit report shall also contain information (evaluation) on:

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

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

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

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

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

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

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

ADVISORY · ASSURANCE · TAX · ACCOUNTING

BAKER TILLY UKRAINE LLP trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

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

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

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

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

internal audit

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

determining the credit risk exposure on asset-side banking transactions

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

As a result of audit procedures within the audit of annual financial statements, we did not identify any material departures from the credit risk calculation made by the Bank as at 31/12/2019.

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

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

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

The Bank's authorised capital as at 31 December 2019 is adequate and accounts for UAH 260,000 thousand. As shown in Note 19 Authorised Capital and Share Premium, the General Meetings of Shareholders as of 27 November 2019 passed a decision to increase the authorised capital, more specifically, to increase the authorised capital of JSC BANK ALLIANCE by UAH 105,120,000.00 up to a total of UAH 365,120,000.00 by increasing the nominal value of shares from UAH 16.25 up to UAH 22.82 by directing a portion of the Bank's profits of 105,120,000.00 earned for 2018 to its authorised capital. As at 31 December 2019, the procedure for registering changes to the Charter has not been completed and, accordingly, the issue of shares at the new nominal value in 2019 has not been registered. The Bank's regulatory capital as at 31 December 2019 is UAH 409,550 thousand, which is consistent with the NBU regulations (refer to Note 30 Capital Management).

accounting

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

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

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

main information about the Bank

full name – JOINT STOCK COMPANY BANK ALLIANCE

legal entity's identification code in the Unified State Register of Enterprises and Organisations of Ukraine specified in the Unified State Register of Legal Entities and Individual Entrepreneurs and Public Organisations – 14360506

location – 50 Sichovykh Striltsiv Street, Kyiv, 04053, Ukraine

date of state registration – 10/03/1992

main types of activity – other types of monetary intermediation

date of changes to constituent documents – the Bank's Charter as amended and approved by Shareholders Decision No. 3 dated 5 February 2020 (minutes no. 1/2020) and as agreed by the NBU on 20 February 2020.

list of participants (shareholders) (natural persons – last name, first name and patronymic; legal entities – name, form of incorporation, location), who own 5% of shares (interest) or more as at the date of the audit opinion with an indication of the actual quantity of shares – a citizen of Ukraine, Sosis Oleksandr Yosypovych, who holds 89.289006% of shares in the Bank's authorised capital (Oleksandr Sosis gave no consent to disclosure of his data). According to the Bank's information, there are no other holders of at least 5% of shares as at the date of the auditor's opinion.

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

The Bank's equity in accordance with the financial statements as at 31/12/2019 amounts to UAH 497,587 thousand. The size of the Bank's regulatory capital is in line with the NBU regulations during 2019. According to audit findings, the Bank's capital meets the NSSMC regulations.

compliance of the authorised capital with constituent documents

The Bank's authorised capital as at 31/12/2019 is in line with the constituent documents of the Bank and amounts to UAH 260,000 thousand. As shown in Note 19 Authorised Capital and Share Premium, the General Meetings of Shareholders as of 27 November 2019 passed a decision to increase the authorised capital, more specifically, to increase the authorised capital of JSC BANK ALLIANCE by UAH 105,120,000.00 up to a total of UAH 365,120,000.00 by increasing the nominal value of shares from UAH 16.25 up to UAH 22.82 by directing a portion of the Bank's profits of 105,120,000.00 earned for 2018 to its authorised capital. As at 31 December 2019, the procedure for registering changes to the Charter has not been completed and, accordingly, the issue of shares at the new nominal value in 2019 has not been registered.

formation and payment of the authorised capital (fully or partially paid, documents (containing the name, date, number) that were used to form an audit opinion). If the authorised capital is not fully paid, the paid and unpaid amounts are to be specified.

According to the audit findings, and in accordance with the letter of the National Bank of Ukraine no. 27-0006/17183 dated 29 March 2019, the registered and actually paid-in authorised capital of the Bank as at 31 December 2018 is UAH 260,000 thousand. Accordingly, as at 31 December 2019, the size of the registered and actually paid-in authorised capital of the Bank has not changed. The authorised capital is formed at the expense of cash, including direct contributions from the Bank's shareholders and net profit earned.

the applicant's lack of overdue obligations to pay taxes (existence/absence of tax debt), nor outstanding duties or penalties for violating the financial services legislation, including those related to the securities market.

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

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

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

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

Information on management personnel identified as parties related to the Bank is provided in the Management Report of JSC BANK ALLIANCE. Information about related-party transactions is presented in Note 4.37 Related Party Information and Note 33 Related-party Transactions. During the audit of financial statements, we identified no related parties that were not identified by the Bank or any respective related-party transactions that would not be disclosed in Note 33 Related-party Transactions.

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

During the audit of financial statements, we did not identify any contingent assets and/or liabilities, the recognition of which is probable, other than those stated by the Bank in Note 31 Contingent Liabilities of the Bank

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

During the audit of financial statements, identified no events after the balance sheet date that were not disclosed in the financial statements but could have a significant effect on the Bank's financial position (refer to Note 34 Events after the Balance Sheet Date and Emphasis of Matter to the Report on the Audit of Financial Statements).

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

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

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

As at 31 December 2019, the composition and structure of the Bank's financial investments is represented as investments in the NBU's certificates of deposit in the amount of UAH 425,536 thousand and domestic government loan bonds of UAH 136,868 thousand (refer to Note 8 Investments in Securities).

other financial information in accordance with the law

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

main information about the terms and conditions of the audit contract

date and number of the audit contract – No. 190/18 dated 27 September 2018

audit start and completion dates – 15 November 2019 and 25 April 2020.

Key audit partner

The Audit Engagement Partner is Nersesian Gagik Serhiiovych.

General Director

BAKER TILLY UKRAINE LLP

Auditor registration number in the Register of Auditors and Auditing Entities: No. 100670

Alexander Pochkun

Partner

BAKER TILLY UKRAINE LLP

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

Gagik Nersesian



30 March 2020

Kyiv, Ukraine

Main information about the audit firm

Full name: Limited Liability Company "BAKER TILLY UKRAINE".

Location: office 9, 3 Hrekova St., 04112, Kyiv

Actual address: 28 Fizkultury St., 03150, Kyiv

Registration number in the Register of Auditors and Auditing Entities: No. 2091.

JOINT-STOCK COMPANY BANK ALLIANCE

III. Annual Financial Statements for 2019

2020

Statement of financial position (balance sheet)
JSC BANK ALLIANCE
as at 31 December 2019

<i>In thousands of UAH</i>	Note	31/12/2019	31/12/2018
ASSETS			
Cash and cash equivalents	6	307,444	368,002
Loans and advances to customers	7	2,347,173	1,398,873
Investments in securities	8	562,404	297,795
Derivative financial assets	9	3,646	1,560
Current income tax receivable		450	450
Deferred tax asset		1,202	2,553
Property, plant and equipment and intangible assets	10	37,159	21,190
Right-of-use assets	11	31,899	-
Other assets	12	162,082	23,744
Total assets		3,453,459	2,114,167
LIABILITIES			
Due to banks	13	1	-
Due to customers	14	2,860,617	1,665,238
Derivative financial liabilities	15	68	797
Current income tax liabilities		10,770	10,520
Provisions for liabilities	16	6,679	14,181
Lease liabilities	17	31,603	-
Other liabilities	18	46,134	22,387
Total liabilities		2,955,872	1,713,123
EQUITY			
Authorised capital	19	260,000	260,000
Unregistered authorised capital	19	105,120	-
Reserves and other funds		35,404	29,844
Retained earnings (uncovered losses)		97,063	111,200
Total equity		497,587	401,044
Total liabilities and equity		3,453,459	2,114,167

Authorised for issue and signed by

5 February 2020

Chairperson of the Management Board

Y.M. Frolova

Prepared by:

T.V. Ratsun (044) 224-66-73

Chief Accountant

N.A. Bochkovska



Statement of profit or loss and other comprehensive income
(profit and loss statement)
JSC BANK ALLIANCE
for the year ended 31 December 2019

<i>In thousands of UAH</i>	Note	2019	2018
Interest income	21	392,426	237,319
Interest expenses	21	(240,525)	(108,079)
Net interest income/(Net interest expenses)		151,901	129,240
Commission income	22	133,643	115,527
Commission expenses	22	(11,131)	(13,143)
Net profit/(loss) from transactions with financial instruments at FVTPL	25	30,044	51,267
Net profit/(loss) from foreign currency transactions		33,727	37,287
Net gain/(loss) from foreign currency translation		29,613	15,350
Net loss from financial assets impairment		(39,193)	(66,928)
Net loss/(profit) from increase/(decrease) in liability reserves		7,502	(11,112)
Net gain/(loss) on derecognition of financial assets at AC		19,531	-
Other operating income	23	15,377	15,120
Employee benefits expenses		(122,475)	(65,454)
Depreciation and amortisation		(23,021)	(6,282)
Other administrative and operating expenses	24	(107,105)	(64,898)
Profit/(loss) before tax		118,413	135,974
Income tax expenses		(21,870)	(24,774)
Profit/(loss) from continuing operations		96,543	111,200
Profit/(loss)		96,543	111,200
OTHER COMPREHENSIVE INCOME:			
ITEMS TO BE RECLASSIFIED TO PROFIT OR LOSS			
Total comprehensive income		96,543	111,200
Profit (loss) attributable to owners of the Bank		96,543	111,200
Total comprehensive income attributable to owners of the Bank		96,543	111,200
Earnings/(losses) per share from continuing operations (UAH):	27	6.03	6.95
Earnings/(losses) per share attributable to owners of the Bank (UAH):		6.03	6.95

Authorised for issue and signed by

5 February 2020

Chairperson of the Management Board

Y.M. Frolova

Prepared by:

T.V. Ratsun (044) 224-66-73

Chief Accountant

N.A. Bochkovska



**Statement of changes in equity
(statement of equity)
JSC BANK ALLIANCE
for the year ended 31 December 2019**

<i>In thousands of UAH</i>	Attributable to owners of the Bank						Total equity
	Authorised capital	share premium and other additional capital	unregistered authorised capital	reserves and other funds	retained earnings	total	
Balance as at 31 December 2017	200,000	-	-	25,554	64,290	289,844	289,844
Total comprehensive income:	-	-	-	-	111,200	111,200	111,200
Allocation of retained earnings to reserves and other funds	-	-	-	4,290	(4,290)	-	-
Allocation of retained earnings to authorised capital	-	-	-	-	(60,000)	(60,000)	(60,000)
Unregistered authorised capital	-	-	60,000	-	-	60,000	60,000
Issue of shares:	60,000	-	(60,000)	-	-	-	-
Balance as at 31/12/2018	260,000	-	-	29,844	111,200	401,044	401,044
Total comprehensive income:	-	-	-	-	96,543	96,543	96,543
Allocation of retained earnings to reserves and other funds	-	-	-	5,560	(5,560)	-	-
Allocation of retained earnings to authorised capital	-	-	-	-	(105,120)	(105,120)	(105,120)
Unregistered authorised capital	-	-	105,120	-	-	105,120	105,120
Issue of shares:	105,120	-	(105,120)	-	-	-	-
Balance as at 31/12/2019	365,120	-	-	35,404	97,063	497,587	497,587

Authorised for issue and signed by

5 February 2020

Chairperson of the Management Board

Prepared by:

T.V. Ratsun (044) 224-66-73

Chief Accountant



Y.M. Frolova

N.A. Bochkovska

Statement of cash flows
JSC BANK ALLIANCE
for the year ended 31 December 2019
(direct method)

<i>In thousands of UAH</i>	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received	21	355,516	213,168
Interest expenses paid	21	(208,968)	(91,558)
Fee income received	22	131,189	115,226
Fee and commission expenses paid	22	(10,490)	(12,196)
Results of transactions with financial derivatives	25	30,044	48,738
Results of foreign currency transactions		33,727	37,287
Other operating income received	23	34,908	15,120
Personnel expenses paid		(115,545)	(61,800)
Administrative and other operating expenses paid	24	(130,126)	(56,009)
Income tax paid		(10,074)	(24,774)
Cash profit/(loss) from operating activities before changes in operating assets and liabilities		110,181	183,202
<i>Changes in operating assets and liabilities</i>			
Net (increase)/decrease in trade securities	8	(107,612)	(27,440)
Net (increase)/decrease in derivative financial assets	9	(2,086)	(475)
Net (increase)/decrease in cash in other banks		-	(4,176)
Net (increase)/decrease in loans and advances to customers	7	(985,609)	(968,015)
Net (increase)/decrease in other assets	12	(170,237)	(9,696)
Net increase/(decrease) in amounts due to banks	13	1	(2)
Net increase/(decrease) in amounts due to customers	14	1,182,130	1,204,742
Net increase/(decrease) in debt securities issued by the Bank		-	(177)
Net increase/(decrease) in liability reserves	16	(7,502)	11,112
Net increase/(decrease) in other liabilities	18	23,747	11,099
Net cash flows from/(used in) operating activities		43,013	400,174
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of securities	8	(155,000)	(270,000)
Acquisition of property, plant and equipment	10	(18,011)	(12,619)
Purchases of intangible assets	10	(7,484)	(1,993)
Net cash flows from/(used in) investing activities		(180,495)	(284,612)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of ordinary shares	19	105,120	60,000
Receipt of other borrowings		-	(1,012)
Net cash flows from/(used in) financing activities		105,120	58,988
Effect of the NBU exchange rate fluctuations on cash and cash equivalents		(28,196)	25,697
Net increase/(decrease) in cash and cash equivalents		(60,558)	200,247
Cash and cash equivalents at the beginning of the period	6	368,002	167,755
Cash and cash equivalents at the end of the period	6	307,444	368,002

Authorised for issue and signed by

5 February 2020

Chairperson of the Management Board

Y.M. Frolova

Prepared by:

T.V. Ratsun (044) 224-66-73

Chief Accountant

N.A. Bochkovska



Note 1. Information about the Bank

JSC ALLIANCE BANK was established by decision of the Constituent Meeting of Founders (Minutes No. 1 dated 9 March 1992) and registered with the National Bank of Ukraine on 10 March 1992 under no. 89.

According to decision of the General Meetings of Shareholders (Minutes No. 1/2018 dated 17 April 2018), Public Joint Stock Company BANK ALLIANCE changed the incorporation of JSC BANK ALLIANCE from public joint stock company to private joint stock company and the name was accordingly changed to Joint Stock Company BANK ALLIANCE.

Corporate name:

in Ukrainian: full — АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК АЛЬЯНС», abbreviated — АТ «БАНК АЛЬЯНС»

in English: full — JOINT STOCK COMPANY BANK ALLIANCE, abbreviated — JSC BANK ALLIANCE

Country of incorporation: Ukraine

Location: 50 Sichovkyh Striltsiv Street, Kyiv, 04053, Ukraine

Form of incorporation: Private Joint Stock Company.

JSC BANK ALLIANCE conducts operations in accordance with the Laws of Ukraine “On Banks and Banking Activities”, “On Joint Stock Companies”, “On Financial Services and State Regulation of Financial Services Markets”, “On Accounting and Financial Reporting in Ukraine”, “On Securities and Stock Market”, the Civil Code of Ukraine, the Commercial Code of Ukraine, other laws of Ukraine and on the basis of regulations of the National Bank of Ukraine and the National Securities and Stock Market Commission, other applicable laws and regulations of Ukraine.

The Bank is a universal financial institution. The Bank is active within the territory of Kyiv city, Zaporizhzhya Region, Lviv Region, Dnipropetrovsk Region, Kharkiv Region, Odesa Region, Chernivtsi Region, Mykolaiv Region, Poltava Region, Chernihiv Region, Cherkasy Region, Zhytomyr Region, Vinnytsia Region and Sumy Region. As at 31 December 2019, the Bank has had 20 branches operating in total. The Bank has no branches and representative offices.

The Bank has no status of a specialised bank.

The Bank has a perpetual Banking Licence No. 97 dated 17 November 2011 issued by the National Bank of Ukraine for the right to provide banking services defined in paragraph three of Article 47 of the Law of Ukraine “On Banks and Banking Activities”.

According to the applicable law, the Bank carries out professional activity in the stock market (securities market) on the basis of licences of the National Securities and Stock Market Commission:

Licence to Conduct Professional Activity on the Securities Market (brokerage activity) series AE no. 294590 issued by decision of the NSSMC no. 1582 dated 25 November 2014 and effective from 1 December 2014 for an indefinite period;

Licence to Conduct Professional Activity on the Securities Market (dealer activity) issued by decision of the NSSMC no. 387 dated 23 July 2019 and effective from 24 July 2014 for an indefinite period;

Licence to Conduct Professional Activity on the Securities Market (depository activity of a custodian institution) issued by decision of the NSSMC no. 387 dated 23 July 2019 and effective from 24 July 2019 for an indefinite period.

JSC BANK ALLIANCE is a member of the Deposit Insurance Fund (certificate no. 023 dated 18 October 2012, registered under no. 025 dated 2 September 1999).

As at 31 December 2019, the Bank is a member of the following associations and organisations:

- Independent Association of Banks of Ukraine (IABU);
- European Business Association (EBA).
- International payment system MasterCard;
- International payment system VISA;
- National payment system PROSTIR;
- PFTS Stock Exchange;
- Perspektyva Stock Exchange;
- Professional Association of Capital Markets and Derivatives (PACMD);
- Ukrainian Stock Traders (UST);
- Association of Ukrainian Banks (AUB).

The purpose of the Bank is to meet the public needs for banking and other financial services (except for insurance services), other banking activities as defined by the applicable legislation of Ukraine; attraction, accumulation, propulsion and redistribution of monetary flow, as well as profit-earning based on results of banking activities.

Based on the chosen Strategy, the Vision, Mission and Purpose of the Bank is as follows::

VISION: BANK ALLIANCE is a reliable and universal bank that has earned trust of the people and builds lasting partnerships, providing customers with modern, personalised solutions.

MISSION: to create an enabling environment for the development of the Ukrainian economy and sustainable growth of GDP, whilst maintaining an optimal balance between the interests of customers, shareholders and the Bank.

We give people confidence and reliability, we make their lives better by helping them implement their aspirations and dreams. Our mission defines the meaning and content of activities of JSC BANK ALLIANCE and underscores its important role in the national economy and society – maintaining confidence, reliability and stability. Our customers, their needs, dreams and aspirations are the foundation of our business as an organisation. At the same time, the Bank's goals cannot be implemented without the personal and professional goals of the people who work here. Ambitious goals are achieved by a team of like-minded individuals united under a system of common values.

PURPOSE: to be a reliable financial partner focused on the interests of customers and to hold strong positions in the target customer segments, to ensure returns for the Bank.

As part of this mission, the Bank has developed a risk management strategy through an accounting equation between levels of revenue and risk assumed by the Bank. This principle allows to preserve financial stability in terms of the negative effect of external and internal factors.

The target group of the Bank comprises corporate customers of small- and medium-sized businesses. The Bank directs its efforts at forming long-term partnerships with customers, improving their financial well-being and enhancing banking services.

The main activities of the Bank are:

- loan and deposit operations;
- purchase and sale of currency;
- cash and settlement services;
- trading in securities;
- consultancy and information services, including transactions in the stock and currency markets.

The Bank actively utilises the instruments of the interbank market for the efficient placement (involvement) of temporarily free funds, as well as for the purposes of foreign exchange transactions.

The General Meeting of Shareholders is the supreme governing body of the Bank.

The Supervisory Board is the Bank's governing body that protects the rights of depositors, other creditors and shareholders of the Bank and, within its competence as defined by the Charter and Ukrainian law, controls and regulates the activities of the Management Board.

The Management Board is a standing collegiate executive body in charge of the management of the Bank's day-to-day operations within the scope of its competence defined by the applicable law of Ukraine, the Charter and the Regulation on the Management Board, and is responsible for efficient operation of the Bank's business in conformity with the principles, policies and procedures established by the Charter, decisions of the General Meeting of Shareholders and the Supervisory Board of the Bank.

As at 31 December 2019, the registered and fully paid authorised capital of the Bank amounted (according to the Bank's Charter) to UAH 260,000 thousand and comprised of 16,000,000 registered ordinary shares with a nominal value of UAH 16.25 per share. The new revision of the Charter of JOINT STOCK COMPANY BANK ALLIANCE was approved by annual General Shareholders Meeting of JSC BANK ALLIANCE (minutes no. 1/2018 dated 17 April 2018) and registered by the State Registrar on 24 May 2018. Certificate of state registration of the issue of shares with a nominal value of UAH 16.25 each was issued to the Bank by the National Commission for Securities and Stock Market on 3 July 2018.

The General Meetings of Shareholders as of 27 November 2019 passed a decision to increase the authorised capital, more specifically, to increase the authorised capital of JSC BANK ALLIANCE by UAH 105,120,000.00 up to a total of UAH 365,120,000.00 by increasing the nominal value of shares from UAH 16.25 up to UAH 22.82 by directing a portion of the Bank's profits of 105,120,000.00 earned for 2018 to its authorised capital.

As at 31 December 2019, the procedure for registering changes to the Charter has not been completed and, accordingly, the issue of shares at the new nominal value in 2019 has not been registered.

Mr. Alexander Sosis, a Ukrainian national, owns a majority interest in the Bank representing 89.289006% of the authorised capital of the Bank.

The Bank's management has a participatory interest consisting of 639,190 ordinary registered shares that constitutes 3.9949% of the authorised capital of the Bank.

On 9 January 2020, RURIK National Rating Agency confirmed the long-term credit rating of JSC BANK ALLIANCE at uaAAA investment category with a stable outlook. The Bank's rating is based on the National Rating Scale.

On 25 October 2019, S&P Global Ratings assigned to the Bank long-term and short-term issuer credit rating at B-/B with a stable outlook. In addition, the Bank was assigned a uaBBB on the national rating scale.

The financial statements of the Bank for 2019 (main reports to the annual financial statements) were authorised for issue by decision of the Management Board of JSC BANK ALLIANCE (Minutes No. 10 dated 5 February 2020).

Note 2. Economic environment in which the Bank operates

Within the last five years, political and economic situation in Ukraine remained quite difficult, which, according to the Bank's management, was caused by three main groups of factors: 1) challenging geopolitical and geo-economic global situation; 2) continuing armed conflict in the eastern Ukraine and, as a consequence, the deepening crisis in Russian-Ukrainian relations; 3) complicated political and economic situation in the country.

Ukraine's economy is characterised by rather significant influence and interference of state authorities in regulating the main directions of the country's development that stems, first of all, from lack of distinct strategy for development of the country, its structural transformation, establishment of independent relations with partner countries, as well as from tight terms and conditions of cooperation offered by international organisations and intergovernmental institutions. The state regulation of entrepreneurial activities, significant dependence of private sector on the state budget spending component and state-owned enterprises, control over distribution of funds from international organisations, control over the cash inflow from foreign investors, low efficiency of tax administration, low levels of judicial proceedings significantly affect the decisions of potential investors in the development of Ukraine's economy, which in turn does not allow development predictions and management decisions for over 1 year.

A complicated political and economic situation coupled with high levels of bureaucratisation precludes the government from initiating and commencing significant infrastructure projects, which may attract both private (including foreign) capital and state investments. More so as there are more than sufficient objects and factors (resources) to implement such projects in Ukraine.

In such context, the key mission of the banking market players is to hold on to the previously gained positions, suffer no reduction in the economic capital, reorganise the technology used to carry out banking transactions, reduce non-operating assets and expenses not related to the conduct of the principal activities, and develop new segments for the provision of services.

The Bank is currently developing the segment of documentary transactions. As at 1 January 2020, the guarantees issued were UAH 1,512,230 thousand. The key principals under such guarantees are Prozoro tender system participants and successful bidders, whilst the beneficiaries under the issued guarantees are government bodies and state-owned enterprises, international associations and unions. The documentary transactions have a non-exhaustive potential; however, the competition is seen to intensify in this segment.

Whilst management believes it is taking appropriate measures to support sustainability of the Bank's business in the current circumstances, further instability of the economic environment could negatively affect the Bank's performance and financial position in a manner not currently determinable. These financial statements reflect management's current assessment of the effect of the Ukrainian business environment on the operations and the financial position of the Bank. The future economic environment may differ from the management's assessment.

Note 3. Basis of preparation

The Bank's financial statements for 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS).

The annual financial statements for 2019 has been presented in accordance with the requirements of the "Regulation on Accounting and Financial Reporting in Ukrainian Banks", approved by the National Bank of Ukraine No. 373 dated 24 October 2011, and considering the "Methodological Guidelines on the Rules Governing the Compilation of Notes to Financial Statements of Ukrainian Banks" approved by the National Bank of Ukraine No. 274-пн dated 9 April 2019.

The Bank's management have prepared these financial statements on a going concern basis. The Bank's assets and liabilities are assessed on the assumption of the Bank's ability to continue as a going concern – at least for 12 months from the reporting date, but is not limited to this period. During 2019, the Bank demonstrated income-generating performance, had regular sources of funding (mainly funds received to the authorised capital subject to the decision of the General Shareholders Meeting regarding distribution of the Bank's profit for the previous reporting period), therefore the going concern assumption as an accounting basis appears to be absolutely appropriate.

Taking into account the requirements of the National Bank of Ukraine regarding the gradual increase of banks' authorised capitals, on 24 December 2019 the Supervisory Board of the Bank has approved the Capital Increase Plan of JSC BANK ALLIANCE, which is a part of the Strategy of JSC BANK ALLIANCE for 2020-2022, which provides for an enhancement of the Bank's authorised capital at the expense of a share of current profits and shareholders' contributions.

The Bank has adequate support of the majority shareholder, who comprehensively facilitates the active development of the financial institution. Year after year, profits earned from the Bank's operations are fully directed to the increase of the authorised capital of the Bank, in particular, during the General Meetings of Shareholders that were convened in November 2019 and where it was decided to direct UAH 105 million in past years profits to the Bank's authorised capital. The new revision of the Charter of JSC BANK ALLIANCE was approved by the National Bank of Ukraine by decision dated 20 February 2020 and registered with the USR on 11 March 2020. As of today, the Bank's authorised capital was UAH 365 million.

At the same time, the Bank is working on alternative ways to increase regulatory capital, in particular by attracting a long-term subordinated loan. Therefore, in Q1 2020, the Bank entered into 2 subordinated loan agreements for 10 years – with a majority shareholder (USD 800 thousand) and a legal entity, resident of Ukraine, (UAH 26.5 million). Today, the requirements of the Instruction on the Order of Regulation of Bank Activities in Ukraine no. 369 approved by the Management Board of the National Bank of Ukraine dated 28 August 2001, the document packages was set for review and approval of the National Bank of Ukraine to obtain a permit to include these funds into the regulatory capital of JSC BANK ALLIANCE.

According to the estimates of the Bank's management, further execution of the approved Capital Increase Plan ensures a reasonable assurance regarding the Bank's ability to continue as a going concern.

The Bank's functional currency, in which the accounting records are maintained and financial statements are prepared, is Ukrainian hryvnia. The unit of account is thousands of Ukrainian hryvnias (UAH '000).

At the date of transition to IFRS 16 Leases, the Bank recognised lease liabilities that are measured at the present value of future lease payments using the (incremental) borrowing rate of 11.1% for leases concluded for 1-2 years and the borrowing rate of 15.5% for leases concluded for more than 2 years.

For long-term leases arising on transition to IFRS, the borrowing rate used is the rate effective at the date of transition.

Lease payments included in the measurement of lease liabilities comprise of fixed payments only. The Bank has no variable lease payments that depend on an index or a rate, or other payments that would affect the measurement of the liability other than those mentioned above. Furthermore, if a lease contemplates variable lease payments, such payments will be included by the Bank into the calculation of the present value of the liability.

At the date of transition to IFRS 16 and in subsequent periods, the Bank applies an expedient to account for lease components separately. Where certain components (consideration for utility services) are separable and paid to specific accounts or at specific amounts as prescribed in the lease, or where certain components (VAT) that constitute taxes by their nature and are recoverable to the lessor (who acts as a tax agent) by the lessee are not included in the calculation of the lease liability and are accounted for in accordance with other standards by the types of expenditure and with reference to their economic substance. Where the lease precludes the Bank to allocate such components separately, they are recognised as a single component and are included to the calculation of the liability. The Bank charges interest expense on lease liabilities on a monthly basis.

The closing carrying amount of liabilities is the opening amount of recognised liabilities increased by accrued expenses and decreased by lease payments made.

The Bank recognises the right-of-use asset and lease liability modifications when there are changes to material terms of the lease: scope, lease payment amount, payment procedure, change in the lease term (extension, shortening).

As at 1 January 2020, the Bank accounts for 20 leases in accordance with IFRS 16 Leases.

The carrying amount of right-of-use assets at the end of 2019 is UAH 31,899 thousand, whilst amortisation charges for 2019 were UAH 13,318 thousand and interest expenses on lease liabilities were UAH 3,780 thousand.

The effects of first-time adoption of IFRS 16 as at 1 January 2019:

Item from the statement of financial position	31/12/2018	Changes in estimates	01/01/2019	01/01/2020
Right-of-use assets	-	20,659	20,659	31,899
Other assets	23,744	(1,208)	22,536	162,082
Total	23,744	19,451	43,195	193,981
Lease liabilities	-	19,451	19,451	31,603

Item from the statement of financial position	31/12/2018	Changes in estimates	01/01/2019	01/01/2020
Other liabilities	22,387	-	22,387	46,134
Total	22,387	19,451	41,838	77,737

The Bank applied a modified retrospective approach and did not adjust balances of previous periods. As at 1 January 2019, the Bank recognised right-of-use assets in the amount of UAH 20,659 thousand and lease liabilities of UAH 19,451 thousand. The difference between the amount of recognised assets and lessee's lease liabilities as at 1 January 2019 was represented by prepayments made on guarantee lease payments and amounted to UAH 1,208 thousand. As a result, there was no effect on the Bank's retained earnings.

Note 4. Significant accounting policies.

According to the requirements of legislation and internal documents of the Bank on accounting and financial reporting, the Bank's management system, its organisational structure, the Bank determines independently the specific accounting methods and procedures that form its accounting policy.

The summary of significant accounting policies used in the preparation of these financial statements is set out below.

Note 4.1. Consolidated financial statements.

Due to the change of the company's owner and manager, as well as the banking group participant in September 2018, the Bank informed the National Bank of Ukraine on the cessation of the banking group and provided a package of documents on 8 October 2018. The National Bank of Ukraine verified the documents and terminated recognition of the banking group in JSC BANK ALLIANCE (responsible person) and JSC CLOSED NON-DIVERSIFIED VENTURE CORPORATE INVESTMENT FUND UKRAINIAN BALANCED INVESTMENTS by RESOLUTION No. 03 dated 11 January 2019 of the Committee on Supervision and Regulation of the Banks' Activities, Supervision (Oversight) of Payment Systems.

The Bank does not have any subsidiary or associated company.

Note 4.2. Basis of measurement

Financial assets and/or financial liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of financial instruments. All regular way (ordinary) acquisitions of financial assets are recognised by the Bank on a settlement date. Assets and liabilities of the Bank are measured and recognised in accounting records with reasonable prudence in order to avoid the possibility of carrying forward the existing financial risks to future reporting periods. An asset is recognised when an inflow of future economic benefits is probable and the asset has a cost or value that can be reliably measured. A liability is a present obligation of the Bank arising from past events, the repayment of which entails the outflow of the Bank's resources.

Note 4.3. Financial instruments.

4.3.1. Classification of financial instruments by categories. Summary and assessment of the business model used in the management of financial asset and characteristics of contractual cash flows (SPPI test)

Financial Assets

According to the IFRS 9, financial assets are classified in one of three categories:

- at amortised cost (AC);
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL).

At initial recognition, financial assets are evaluated at fair value plus (in case of investments not classified as financial assets at FVTPL) directly attributable transaction costs.

If on the date of initial recognition, the fair value of financial asset differs from the transaction price (excluding the transaction costs), the Bank reflects this difference as follows:

- for transactions with shareholders: in equity;
- for other transactions: in profit or loss.

All standard financial asset transactions are reflected on the date of transaction, that is, on the date when the Bank assumes an obligation to acquire the asset.

Classification and measurement of financial assets reflect the business model of managing the financial assets and characteristics of their cash flows. Depending on the business model and characteristics of contractual cash flows (based on SPPI test carried out in accordance with IFRS 9 Financial Instruments), financial assets of the Bank may be classified into groups.

A financial asset is measured at AC, if the following conditions are met simultaneously:

- an asset is held within a business model aimed at holding assets to collect contractual cash flows;
- the contractual terms of a financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial asset is classified for further measurement at FVOCI, if it is held within the business model whose objective is to hold assets both to collect contractual cash flows and sell financial assets; and the contractual terms of a financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank may take an irrevocable decision to reflect further changes in the fair value of the instrument in other comprehensive income. This choice is made for each investment separately, and mainly concerns strategic investments that are not investments in subsidiaries.

All other financial assets, that is, financial assets that fail to meet the requirements of classification at AC or FVOCI are classified for further measurement at FVTPL. Moreover, the Bank may, at the initial recognition, assign for the financial asset the category of asset at FVTPL, if such choice eliminates or significantly reduces the inconsistency in valuation or reflections (sometimes

called "accounting mismatches") that would otherwise arise as a result of valuation of assets or liabilities or recognition of profits or losses on them by different methods (otherwise).

Financial liabilities.

After the initial recognition, the Bank measures and records in accounting all financial liabilities at AC, except for:

- financial liabilities at FVTPL;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or the continuing involvement principle applies;
- financial guarantee, avalisation and surety agreements;
- commitments to provide a loan at a below-market interest rate;
- contingent consideration that arose from a business combination falling within the scope of IFRS 3 Business Combinations. Such a contingent consideration is subsequently measured at FVTPL.

When calculating the effective interest rate, the Bank determines the cash flows by considering all the contractual terms of the financial instrument, including all fees and other amounts that constitute an integral part of the income (expense) of a financial instrument. Where it is not possible to reliably estimate the cash flows or the expected life of a financial instrument, the Bank uses the contractual cash flows over the contractual term of the financial instrument.

4.3.2. Initial recognition of financial instruments.

On initial recognition, all financial assets other than financial receivables and receivables from the Bank's business operations are measured at fair value, except for financial instruments measured at fair value through profit or loss. The best evidence of the fair value of a financial asset at initial recognition is normally the transaction price, i.e. the fair value of the consideration given.

Where the nominal interest rate of a financial asset does not reflect the market interest rate (e.g. contract interest rate is 5%, whilst the market interest rate on similar loans is 8%), and the Bank receives the original payment (commission fees, consideration, etc.) as a consideration, the financial asset is recognised at fair value, that is, net of the payment received.

Fair value of financial assets classified at AC shall include transaction costs (other payments directly attributable to the origination/recognition of a financial instrument) recognised on non-amortised discounts/premiums.

The cost of financial assets at FVTPL does not include transaction costs. Transaction costs incurred to acquire such financial assets are recorded in profit or loss.

On initial recognition, all financial liabilities other than financial payables and accounts payable on economic transactions are measured at fair value, increased (or decreased in case of financial liabilities not measured at FVTPL) by the amount of transaction costs directly attributable to the acquisition or issue of a financial liability.

Financial payables and accounts payable on economic transactions are treated as trade accounts payable. Given that such accounts payable contain no significant financing components, it is initially recognised at transaction price.

Vostro accounts and on-demand deposits of customers (including current accounts) are measured at cost.

4.3.3. First-day profit or loss

During the initial recognition of financial instruments, the Bank recognises gains or loss in the amount of the difference between fair value of the financial asset or financial liability and contractual amount in correspondence with the accounts of discount (premium), if the effective interest rate on this instrument is higher or lower than the market one. The difference between the fair value of a financial asset or financial liability and the contractual amount of transactions with shareholders is reflected in class 5 accounts “bank capital” of the Chart of Accounts and included in parts to the retained earnings (losses) for the period of its retention or as the total amount at the disposal of the financial instrument. If the interest rate of a financial asset or financial liability is different from the market interest rate, the Bank recognises the first-day profit/loss.

4.3.4. Subsequent recognition of financial instruments.

Depending on the business model and characteristics of contractual cash flows (based on SPPI test carried out in accordance with IFRS 9 Financial Instruments), financial assets of the Bank may be classified into groups:

- measured at amortised cost (AC);
- measured at fair value through other comprehensive income (FVOCI);
- measured at fair value through profit or loss (FVTPL).
- Financial liabilities of the Bank may be classified into the following groups:
- measured at amortised cost (AC);
- measured at fair value through profit or loss (FVTPL);
- measured at fair value partially through profit or loss (FVTPL) and partially through other comprehensive income (FVOCI).

Measurement at amortised cost.

For financial assets at AC, interest income is recognised using the effective interest method.

Effective interest method (“EIR method”) ensures equal returns of a financial instrument by allocating income and expenses equally to all periods over the life of the instrument.

EIR method is applied in accordance with this policy by reference to the methodological guidance for calculating the effective interest rate of the financial instrument with the Ukrainian banks.

When calculating the effective interest rate, cash flows are estimated by considering all contractual terms of the financial asset, including all commission fees and other amounts paid or received between parties to the contract (transaction costs) that are an integral part of the income (expense) of a financial instrument and amounts to be paid/received in the future, if such information is known at the date of initial recognition. Where it is not possible to reliably estimate the cash flows or the expected life of a financial instrument, the Bank uses the expiration dates and contractual cash flows.

For certain financial instruments that cannot generate cash flows (overdrafts, credit card loans, overnight loans/deposits, nostro accounts, etc.), interest gain/loss is accrued using the nominal rate.

For short-term financial debt, receivables from the Bank's business operations and cash, interest income is not accrued and the amortised cost equals the actual cost of acquiring or generating the asset.

Such assets are tested on each reporting date for impairment and, where necessary, a respective impairment allowance is charged or adjusted through profit or loss in class 7 accounts.

Measurement at fair value through profit or loss.

For financial assets at FVTPL, the Bank recognises on each reporting date the gains/losses in the amount of difference between the fair value and carrying amount of the financial instrument.

In doing so, the Bank first accrues interest and calculates the unwinding of discount or premium before charging revaluation surplus or deficit of a financial asset in the amount of difference between its fair value and carrying amount.

The Bank recognises interest income on debt securities at FVTPL in revaluation surplus/deficit. For these securities, interest is not accrued and discount or premium is not unwound.

Such assets are not tested for impairment and a respective impairment allowance or provision is not charged.

Measurement at fair value through other comprehensive income.

For financial assets at FVOCI, the Bank recognises on each reporting date the gains/losses in the amount of difference between the fair value and carrying amount of the financial instrument in capital accounts. Such assets (other than equity instruments) are tested on each reporting date for impairment and, where necessary, a respective impairment allowance is charged or adjusted through profit or loss.

For debt instruments, the Bank first accrues interest and calculates the unwinding of discount or premium and calculates an allowance before charging revaluation surplus or deficit of a financial asset in the amount of difference between its fair value and carrying amount.

Dividend income from shares is recognised in income before charging revaluation surplus or deficit of a financial asset in the amount of difference between its fair value and carrying amount.

It should be noted that normally when there is an allowance, positive result of revaluation is remote.

The revaluation amount recognised in equity is not transferred to profit or loss. On disposal of financial assets, accumulated revaluation is transferred to retained earnings/losses.

For unquoted shares, fair value becomes their cost.

Cash, including nostro accounts, is subsequently measured at AC (amortised cost equals the actual cost of acquiring or generating the asset).

After initial recognition, all financial liabilities other than guarantees are measured as described in paragraph 4.3.4.

The measurement technique used in measuring financial liabilities at AC is similar to the measurement technique for financial assets at AC.

Guarantees are measured at the higher of:

- ECL allowance;
- initially recognised amount less amortisation of commission fees under guarantees calculated on a straight-line basis.

Vostro accounts and on-demand deposits of customers (including current accounts) are measured at cost.

All non-derivative financial liabilities are carried at AC.

Derivative instruments are accounted for at FVTPL. Derivative financial liabilities that the Bank acquires or generates for hedging purposes are also classified at FVTPL in the absence of documents related to hedging relationships in accordance with IFRS 9.

General principles of classification of financial assets and financial liabilities are established in the Regulation on Determining the Credit Risk Exposure on Asset-side Banking Transactions and Creating an Expected Credit Loss Allowance for Transactions with Financial Instruments of JSC BANK ALLIANCE (“the Regulation”), in a new wording, which constitutes an integral part of the Accounting Policy Regulation.

4.3.5. Re-classification of financial assets.

Recognised financial assets are reclassified only if the Bank makes changes to the business model for its operations. Such changes are expected to be very infrequent. Such changes are determined by the Bank’s senior management as a result of external or internal changes and must be significant to the Bank’s operations and demonstrable to external parties.

Accordingly, any change in the business model will occur when, and only when, the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when the Bank has acquired, disposed of or terminated a business line. More specifically, if the business model is tested annually, if the business model changes due to an excess of maximum sales for the period, provided that these sales indicate a change in the Bank’s risk management approach (both existing and new risks), the Bank changes the business model and reclassifies existing assets on the first business day of January next year.

In case of other changes to the business model (in particular, if the business model changes due to an excess of maximum sales for the period, provided that the Bank has no plans to sell the remainder of existing assets but considers selling new assets acquired after the date on which the business model was tested), existing financial assets are not reclassified and a new business model applies only to financial assets acquired after the date on which the business model was tested.

If the Bank reclassifies financial assets, it applies a reclassification prospectively from the reclassification date. The Bank does not restate any previously recognised profits, losses or interests.

If the Bank decides to reclassify a financial asset *out of the AC measurement category into the FVTPL measurement category*, it determines its fair value at the reclassification date. The Bank recognises the difference between the previous amortised cost of a financial asset and its fair value in profit or loss.

If the Bank decides to reclassify a financial asset *out of the FVTPL measurement category into the AC measurement category*, it determines its fair value at the reclassification date. Its fair value at the reclassification date becomes its new gross carrying amount.

The Bank determines the effective interest rate based on the new gross carrying amount of the financial asset and charges an ECL allowance at the reclassification date (unless the reclassified financial asset is impaired).

If the Bank decides to reclassify a financial asset *out of the AC measurement category into the FVOCI measurement category*, it determines its fair value at the reclassification date. The Bank recognises the difference between the previous amortised cost of a financial asset and its fair value in other comprehensive income. The Bank does not reset the initial effective interest rate at the reclassification date, nor revises the estimate of ECLs.

If the Bank decides to reclassify a financial asset *out of the FVOCI measurement category into the AC measurement category*, it measures such a financial asset at fair value at the reclassification date.

The Bank removes from equity the cumulative gain or loss previously recognised in other comprehensive income at the reclassification date. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of ECLs are not adjusted as a result of the reclassification.

4.3.6. Criteria for charging a liability allowance.

The Bank calculates the amount of credit risk on financial liabilities on an individual basis. The Bank assesses the credit risk on financial liabilities recorded under the off-balance sheet accounts grouped as follows:

- guarantees, suretyships, letters of credit and bills of acceptance provided;
- credit-related commitments provided to banks;
- credit-related commitments provided to customers;
- foreign currency and precious metals receivable;
- foreign currency and precious metals receivable on net settled contracts at FVTPL (without delivery of the underlying asset);
- securities receivable on underwriting transactions;
- assets receivable on net settled contracts at FVTPL (without delivery of the underlying asset);
- assets receivable.

The Bank assigns the borrower/counterparty class 1 and a zero PD ratio to the following:

- credit-related commitments provided to customers (other than banks) that are revocable and risk-free, i.e. the contractual terms contemplate an unconditional right of the Bank to unilaterally withdraw from further fulfilment of its obligations without giving a prior notice to the borrower, including in the event of any deterioration of the borrower's financial position and/or untimely fulfilment of contractual obligations to the Bank;
- avals of tax anticipation bills provided by the Bank;
- transactions with assets receivable on spot terms, forward contracts, options and futures contracts, whereby the Bank has no obligation to make a prepayment and there is a right to withdraw from an obligation, including by a settlement on a net basis.

The Bank takes into account the credit risk exposure on the irrevocable financial liability granted, exposure at default (EAD) decreased by amount of consideration received by the bank before using the credit conversion factor (CCF), which depends on the life and type of financial liability.

The Bank determines the borrower's PD ratio for a financial liability granted by reference to the type of borrower (whether the borrower is an entity, individual, bank or budgetary institution).

The Bank assigns the class 1 borrower in respect of a financial liability granted, before its fulfilment, if:

- the borrower/counterparty has no indications of a high credit risk exposure;
- the borrower/counterparty is not subject to default criteria set out by the Bank.

4.3.7. Criteria of impairment of financial assets and estimation of expected credit losses.

4.3.7.1. Stages of impairment.

IFRS 9 provides for a three-step model of impairment based on changes in the credit quality of the instrument since the initial recognition. Under this model, a financial instrument that is not credit-impaired on initial recognition is classified at ***Stage 1***, and its credit risk is subject to further continuous monitoring. If a significant increase in credit risk has occurred since the initial recognition, the financial instrument is transferred to ***Stage 2***, but it is not yet considered credit-impaired. If a financial instrument is credit-impaired, it is transferred to ***Stage 3***.

Financial instruments in ***Stage 1*** have their ECLs measured at an amount equal to the portion of lifetime ECLs that may result from default events during the next 12 months. Financial instruments in ***Stage 2*** or ***Stage 3*** have their ECLs measured based on the credit losses expected from the default events for the entire lifetime of the instrument.

According to IFRS 9, when calculating the ECLs, it is necessary to take into account the forward-looking information. Purchased or originated financial asset that are credit-impaired are financial assets that are credit-impaired on initial recognition. The ECLs for such instruments are always measured based on the lifetime ECLs.

The Bank recognises the ECL allowance for debt financial assets at AC and debt financial assets recorded at FVOCI.

The Bank recognises the allowance for ***Stage 1*** financial assets (12-month ECLs) no later than on the next reporting date following after initial recognition of the financial asset. The next reporting date for creating the ECL allowance for financial instruments is the last day of the month, on which the financial instrument was recognised.

The Bank estimates the increase in the expected credit risk on the financial instrument from the date of its initial recognition on the next reporting date after its initial recognition.

The Bank continues to recognise the allowance for ***Stage 1*** financial asset at if, on the reporting date, the risk exposure on the financial asset has not increased significantly since initial recognition, or the financial asset has a low credit risk at the reporting date.

The Bank recognises the allowance for ***Stage 2*** financial assets (lifetime ECLs) if, on the reporting date, the risk exposure has significantly increased since initial recognition; the principal amount or its larger part is payable on maturity or within more than one year on the individually significant assets, which include asset-side transactions totalling UAH 2,000,000.00 in debt or more, or a foreign currency equivalent of that amount translated at the official exchange rate established

by the National Bank of Ukraine on the date of charging the allowances; or 30 largest borrowers, regardless of the amount of debt.

The Bank charges the allowance for **Stage 3** financial assets that are credit-impaired (lifetime ECLs), if there is an objective evidence of impairment of a financial asset at the reporting date, in particular: there are observable inputs that become known and result in losses and contemplate, but not limited to, the following: the financial position corresponds to 10/5/2 classes, depending on the type of financial instrument; the use of reducing factors that reduce the financial position, depending on the type of financial instrument, to 10/5/2 classes, which include, in particular, the facts of debt overdue by more than 90 days and/or signs of default, etc.

Given the need to form a sufficient number of historical observations that are relevant in time and for similar financial assets, including under the normal economic conditions, the Bank, within the limits of its discretion, recognises the allowance for financial assets – lending transactions, including for interbank loans and financial receivables with a maturity of more than three months, balances on nostro accounts, Stage 2 warranty obligations – the lifetime ECLs.

Under the practical expedient, the Bank recognises the lifetime ECLs on trade receivables or contractual assets arising from transactions that fall within the scope of IFRS 15 Revenue from Contracts with Customers and that do not contain a significant financing component in accordance with IFRS 15, or do contain a significant financing component in accordance with IFRS 15. The Bank recognises the ECL allowance at an amount equal to lifetime ECLs and is applied to trade and other receivables with a maturity of 3 months or less.

The Bank charges the allowance for Stage 3 financial assets that are credit-impaired (financial assets credit-impaired on the basis of default events), if there is an objective evidence of impairment of a financial asset at the reporting date, in particular: there are observable inputs that become known and result in losses and contemplate, but not limited to, the following: the financial position corresponds to 10/5/2 classes, depending on the type of financial instrument; the use of reducing factors that reduce the financial position, depending on the type of financial instrument, to 10/5/2 classes, which include, in particular, the facts of debt overdue by more than 90 days and/or signs of default, etc.

4.3.7.2 Purchased or originated credit-impaired financial assets

The Bank does not charge an allowance for purchased or originated created-impaired financial assets on initial recognition. Initial ECLs for such a financial asset are included to the credit-adjusted effective interest rate.

This financial asset cannot be moved out of Stage 3 to Stage 2 or Stage 1.

4.3.7.3 Techniques used in calculating expected credit losses, criteria of significant increase in credit risk.

Credit risk is calculated in five phases:

- **Phase I** – analysis of initial credit risk exposure;
- **Phase II** – analysis of characteristics of an asset-side transaction;
- **Phase III** – calculation of the of credit risk (CR) exposure on asset-side transactions;
- **Phase IV** – calculation of an expected credit loss (ECL) allowance for transactions with financial instruments;

- **Phase V** – approval of a credit risk estimate and ECL allowance by the Credit Committee or Management of the Bank.

The Bank determines the credit risk on assets in accordance with the substance over form principle (the substance of the Bank's asset-side transactions prevails over their form), which is used to ensure completeness and adequacy of the credit risk assessment in measuring the credit risk exposure or in charging allowances/provisions for assets both on an individual and collective basis.

An estimate of ECL allowance for financial assets at AC or at FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and debt servicing status.

The Bank applies credit risk mitigation techniques that objectively, in accordance with the prudence principle, ensure its minimisation. In particular, there is objective evidence of existence (availability); accessibility; market value estimates; insurance; control over the proper condition, safety, disposal/replacement of collateral; an option to alienate the collateral to the benefit of the bank.

Furthermore, the Bank takes into consideration its own experience in assessing credit risk by applying judgment of management personnel/collegiate body in respect of the following:

- downward adjustment to the borrower's/counterparty's class (downgrading);
- assessment of the effect that the risks have on the financial position of the borrowing entity as a result of its participation in a group of entities under common control and/or group of related counterparties.

To ensure adequate measurement of an asset, the Bank takes into consideration any indication of a high credit risk of the borrower/counterparty. The consideration takes the form of adjustment to the class of borrower/counterparty.

The Bank assigns class 5 borrower/counterparty, or lower (for corporate borrowers other than banks, budgetary institutions and corporate borrowers of an investment project loan)/3 (for other borrowers), if the following indications exist:

- the loan is granted to a non-resident corporate borrower whose rating is not evidenced by any of the leading global rating agencies (companies) as established by the law of Ukraine and other internal documents of the Bank;
- the corporate borrower has operated for less than one year since its registration (not applicable in case of borrower's reorganisation; borrower is part of a group; assessment of the borrower of investment project loan);
- debt is overdue by 31 calendar day or more [from the date the obligation is fulfilled (payment is made) in accordance with the contract] (not applicable if the borrower/counterparty is part of the group) on the following:
 - discounted bills of exchange;
 - factoring transaction;
- corporate borrower, including the issuers of securities (non-resident), has no international scale credit rating assigned.

The Bank assigns class 9 borrower/counterparty, or lower (for corporate borrowers other than banks, budgetary institutions and corporate borrowers of an investment project loan)/4 (for other borrowers), if the following indications exist:

- loan provided to Borrower A is directed to repay the loan of Borrower B, which Borrower B used to repay the loan of Borrower C;
- debt is overdue by 61 calendar day or more [from the date the obligation is fulfilled (payment is made) in accordance with the contract] (not applicable if the borrower/counterparty is part of the group) on the following:
 - discounted bills of exchange;
 - factoring transaction;
 - corporate borrower has a negative equity at the end of the year for the last three consecutive years (applicable to the group if the borrower is independent to the group);
 - corporate borrower simultaneously has interrelations (applicable to the group if the borrower is part of the group);
 - the bank has placed funds on a correspondent account with a non-resident counterparty bank that has a global credit rating below BB+ as classified by Standard & Poor's or Fitch Ratings, or below Ba1 as classified by Moody's Investors Service, in which the number of transactions (other than income accruals) for 3 consecutive months preceding the measurement date was less than 2.

The Bank assigns class 4 borrower/counterparty to funds placed on correspondent accounts with other banks that are locked-up/encumbered.

4.3.7.4 Definition of default

The assessment of credit risk for a portfolio of assets entails further estimations of the probability of default, associated loss ratios and default correlations between counterparties. The Bank estimates the credit risk using probability of default (PD), exposure at default (EAD) and amount of loss given default (LGD).

Loss given default (LGD) is a component (ratio) of calculating the credit risk exposure that reflects the level of expense (losses) caused by default of the borrower/counterparty.

Probability of default (PD) is a component (ratio) of calculating the credit risk exposure or expected credit losses that reflects the likelihood that a borrower/counterparty will be unable to meet its obligations.

Expected credit losses (or ECL allowance) are the weighted average credit losses with the probability of default (PD) as their weight.

Definition of default used by the Bank is fully consistent with the definition of credit impairment, and default is recognised for a financial instrument when one or more of the following criteria (events) are met.

The Bank recognises the default of a borrower/counterparty and assigns class 10 or lower (for corporate borrowers) / class 5 (for other borrowers) when one or more of the following events occur:

- the borrower/counterparty (other than other bank) has 90 or more calendar days overdue on its debt to the Bank. the bank borrower or counterparty has 30 or more calendar days overdue on its debt to the Bank or fails to meet the Bank's requirement;
- the borrower/counterparty is unable to fully ensure the fulfilment of obligations to the Bank, its parent and subsidiaries within the period established under a contract(s) without the Bank resorting to the foreclosure of collateral (if any).

The Bank recognises a default event referred to in subparagraphs when at least one of the following conditions exist:

- the Bank has charged an impairment provision for the financial asset given to the borrower amounts to 50 per cent of the debt or more;
- changes made to the contract, including those related to debt restructuring (other than debt restructuring regulated by the applicable laws of Ukraine or financial restructuring of obligations of the Ukrainian nationals on foreign-currency loans in which the borrower complies with contractual terms), comprise the following:
 - partial forgiveness of debt and/or;
 - capitalisation or replacement of other accrued and unpaid interest on more than 90 consecutive calendar days;
- the borrower/counterparty has declared bankruptcy;
- the borrower/counterparty has been declared bankrupt / an entity undergoes liquidation (termination) in a procedure established by law / bank borrower is classified as insolvent by decision of the National Bank of Ukraine / bank licence is revoked;
- the bank initiated bankruptcy proceedings against the borrower/counterparty in a procedure established by the law of Ukraine;
- The Bank has approved the decision to bail-in (transfer) part or all of the borrower's/counterparty's debt into the borrower's/counterparty's equity (except when the law of Ukraine on financial restructuring precludes doing so);
- at least one of the credit ratings on the international corporate borrower scale is downgraded to D by Standard & Poor's or Fitch Ratmgs, or to C by Moody's Investors Service;
- an asset was re-substituted by or subsequently swapped with another asset;
- changes are made to the contract, which are not related to restructuring, to increase the period of using the asset provided to the borrower who is unable to repay debt without selling the collateral, even if the debt is not overdue at the date of repayment. Extension of the term of a tranche within the credit facility opened by the Bank to the debtor does not constitute a change of the contract that increases the period of using the asset;
- the debt on a borrower's/counterparty's asset was written-off against an allowance;
- one of the borrower's/counterparty's assets was sold with a loss of 20% of the debt or more;
- the Bank has cancelled a lease due to the borrower's (lessee's) non-compliance with the lease arrangement, and the cancellation extends to one of the borrower's (lessee's) assets;
- the Bank sells an asset/assigns claims for an asset under deferred payment terms of more than 7 calendar days in accordance with the sales/assignment contract (including with reference to the changes made to the sales contract for such an asset) accompanied by one or more of the events below:
 - the acquiring counterparty has paid to the Bank less than 30% of the asset's value or made no payment for the asset as at the date of credit risk assessment;
 - the counterparty makes a lump-sum payment for the asset at the end of the sales contract or pays a larger portion of its value at the end of the sales contract;
- the debt is overdue for more than 90 calendar days (since the obligation was fulfilled (payment was made) under the contract) on the following:
 - discounted bills of exchange;
 - factoring transaction;

- the borrower, who is the issuer of securities, in a procedure prescribed by regulations of the National Securities and Stock Market Commission, is included to the list of issuers with fictitious features;
- the repayment of nominal value or interest on debt securities is delayed by 7 calendar days or more;
- the Bank:
 - has no financial statements of the corporate borrower for the previous reporting period within three months or more from submission deadline;
 - and/or
 - has not made a breakdown of income composition in form no. 2 (2-м, 2-мс) “profit and loss statement” (column 2000, 2010 and 2120) of the annual financial statements of the corporate borrower for the previous reporting year prepared under Ukrainian Accounting Standards 1-25;
 - the borrower's financial statements that the Bank used to assess the borrower's financial position is not consistent with the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” / the national law of a country in which the non-resident borrower is located;
 - the financial statements filed by the borrower contain a negative auditor’s opinion / auditor’s refusal to express an opinion;
- the borrower has chosen an option to replace the previous contractual terms related to discharge of obligations with those that meet conditions set out in subparagraphs of paragraph 2.

The Bank recognises a default event set out in subparagraphs of paragraph 3 when at least one of the following conditions is present (if the bank has not proven the absence of the borrower's/counterparty's default using its judgment):

- the debt paid by the borrower (other than debt arising from an investment project loan granted for production the nature of which is seasonal or cyclical; loan granted to a borrower that is a member of the group whose consolidated/combined financial statements confirm that its financial resilience is probable) is higher than gains recognised by the bank in accordance with the accounting-related regulations of the National Bank of Ukraine;
- changes made to the contract, including those related to debt restructuring (other than debt restructuring regulated by the applicable laws of Ukraine or financial restructuring of obligations of the Ukrainian nationals on foreign-currency loans in which the borrower complies with contractual terms) due to the financial problems of the borrower, comprise the following characteristics: borrower class assigned by the Bank at the restructuring date is not higher than 8 (for corporate borrowers other than banks, budgetary institutions and corporate borrowers of an investment project loan) / not higher than 4 (for other borrowers), and/or the borrower has delayed the repayment by more than 30 calendar days since the restructuring;
- the contract is modified, since otherwise the Bank would classify the asset within non-performing assets;
- the interest rate decrease of 30% or more from the original terms due to modifications of the previous terms unrelated to restructuring is not caused by changes in market conditions;

- the corporate borrower has no in-house or leased property, plant and equipment or other property required in its business (plant and equipment, warehouses, commercial or office spaces, etc.) that generates sufficient cash flows to repay the loan;
- the Bank has no information about ultimate beneficiaries (controllers) of the corporate borrower;
- the corporate borrower has no personnel necessary for operating activities;
- location of the corporate borrower does not correspond to the address that it specified;
- the borrower has chosen an option to replace the previous contractual terms related to discharge of obligations with those that meet conditions set out in this paragraph.

The Bank decides to derecognise the borrower's/counterparty's default when both of the following conditions are met:

- the borrower/counterparty has resumed periodic payments, i.e. for a period of 180 consecutive calendar days or more from the date on which the Bank has taken measures to restore its ability to service the debt, ensures monthly or quarterly (within 365 months) payment of principal or interest in an amount not higher than the interest accrued at a contractual rate for a respective period (month, quarter);
- at least 180 days have elapsed since default event(s) were recognised for the borrower;
- none of the borrower's/counterparty's obligations, at the date on which the decision to derecognise the borrower's/counterparty's default was made, is overdue by 30 calendar days or more;
- the Bank has documented reasonable judgment that the borrower/counterparty is able to service the debt in spite of existing financial difficulties.

where the borrower's/counterparty's default is derecognised, which had resulted previously from default event(s), the Bank does not re-recognise such an event(s) as default event.

4.3.7.5 Criteria for moving credit-impaired assets between different stages of impairment.

Financial asset that is not credit-impaired at initial recognition is classified in ***Stage 1***, is constantly monitored and is moved to Stage 2 if there is a significant increase in credit risk (by reference to its class, number of days overdue, etc.).

Where the credit risk decreases within 12 months since initial recognition, the Bank may revert the financial asset out of ***Stage 2*** to ***Stage 1***.

After 12 months since initial recognition, the Bank leaves the financial asset in ***Stage 2*** and, if there is a significant increase in credit risk, transfers it to ***Stage 3***.

The financial asset ceases to be considered as defaulted (that is, it is restored), if it no longer meets any of the default criteria for at least 3 consecutive months or longer for restructured problem loans, and is determined based on the analysis that takes into account the probability that the financial instrument may return to default status after recovery, and different definitions of recovery after default.

4.3.8. How forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information.

In making observations, including historical, it is necessary to apply a relevant observation period for similar financial assets under normal economic conditions, adequate diversification of portfolio(s) both in terms of the total amount and the number of borrowers/counterparties and transactions with them.

When it is impossible to apply sufficient historical observation, the Bank makes an estimate by reference to the credit rating of the borrower/counterparty (financial position/class) and resultant PD value (risk indicator) in accordance with estimation techniques used by market participants to calculate the credit risk exposure set by the Regulation taking into account the effect of macroeconomic factors determined by other internal regulations of the bank or, if external inputs are used, using methods agreed upon in service supply contracts and/or access to database / measurement tool).

4.3.9. Changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.

There has been no change in estimation techniques and significant assumptions during 2019.

04/03/2010. Disclosure of policies for partial or complete write-off of financial instruments, recognition and derecognition policies, and derecognition of restructured loans (Derecognition of financial instruments)

Financial assets

A financial asset or group of similar financial assets (or part thereof) is derecognised if:

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

When the Bank has transferred its rights to receive cash flows from the asset, and has neither transferred nor retained substantially all the risks and rewards of the asset and has not transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset or the maximum amount of consideration that the Bank could be required to repay.

When the continuing involvement takes the form of a written or purchased option (including options that are net settled in cash or similar instruments) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase.

However, in the case of a written put option (including options that are net settled in cash or similar instruments) on an asset that is measured at fair value, the extent of the Bank's continuing involvement is the lower of the fair value of the transferred asset and the option exercise price.

The Bank writes down or writes off the gross carrying amount of a financial asset that is measured at amortised cost if there is no reasonable expectations of recovery.

Financial liabilities.

Financial liabilities are derecognised when the respective obligations are discharged, cancelled or expire.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

4.3.11. Modification of contractual cash flows on financial assets

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this Standard, an entity shall recalculate the gross carrying amount of the financial asset and shall recognise *a modification gain or loss* in profit or loss.

The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate.

Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

4.3.12. Internal rating techniques and valuation of collateral

The Bank assigns internal ratings (classes of borrowers) based on the assessment of the borrower's financial position. Financial position of the borrower is determined by using a logistic model to calculate the integrated index of corporate borrowers and the score of other borrowers followed by a subsequent adjustment to the borrower class obtained for signs of higher credit risk exposure and default, and by using an expedient whereby the number of days the asset is accounted for on the bank's balance sheet is assessed for trade receivables and the number of days overdue is assessed for financial receivables with a maturity of 3 months or more.

Collateral is measured on the basis of reports on the market value of property prepared by independent valuers and taking into account the adequacy principles and liquidity ratios.

Note 4.4. Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

The Bank's cash and cash equivalents comprise cash on hand, cash with the National Bank of Ukraine and cash on correspondent accounts with other banks.

Note 4.5. Mandatory reserves with the National Bank of Ukraine.

As at the end of 2019 and 2018 reporting year, the Bank had no obligation to transfer mandatory reserve funds to separate accounts opened with the National Bank of Ukraine. The

estimated amount of mandatory reserves should have been preserved on a correspondent account with the National Bank of Ukraine.

Note 4.6. Loans and advances to banks.

The Bank carries out lending transactions according to the legislation of Ukraine, regulations of the National Bank, the Bank's credit policy, as well as other internal documents regulating the Bank's lending activities.

Amounts due from banks comprise short-term loans in the interbank market of Ukraine, for which the Bank recognises impairment. Initial recognition and subsequent measurement of such loans is governed by the same accounting principles as loans to customers.

Note 4.7. Loans and advances to customers

The Bank carries out lending transactions according to the legislation of Ukraine, regulations of the National Bank, the Bank's credit policy, as well as other internal documents regulating the Bank's lending activities.

Bank loan means any commitment of the Bank to provide an amount of money, any guarantee, any obligation to acquire the right to claim debt, any form of loan extension against the borrower's obligation to repay the amounts owed, interest and other amounts payable.

The lending transactions include asset-side transactions of the Bank that involve giving funds to customers on a temporary basis (cash or non-cash loans, factoring transactions, repo transactions, etc.), or making a commitment to provide funds on a temporary basis (guarantees, sureties, avals, etc.), as well as any repayment of a debt in exchange for the debtor's obligation to return the amount owed, to pay interest and other amounts payable.

Lending transactions were carried out according to the law of Ukraine and internal documents of the Bank based on written agreements concluded and signed by authorised persons.

The decision on granting loans and determining all essential terms and conditions of loan agreements was made by the collective bodies (the Credit Committee, the Management Board, the Supervisory Board of the Bank) according to the powers established by the Bank's Charter, the internal regulations governing the Bank's lending transactions.

The Bank classifies and measures loans granted based on the business model, that it uses for managing those assets, and their contractual cash flow characteristics at amortised cost.

Amortised cost of financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus any payments or repayments (principal, interest income (expenses) or other payments related to the origination of a financial asset or financial liability), plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for ECL allowance.

The business model was not determined for each separate loan granted, but rather for a group of financial assets.

Loans are measured at amortised cost and recognised if all of the following conditions are met:

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

Interest income on the loans is measured at amortised cost and is calculated by applying the effective interest rate to the gross carrying amount, except for:

- purchased or originated credit-impaired financial assets. For those financial assets, the credit-adjusted effective interest rate is applied to the amortised cost of the financial asset from the date of initial recognition;
- financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. The Bank shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

If, as a result of certain events, previously impaired financial asset has recovered and is no longer impaired, the Bank recognises the interest income by applying the effective interest rate to its gross carrying amount, starting from the next interest accrual date.

The Bank recognises the interest income and expenses on interest income and expense items in classes 6, 7 using the effective interest rate method.

The periodic revaluation of cash flows to reflect market interest rates leads to a change in the effective interest rate for floating-rate financial instruments.

The Bank amortises the unamortised amount on the loans granted at least once a month simultaneously with interest accrual.

The Bank applies nominal interest rate to financial instruments, for which future cash flows cannot be reliably measured (overdraft loans, revolving credit facilities) and to which the effective interest rate is not applied.

At the reporting date, the Bank analyses changes in ECLs for creating (winding-up) the allowance according to the International Financial Reporting Standards, internal documents of the Bank and in a procedure set out in regulations of the National Bank.

The analytical accounting is conducted with respect to the counterparty, which repays the credit debt, under the lending transactions (for example, factoring, discounted bills of exchange), when the funds are provided to one person – the borrower (counterparty), and debt repayment is carried out by another person.

The liability amount is recorded on the corresponding off-balance-sheet account on the date of the lending transaction, namely on the date of any loan liability commencement at the Bank. If the loan is granted in full on the date of the loan liability commencement at the Bank, the loan commitments on the off-balance-sheet accounts are not reflected.

The loan funds granted are recorded under the relevant balance-sheet accounts, depending on the type of borrower, type of transaction, term and use of funds. At the same time, with reflection of funds provided to the borrower on the relevant balance-sheet accounts, this amount decreases the loan liability, recorded under the corresponding off-balance-sheet accounts.

The amount of debt unpaid by the borrower within the period specified in the agreement is transferred for the next business day to the corresponding accounts using separate parameters for accounting the overdue debt.

In order to repay the loan of individual borrowers and individual entrepreneurs under the loans granted in foreign currency, the Bank may purchase foreign currency for UAH received from the borrowers to ensure that they execute payments under the loan agreements.

The collective bodies (the Credit Committee, the Management Board, the Supervisory Board of the Bank) may take a decision on extension of the credit validity (prolongation) in case of receipt of the borrower's application, according to the powers established by the Charter of JSC "BANK ALLIANCE", the Bank's internal regulations governing the loan relations.

The Bank shall, at each reporting date, recognise the results of changes in the expected credit losses for the entire validity of the financial asset impaired during the initial recognition (including positive changes) in profits or losses as expenses/income for creating/winding-up of estimated provisions. Income from winding-up of estimated provisions is recognised, even if the amount of previously created provision for such financial asset is exceeded.

On the date of termination of recognition of the original financial asset, the Bank recognises the profits or losses for termination of recognition, equal to the difference between the carrying amount of original financial asset and the fair value of new financial asset.

The Bank derecognises a financial liability or its part when its contractual obligations are discharged or cancelled or expire.

The terms are substantially different if the net present value of the cash flows under the new terms discounted using the original effective interest rate, or, in case of a floating-rate financial liability, the effective interest rate computed as at the latest change of the nominal interest rate, is at least 10 % different from the discounted present value of the remaining cash flows of the original financial liability.

Overdraft credit agreement.

When concluding an overdraft agreement with a customer, the Bank lends it within the established limit by paying the customer's settlement documents over the balance on his/her current account. At the same time, the amount of loan commitments accounted for by the corresponding off-balance-sheet account reduces at the amount of the loan granted.

A special operating mode of the current account is established for customers with whom an overdraft agreement is concluded, namely, a debit balance may be created on the current account.

In case of default on payment of the overdraft interest, the Bank transfers the interest accrued for using to the account using certain parameters for accounting for the overdue debts on the interest accrued to the loan for current operations. Since there is a violation of overdraft agreement (late payment of interest), the principal amount of overdraft debt is transferred to the account for accounting loans to the current operations. In case of repayment of overdue debts on accrued interest, the principal debt amount is transferred to the account of accounting the overdraft loans.

If the repayment of principal overdraft amount is overdue, the debit balance on the overdraft account is transferred to the corresponding accounts using separate parameters for accounting the overdue loans to the current operations the next business day after the date of overdue.

In case of seizure of the customer's account, the Bank transfers the overdraft debt and profits accrued for its use to the corresponding accounts for accounting the loans to the current operations and income accrued thereon.

Bad debts on lending transactions.

Debt under the loans granted (except for the off-balance-sheet transactions and guarantees) is recognised as bad according to the Tax Code of Ukraine and its own regulations and methods developed according to the International Standards.

According to the legislation of Ukraine, the Bank carries out the necessary claim-related work to use all possibilities of debt repayment for bad debts.

A settlement agreement may be concluded at any stage of execution of court decision that is an agreement concluded by the parties in order to end the dispute under the terms and conditions agreed by the parties (the debtor and the creditor). When signing a settlement agreement to "forgive"/write off the debt, the amount of such debt is written off using the estimated provisions according to the decision of the Management Board of the Bank, subject to the agreement with the Supervisory Board of the Bank, as requested by the Credit Committee.

If the debt under the lending transactions is recognised as bad, it may be written off using the Bank's estimated provisions. The collective bodies (the Credit Committee, the Management Board, the Supervisory Board of the Bank) take a decision to write off such debt according to the powers established by the Charter of JSC "BANK ALLIANCE", the Bank's internal regulations governing the lending transactions.

The provisions should be created in full at the moment of debt recognition as bad. If a decision is made to write off the bad debts in foreign currency, the Bank may acquire foreign currency at the interbank currency market of Ukraine according to the regulations of the National Bank of Ukraine in order to create a provision.

In case of repayment of the loan debt written off using the estimated provisions and accounted on the off-balance-sheet accounts of group 961 "Asset debt written off as a loss", the funds received are to be credited to the accounts of group 671 "Repayment of assets written off", if the debt is written off in previous years, or 770 "Deductions to provisions", if the debt is written off in the current year.

The funds received in foreign currency to repay the bad debt, written off in previous years, are included in the accounts of class 6 (using the technical accounts 3800 and 3801) in hryvnia equivalent at the official exchange rate of hryvnia to foreign currencies on the date of receipt of such funds.

If the funds in foreign currency to repay the bad debt, written off using the estimated provision, are received by the Bank in the current year, hryvnia equivalent of such funds at the official exchange rate of hryvnia to foreign currencies relates to the accounts of group 770 "Deductions to provisions" on the date when the bad debt was written off using the estimated provision. The difference between hryvnia equivalent of the received amount of funds at the official exchange rate of hryvnia to foreign currencies on the date of their receipt and on the date when the debt was written off using the estimated provision refers to the account 6204 "Result from revaluation of foreign currency and precious metals".

Accounts receivable under transactions with customers, banks and other entities consist of debts of the Bank's counterparties under transactions carried out within the limits of license received by the Bank and other transactions that do not contradict the requirements of Ukrainian legislation.

Accounts receivable from financial and business transactions of the Bank consist of debts of the Bank's counterparties under transactions with financial instruments and debts under business transactions of the Bank.

Accounts receivable are the debt amount, which belongs to legal entities and individuals that arises in the process of relations with the Bank. Depending on the type of the counterparty's activities and the type of transaction, accounts receivable are accounted on the corresponding balance sheet accounts of classes 1, 2 and 3 of the Chart of Accounts of the Ukrainian Banks.

Accounts receivable are recognised as an asset, if there is a probability of obtaining future economic benefits and their amount can be accurately determined. At the initial recognition, the accounts receivable are valued at the actual paid value (the contractual amount). Then, the Bank reviews the accounts receivable for impairment at each reporting date by creating a provision.

Accounts receivable are considered as a non-monetary balance-sheet item, if its closing is expected by non-monetary funds, but using the supporting documents on the assets and services received, and is recorded at the official exchange rate of hryvnia to foreign currencies on the date of recognition (transaction date) or on the date of determination of the fair value and is not revalued at each change in the official exchange rate of hryvnia to foreign currencies.

Accounts receivable are considered as a monetary balance-sheet item, if it is repayable within the established period by monetary funds in a fixed amount or their equivalents, and is recorded at the official exchange rate of hryvnia to foreign currencies on the balance sheet date and is revalued at each change in the official exchange rate of hryvnia to foreign currencies until recognition.

The Bank's units that initiate a transaction that leads to accounts receivable, control the status of this debt, carry out work on its repayment, are responsible for the results of this work and timely implementation of all measures for debt repayment.

Every month, on the first day of the month following the reporting period, the Bank makes inventory of the accounts receivable and creates provisions according to the requirements of internal regulations and procedures developed according to requirements of the International Financial Reporting Standards. Provisions for accounts receivable are recorded on the balance-sheet accounts 1890 "Provisions for accounts receivable under transactions with banks"; 2890 "Provision for accounts receivable under transactions with bank's customers"; 3590 "Provisions for accounts receivable under transactions of the bank", 3599 "Provisions for financial accounts receivable under transactions of the bank".

The heads of the units that record accounts receivable are responsible for the timely and correct reflection of the accounts receivable amounts in the bookkeeping accounts according to the provided primary documents and timely information (by providing service notes) to the heads of units that initiated the accounts receivable occurrence about the delayed terms of fulfilment of obligations specified in the agreements or delayed terms of carrying out transactions, established by the legislation of Ukraine, which are conducted not on the contractual terms.

If a counterparty violates the term of delivery of goods, performance of works, provision of services specified in the agreement, the unit that initiated the debt occurrence should take all necessary measures to repay it.

After the monthly inventory of accounts receivable, the issue on creation of provisions due to failure to pay the accounts receivable is put before the Bank's Credit Committee.

Accounts receivable, for repayment of which all possible measures have been taken, according to submission of the Chief Accountant with participation of the relevant units, is written off of the balance sheet according to the decision of the Management Board of the Bank.

Accounts receivable, the limitation period for which expired or the Bank received a decision to liquidate the debtor (cancellation of the state registration of an entity), are written off of the off-balance accounting based on the decision of the Management Board of the Bank.

Deferred expenses are expenses of the Bank, handled in the reporting period, but which refer to the following periods. These include, for example, expenses related to payment of lease payments, membership fees, insurance of the Bank's property, subscription to newspapers and magazines, periodicals and reference books, etc. All these expenses at their implementation are reflected on the debit of account "Deferred expenses". Account balance can only be debit and will indicate the retained expenses of the subsequent periods.

Items of deferred expenses arising in foreign currency and related to the execution of works or services are non-monetary items, recognised at the official exchange rate of hryvnia to foreign currencies on the settlement date and are not revalued at each change in the official exchange rate of hryvnia to foreign currencies.

Note 4.8. Investments in securities

Securities are documents that correspond to certain requirements and contain legally defined details. The features of securities are their turnover, standard and seriation, marketability, liquidity, regulation and recognition by the state.

Securities certify the right of ownership and determine the relationship between the person issuing them and their owner, and provide for the payment of income in the form of dividends or interest, as well as the possibility of transferring the monetary and other rights arising under these documents to other persons.

The rules set out in this section apply to the capital instruments that do not have all features of securities, if the economic nature of transactions is identical to the relevant type of securities.

The Bank records transactions on purchasing of securities and other financial assets related to the capital instruments based on method of accounting by the settlement date.

The accounting of securities in the Bank is carried out according to the current Instruction on accounting of transactions with financial instruments in the Ukrainian banks, the internal regulations and methods of the Bank developed according to the International Financial Reporting Standards.

Securities owned by the Bank are classified based on the business model used to manage the securities, as well as characteristics of the cash flows provided for by the agreement (or terms of issue) for their valuation and accounting.

Accounting of financial investments and their valuation is carried out for each investment in terms of the issuer/the person who issued the securities.

After the initial recognition, the Bank measured a debt financial asset based on the business model and contractual cash flow characteristics at:

- amortised cost (AC);
- fair value through other comprehensive income (FVOCI);

- fair value through profit or loss (FVTPL).

The Bank determines at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The chosen business model should be indicated in the decision of the Bank's body on acquisition of the relevant block of securities.

The Bank reclassifies the debt financial assets only if it has changed its business model for managing those financial assets, except for financial assets accounted for at the Bank's discretion at fair value through profit or loss during the initial recognition.

The Bank measures and accounts for debt securities at the amortised cost, provided that the following conditions are met simultaneously:

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

The Bank recognises debt securities at fair value through other comprehensive income if both of the following requirements are met:

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

The Bank recognises interest income [interest accruals, unwinding of discount/premium] on the debt securities at the effective interest rate during the period from the date of acquisition to derecognition date (sale, assignment of claim, repayment, write-off using the provision), reclassification.

The Bank recognises interest income on the debt securities recorded at fair value through profit or loss in revaluation surplus/deficit. For these securities, interest is not accrued and discount or premium is not unwound.

When purchasing coupon payments securities with interest accrued, the Bank records them in premium/discount accounts, the amount of received coupon reduces the premium amount or increases the discount amount.

Interest income on debt securities (other than securities recorded at fair value through profit or loss) are recognised on the revaluation date and on the balance sheet date, but at least once a month. The unwinding of discount or premium is charged simultaneously with interest.

The Bank unwinds the discount (premium) on the floating-rate financial instrument depending on changes in the market rates or, in case of redemption, to the next interest repricing date.

The Bank records gains or loss at initial recognition in the amount of difference between the fair value and contractual amount in correspondence with the discount/premium account, if the effective interest rate on this instrument is higher or lower than the market one. The difference between the fair value and the contractual amount under transactions with the Bank's shareholders

is reflected in the capital in class 5 accounts and is included in parts to the retained profit (loss) during the period of its withholding or as the total amount during release of the securities.

The Bank recognises the ECL allowance for:

- securities at AC;
- securities at FVOCI;
- No allowance is recognised on equity investments.
- The Bank derecognises securities if:
 - the contractual rights to cash flows from the financial asset expire;
 - transfer of a financial asset meets the derecognition criteria under IFRS 9 and other requirements of the law.
- there is a write-off against the allowance.

Note 4.9. Derivative financial instruments.

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

- its value changes in response to the change in a specified interest rate, financial instrument price, foreign exchange rate, or other variable;
- it does not require initial net investments or requires initial net investments that are lower than those that would be required by other types of contracts similarly responding to changes in market condition; and
- it is settled at a future date.

After initial recognition the Bank recognises derivatives at fair value.

All trading derivatives with a positive fair value are recognised as assets. All trading derivatives with a negative fair value are recognised as liabilities. Derivative financial instruments may not be reclassified out of at fair value through profit or loss.

The Bank recognises loans issued (deposits placed) and loans received (deposits attracted) on the interbank market by the same counterparty in various currencies in an equivalent amount and the same maturity as transactions with derivative financial instruments.

Financial derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract. The Bank does not use hedge accounting.

Note 4.10. Reverse purchase/repurchase contracts

REPO transactions with the Bank's customers are carried out on the pledge of securities and accounted as granted or received loans.

Securities purchased under a REPO transaction are recorded as a received collateral in the corresponding off-balance-sheet accounts at contractual amount.

Securities sold under a REPO transaction are recorded in a separate analytical account of the corresponding balance-sheet account. At the same time, they are reflected on the corresponding off-balance-sheet account as the collateral pledged.

When carrying out the REPO transactions, the Bank, acting as a purchaser, receives a commission in the form of percentage or in the form of a reverse sale of securities at a higher price

than purchased one (with a discount). Therefore, the accounting for interest income under REPO transactions differs in the form of the reward received.

The Bank's expenses for reverse REPO transactions are depreciated during the entire validity of the agreement. In case of indefinite REPO transactions, the amortisation period is determined on a forward-looking basis depending on the expected maturity.

For lending transactions (loans, guarantees granted, etc.) denominated in Ukrainian hryvnia equivalent of a fixed foreign-currency amount as translated at the official exchange rate of the National Bank of Ukraine prevailing at the date the obligations are discharged, the balances are settled and accounted for on accounts of loans granted, guarantees, etc. at the official exchange rate of the National Bank.

When changing the official rate of the National Bank, the amount of revaluation of balances on loans granted is reflected in the balance sheet account 6204 "Result from revaluation of foreign currency and precious metals", on guarantees granted – on the off-balance-sheet account 9900 "Contra accounts for accounts of sections 90-95".

Note 4.11. Investment in associates and subsidiaries.

During the reporting and previous years, the Bank made no investments in associates and subsidiaries.

Note 4.12. Investment property.

During the reporting and previous years, the Bank did not held any investment property.

Note 4.13. Goodwill.

During the reporting and previous years, the Bank did not recognise and account for goodwill.

Note 4.14. Property, plant and equipment.

According to IAS 16, *property, plant and equipment* are tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

In determining assets related to property, plant and equipment the Bank is guided by IAS 16 Property, Plant and Equipment, Instruction on accounting of fixed assets and intangible assets of banks of Ukraine, approved by Resolution of the Board of the National Bank of Ukraine No. 480 dated 20 December 2005 (as amended) and internal regulations of the Bank. The unit of account of property and equipment is a separate inventory asset. The Bank sets a value characteristic for assets that are expected to be used during more than one period and are worth over UAH 2,500 or more taking into account their useful lives.

Purchased or self-constructed property, plant and equipment are recognised at cost (purchase cost plus cost of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended). Subsequent to initial recognition, property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

At the end of each reporting period (year), the Bank assesses property, plant and equipment for the signs of impairment in accordance with IAS 36 Impairment of Assets. If there is evidence of impairment, the asset's recoverable amount is calculated as the higher of fair value of an asset less

costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. The carrying amount is reduced to the recoverable amount of the asset and impairment loss is recognised in profit/loss.

At the end of 2019 and 2018, there were no signs of impairment of property, plant and equipment, and depreciation was not calculated.

At the end of each reporting year, during the annual stock-taking, useful lives of property, plant and equipment are reviewed and adjusted, as appropriate. During the reporting year, the useful lives of property, plant and equipment remained unchanged.

The liquidation of property, plant and equipment and other non-current assets is held in the event of economic obsolescence and physical wear and tear. Depreciation charged at 100% of non-current assets does not constitute grounds for writing-off.

Note 4.15. Intangible assets.

According to IAS 38, an *intangible asset* is an identifiable non-monetary asset without physical substance. An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Accounting for intangible assets is maintained in accordance with IAS 38 Intangible Assets, Instruction on accounting of fixed assets and intangible assets of banks of Ukraine, approved by Resolution of the Board of the National Bank of Ukraine No. 480 dated 20 December 2005 (as amended) and internal regulations of the Bank.

Purchased (self-constructed) intangible assets are recognised at cost. The cost of a purchased intangible asset comprises the purchase price net of sales rebates, as well as duties, non-recoverable indirect taxes and other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the intended manner.

Subsequent to initial recognition, the intangible assets are carried at cost less accumulated amortisation and impairment losses.

Useful lives of intangible assets range from 5 to 25 years. The Bank has no intangible assets with indefinite useful lives.

At the end of each financial year, during the annual stock-taking, useful lives of intangible assets are reviewed and adjusted, as appropriate. During the reporting and previous years, useful lives of intangible assets remained unchanged.

At the end of each reporting period (year), the Bank assesses intangible assets for the signs of impairment in accordance with IAS 36 Impairment of Assets.

At the end of 2019 and 2018, there were no signs of impairment of intangible assets, impairment was not calculated.

Note 4.16. Operating leases where the Bank acts as a lessor.

The Bank acts as a lessor in 2 operating subleases of assets subject to expedients under IFRS 16:

- the underlying asset has a low value (value of the asset is USD 5,000 or less when it is new);
- the lease term is 12 months or less.

Accordingly, they are not recognised as right-of-use assets. The Bank accounts for expenses incurred from lease payments as lease costs under IFRS 17.

Note 4.17. Financial leases where the Bank acts as a lessor.

In 2019, the Bank did not enter into finance leases in which it would act as a lessor.

Note 4.18. Operating leases where the Bank acts as a lessee and/or a lessor

A lease is a contract outlining the terms under which one party agrees to rent property owned by another party for a specified period of time in exchange for a consideration.

A lease is classified as an operating lease when the lessor does not assume substantially all the risks and rewards of ownership. Leasing terms are determined by the leasing arrangement concluded in accordance with the laws of Ukraine.

Lease payments made by the Bank as a lessee under operating lease contracts are recognised in administrative costs. Where an operating lease permits the lessee to make improvements to the underlying asset, such investments made are recognised in non-current tangible assets and amortised over the term of the lease remaining after such investments are made.

Recognition of right-of-use assets for long-term leases.

At the beginning of the reporting period, the Bank applied IFRS 16 Leases and recognised right-of-use assets accordingly. Right-of-use assets are initially recognised in the amount of liability recognised at present value of lease payments and advances paid under a lease. The Bank applied a practical expedient under IFRS 16 to short-term leases of low-value assets.

The Bank accounts for leases in accordance with IFRS 16 Leases, regulations of the NBU and internal documents of the Bank regulating the accounting of property, plant and equipment and intangible assets, except for transactions subject to the following conditions:

- the underlying asset is non-identifiable;
- the underlying asset has a low value (value of the asset is USD 5,000 or less when it is new);
- the lessee has a substantive right or option to substitute the underlying asset;
- the lessee may terminate the lease without paying fees and compensations;
- the Bank receives no economic benefits from the use and/or fully controls the use of the underlying asset;
- the lease term is 12 months or less.

When leases arise in the current reporting period, the Bank applied the same approaches as defined above: recognised the carrying amount of the right-of-use asset in the amount of liability recognised at present value of lease payments increased by advances paid under a lease and the amount of direct incremental costs that the Bank incurred from entering into the lease.

The Bank defines the lease term as the non-cancellable period of a lease plus/minus any periods covered by an option to extend or terminate the lease, if it is reasonable certain that the Bank will exercise that option and extend or terminate the lease. When determining the lease term, the Bank applies judgments underlying its strategy on the purpose of holding certain lease assets, plans and procedures for opening and closing units of the bank, its practices of recording leases and respective historical data. The Bank has limited the accounting for a renewal option to one contractual period or less.

After initial recognition of the leased asset, the Bank accounts for such assets at cost less any accumulated amortisation/depreciation and any accumulated impairment loss. Amortisation of right-of-use assets is charged monthly over the contractual term of the lease.

For assets that are eligible for practical expedient under IFRS 16 and, thus, are not recognised as right-of-use assets, the Bank recognises expenses incurred from lease payments as lease expenses, same as it did under IFRS 17.

Recognition of long-term lease liabilities.

The Bank discounts payments for the right to use the underlying asset over the lease during the lease term using the interest rate implicit in the lease or incremental borrowing rate.

Discount rate used to determine the present value of liabilities is calculated by the Bank on a quarterly basis by reference to performance indicators for the last calendar month of the reporting period in accordance with the term of the lease:

- for leases concluded for 24 months or less – the weighted average cost of the Bank's payment obligations is used as a discount rate (time and on-demand deposits of corporate and retail customers; deposits attracted on the interbank market; savings certificates issued, etc.);
- for leases concluded for 24 months or more – the interest rate on subordinated debt borrowings is determined as the maximum allowable under the Regulation of the NBU No. 592 dated 30 December 2010.

Note 4.19. Non-current assets held for sale and disposal groups.

During the reporting year 2019 and previous year 2018 there were no any non-current assets held for sale.

Note 4.20. Depreciation/amortisation

Depreciation (amortisation) represents a systematic allocation of the depreciable amount of an asset over its useful life.

Property, plant and equipment (intangible assets) are depreciated (amortised) over the period of their useful lives set by the Bank on initial recognition, and are reviewed at each financial year-end during the annual stocktaking and adjusted as appropriate.

Depreciation of property, plant and equipment is calculated using the straight-line method based on their cost, residual value and useful life, for which the annual amount of depreciation is determined by dividing the depreciable amount of an asset by its useful life.

Useful lives of property, plant and equipment are presented as follows:

Buildings and constructions	50 years
Vehicles	7 years
Furniture	5 years
Computer equipment	4 years
Machinery and equipment (other than computer equipment)	4 years
Tools, fixtures and fittings	5 years
Other PP&E	12 years
Improvement of leased space	until the end of the lease term

Depreciation of low-value non-current tangibles is charged in the first month of an asset's use in the amount of 100% of its value. Useful lives of intangible assets range from 5 to 25 years.

Note 4.21. Discontinued operations

The Bank has no business lines that may be classified as discontinued operations.

Note 4.22. Borrowings

Borrowings include amounts due to customers representing non-derivative financial obligations to corporate (entities) and retail (individuals) customers.

Financial liabilities for borrowings are initially recognised at fair value. The best evidence of fair value at initial recognition is the transaction price. Profit or loss is initially recognised only if there is a difference between the transaction price and fair value, which may be confirmed by the existing current market transactions with the same instruments. Borrowings from customers are subsequently measured at amortised cost.

Interest expenses on borrowings are recognised on an accrual basis using the effective interest method (except for on-demand borrowings).

Note 4.23. Debt securities issued by the Bank.

During 2019, the Bank did not issue debt securities.

Note 4.24. Subordinated debt.

During 2019, the Bank did not register the subordinated debt.

Note 4.25. Income tax

Current income tax is determined by the tax laws of Ukraine. Income tax expenses in the financial statements comprise current tax and changes in deferred taxes.

Income tax expenses are recognised in net income, except for the amounts relating directly to other comprehensive income and losses.

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

Deferred tax assets and liabilities are calculated according to the tax rates enacted in the period when an asset is realised or a liability is settled, based on legal norms in force at the reporting

date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which deferred tax assets can be utilised.

During 2019 the income tax rate amounted to 18%.

Since in the reporting year there were no discontinued activities at JSC “BANK ALLIANCE”, the amount of income tax relating to the profit (loss) from such activities was not recognised.

Note 4.26. Authorised capital and share premium.

Ordinary shares are reflected in equity. The Bank did not obtain any share premium. The Bank issued no options, warrants and other financial instruments that give their holder the right to purchase ordinary shares.

Note 4.27. Preference shares

The Bank did not issue preference shares. The Bank did not enter into contingent share agreements.

Note 4.28. Treasury shares

In the reporting and previous years, no treasury shares were purchased from the shareholders.

Note 4.29. Dividends

In the reporting and previous years, the Bank’s dividends have not been accrued and distributed.

Note 4.30. Income and expense recognition

The Bank’s income represents increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants. Income includes only gross inflows of economic benefits received or receivable by the Bank for its own account. Amounts received from third parties (such as sales tax, goods and services taxes and value added tax) are not economic benefits flowing to the Bank and do not increase equity. Therefore, they are removed from income.

Expenses of the Bank represent a decrease in economic benefits during the reporting period in the form of disposal or depreciation (amortisation) of assets, or in the form of origination of liabilities, which reduces the equity (except for decreases in equity as a result of withdrawal or distribution to owners), provided that these expenses are reliably measurable.

The Bank recognises income and expenses on an accrual basis, i.e. income and expense are recognised when they occur, regardless of the date of cash inflows or outflows.

Income (expense) is recognised in the amount of fair value of assets received (paid) or receivable (payable).

Income and expenses are recognised when earned/incurred, provided that:

- it is actual debt on the Bank's assets and liabilities that is being recognised;
- income and expenses can be clearly identified and measured reliably.

Income and expense recognition criteria are applied separately to each transaction and recorded individually for each type of income and expense. Income and expense arising from

transactions are regulated by an agreement between its participants or documents effected in accordance with the applicable law of Ukraine.

Costs of purchasing and creating an asset that cannot be recognised as assets are recorded as expenses.

Commission fees that are an integral part of income (expense) of a financial instrument are recognised in interest income (expense) of a financial instrument.

For foreign-currency financial instruments, income and expenses are accrued in the currency of the underlying asset (liability).

Income and expenses (accrued, received, paid) in foreign currency are recognised in the national currency income (expense) accounts at official rates of UAH to foreign currencies at the date of their recognition.

Income and expense, depending on models of accounting for banking transactions set out in internal documents of the Bank, are recognised directly on profit (loss) accounts of the Chart of Accounts of the Ukrainian Banks approved by Regulation of the Management Board of the National Bank of Ukraine No. 89 dated 11 September 2017 as amended (“Chart of Accounts”), or with the use of transit accounts through profit (loss). Where the Bank has received income from (incurred expenses for) services to be provided (received) in future reporting periods, such income (expense) is not included in the financial profit/loss of the reporting period and is accounted for as assets (liabilities) with a monthly recognition of income and expense attributable to the reporting period.

Operating income and expense are divided into:

- interest income and expense;
- commission income and expenses;
- gains (losses) from trading operations;
- dividend income;
- costs of charging provisions/allowances;
- recovery of assets previously written off;
- other operating income and expenses;
- general administrative costs;
- income tax.

By results of investment activities, the Bank recognises:

- income (expense) from selling (purchasing) PP&E and intangible assets;
- income (expense) from selling (purchasing) investment property;
- income (expense) from selling investments in subsidiaries and associates, etc.

By results of financial operations, the Bank recognises:

- income (expense) on transactions with self-issued debt securities;
- income (expense) on subordinated debt;

- dividends paid during the reporting period;
- income arising from issuing equity instruments, etc.

The Bank recognises the interest income and expenses on interest income and expense items using the effective interest rate method.

The Bank applies nominal interest rate to financial instruments, for which future cash flows cannot be reliably measured (overdraft loans, revolving credit facilities, on-demand deposits) and to which the effective interest rate is not applied.

Discount (premiums) on financial instruments are amortised simultaneously with accrual of interest, other than interest on debt financial instruments at FVTPL, and are recognised in remeasurement to fair value.

When calculating the effective interest rate, the Bank determines the cash flows by considering all the contractual terms of the financial instrument, including all fees and other amounts paid to or received by parties to the contract that are an integral part of the income (expense) of a financial instrument. When it is not possible to reliably estimate the cash flows or the expected life of a financial instrument, the Bank uses the contractual cash flows over the contractual term.

Fees that are an integral part of the effective interest rate of a financial instrument include:

- origination fees received by the Bank relating to the creation or acquisition of a financial asset that include: compensation for evaluating the borrower's financial condition, evaluating guarantees, collateral, negotiating the terms of the instrument, preparing and processing documents and closing the transaction, etc.;
- commitment fees received by the Bank to originate a loan (except when these credit related commitments are measured at FVTPL) are recognised as an integral part of income (expense) of the financial instrument if it is probable that the Bank will enter into a lending arrangement. If the commitment expires without the Bank making the loan, the fee is recognised as commission income (expense) on expiry;
- other fees and commissions that form an integral part of income (expenses) of a financial instrument.

Fees that are not an integral part of the effective interest rate:

fees charged for servicing a loan:

- commitment fees to originate a loan (except when commitments are measured at FVTPL), and it is unlikely that a lending arrangement will be entered into;
- loan syndication fees received by the bank that arranges a syndicated loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants).

The Bank considers the initial ECLs in cash flows in calculating the original credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets.

If an entity revises its estimates of payments or receipts (excluding modifications and changes in estimates of ECLs), it shall adjust the gross carrying amount of the financial asset or amortised cost of a financial liability to reflect actual and revised estimated contractual cash flows.

The Bank recalculates the gross carrying amount of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The adjustment is recognised in interest income/ expense in correspondence with discount/premium accounts.

The Bank calculates interest income for financial assets within credit risk grade 1 and grade 2 (there is an impairment allowance for stage 1 and stage 2) by applying the effective interest rate to the gross carrying amount of such assets.

Interest income for financial assets that have become credit impaired (Stage 3) is calculated by applying the effective interest rate to their amortised cost, net of the ECL allowance.

For loans granted under non-revolving credit lines, effective interest rate is calculated for each separate loan (tranche) on initial recognition of the loan (tranche).

Discounts (premiums) on financial instruments are accounted for in the same currency as the related financial instrument.

Interest income and expense are accrued using the following techniques:

- Act/act basis – actual number of days in a month or year;
- Act/360 basis – actual number of days in a month based on a 360-day year;
- 30/360 basis – each month is assumed to be 30 days and each year is assumed to be 360 days.

Decisions to apply a particular method to specific transactions are made by an authorised body of the Bank and are documented in respective agreements between the Bank and its counterparties.

Where necessary, the Bank may apply to certain financial instruments other methods not specified in the list above if they are agreed upon between the parties to the transaction or the terms of issue of these instruments (debt securities, certificates of deposit, treasury bills, etc.).

Interest income / expenses are accrued at least once a month for the full calendar month, unless otherwise stipulated in the agreement. For lending transactions in the national currency, interest is accrued on an act/act basis (for loans with standard repayment terms) and 30/360 basis (for annuitant loans), unless otherwise stipulated in the agreement.

For lending transactions in the foreign currency, interest is accrued on an act/act basis (actual number of days in a month or year), unless otherwise stipulated in the agreement.

For deposit transactions in the national and foreign currencies, interest is accrued on an act/act basis (actual number of days in a month or year), unless otherwise stipulated in the agreement.

In other cases, the method of determining the number of days in a month and year is regulated by the terms of agreements between the parties.

In calculating interest for using the customer's cash under a bank deposit agreement, the Bank does not take into account the day on which the cash is credited to the account and the day on which cash is debited from the account, unless otherwise stipulated in the bank deposit agreement.

When calculating interest on loans, the first day of the loan is taken into account and the last day of the loan is not taken into account.

The amount of interest rates, the terms, the procedure for their accrual and payment are determined by agreements with the Bank's counterparties. Interest rate are set in accordance with decisions of the Asset and Liability Committee or other authorised collegiate body (Credit Committee).

Amounts due on income accrued are considered overdue from the day following the period in which the debt should have been but was not repaid under the contract.

Interest income accrued on the principal overdue is overdue from the date of accrual and is credited to the relevant analytical accounts of the accrued interest income.

Dividends are recognised in the period the decision is made on their payout.

Criteria for ceasing the accrual of income and subsequent accounting.

Income accrual on a financial instrument is ceased when one of the following conditions is met:

- the agreement has expired;
- the cost of loan (principal, interest accrued, unwound premium (discount)), net of impairment recognised, is zero.

Interest accrual on off-balance-sheet accounts ceases when required by applicable law and when the Bank has relevant documents confirming the occurrence of the following events:

- cancellation of contractual obligations due to an entity being liquidated
- for loans and other obligations of entities liquidated without initiating bankruptcy procedures;
- from the day the borrower is recognised bankrupt and a liquidation procedure has commenced (under the Law of Ukraine "On Renewal of the Debtor's Solvency or Declaring its Bankruptcy") – for loans and other obligations of entities;
- from the day the retail (individual) borrower dies (a duly certified death certificate has been provided);
- from the day the NBU decides to revoke a banking licence and appoint a receiver in bankruptcy (under the Law of Ukraine "On Banks and Banking Activities") – for interbank loans;
- from the day of the court's decision to terminate the loan agreement or declare it invalid;
- from the day of the borrower's military service in the territory of anti-terrorist operation until the end of the special period established by the President's decree.

The decision to cease income accrual is made by the Credit Committee of the Bank.

Income and expenses payable or receivable are recognised as forfeits / fines (penalties).

A forfeit/fine (penalty) is a cash amount or other property that the borrower should transfer to the creditor if an obligation was breached by the borrower.

Unless otherwise agreed in the contract, the amount of the fine shall be calculated as a percentage of the amount of defaulted or not properly fulfilled obligation.

Forfeit is calculated as a percentage from of the amount of late fulfilment of an obligation for each day overdue starting from the first date following after the last repayment date under a contract. Unless otherwise agreed in the contract, the amount of the fine shall be paid in the amount of double NBU discount rate of the overdue amount for each day delayed.

The penalty is charged on the outstanding amount not repaid by the counterparty until the borrower fully repays the overdue debt on an act/act basis net of the repayment day. Penalty is lifted in the following cases:

- the contract is terminated by court or is considered invalid (from the date stipulated in the court's ruling), unless otherwise stated by court;
- from the date the economic court passes a decision to recognise that the borrower is bankrupt and initiate the liquidation procedure.

Penalties are also not charged in the following cases:

- when there is supportable information on assigning the borrower a status of a temporarily displaced person (for the period of displacement) in accordance with the applicable law of Ukraine;
- from the date the military service of the borrower in the territory of anti-terrorist operation ends (for the period of military service) in accordance with the applicable law of Ukraine;
- from the date the retail (individual) borrower dies.

Fines and penalties are recognised when paid and are not recorded in income and expense accrued.

In the event of legal claims seeking to collect the payments of principal and interest from the borrower, the Bank adds to the legal claim the fines and penalties accrued as at the date of claim, taking into account the terms of limitation established in contracts and/or other applicable laws.

The Bank, in any event, may refuse to collect a penalty from the borrower if so decided by a relevant authorised management body.

In accounting for income and expenses, the Bank is governed by the laws of Ukraine, regulations of the National Bank of Ukraine, in particular, Rules of Accounting for Income and Expense approved by Regulation of the Management Board of the National Bank of Ukraine No. 17 dated 27 February 2018, IFRSs, this Regulation on Accounting Policy and other internal documents of the Bank regulating the accounting for income and expenses.

Note 4.31. Foreign currency translation

The Bank's functional and presentation currency is Ukrainian hryvnia.

Assets and liabilities denominated in foreign currencies are translated into hryvnia equivalent as follows:

- monetary items denominated in foreign currencies are recognised at the official

Ukrainian hryvnia exchange rate ruling on the reporting date;

- non-monetary items in foreign currencies that are measured at cost are recognised at the official Ukrainian hryvnia exchange rate ruling on the transaction date;
- non-monetary items in foreign currencies that are measured at fair value are stated at the official Ukrainian hryvnia exchange rate at the fair value measurement date.

Foreign exchange differences arising on monetary items are recognised in the statement of comprehensive income (net gain/(loss) from foreign currency translation) in the period when they arise.

If the gain or loss in a non-monetary item is recognised in other comprehensive income, any foreign currency component of that gain or loss is recognised directly in other comprehensive income. Conversely, if the gain or loss in a non-monetary item is recognised in profit or loss, any foreign currency component of that gain or loss is recognised in profit or loss.

Note 4.32. Offset of financial assets and liabilities

Financial assets and financial liabilities are offset in the balance sheet when the Bank has a legally enforceable right to set off the amounts recognised in the balance sheet and intends to settle on a net basis or sell an asset and settle a liability simultaneously.

In the reporting and previous years, the Bank did not offset assets and liabilities.

Note 4.33. Assets under trust

In the reporting and previous years, the Bank did not enter into trust agreements.

Note 4.34. Accounting for the effect of inflation.

In the reporting and previous years, the Bank did not account for the effect of inflation.

Note 4.35. Employee benefits and related charges

The Bank's employees receive a basic salary, extra wage and other incentives and compensation payments.

A basic payroll budget comprises the basic salary of the Bank's employees – remuneration for works performed according to the position salary stipulated in a staffing chart (fixed official salary).

An additional payroll budget comprises extra wages - remuneration for extra works performed, labour accomplishments:

- supplementary benefits and fringes in the amounts stipulated by the law for discharging of duties of a temporarily absent employee;
- for combining of professions (positions) - employees receive salaries for works actually performed (set upon mutual agreement of the parties on the basis of content and/or the amount of extra works);
- bonuses related to performance of professional/industrial tasks and functions paid in line with the established procedure according to the Bank's special bonus systems;
- payment for non-worked time – provision of basic and additional annual leaves;
- cash compensations for unutilised vacations, additional leaves by employees who have children in the amounts prescribed by law.

Other incentive and compensation allowances comprise payments in form of rewards for annual performance, compensation and other tangible benefits not provided by the applicable law or charged in excess of the specified norms. In addition, payments are made at the expense of the State Social Insurance Fund: allowance for temporary disability and maternity leave allowance.

Remuneration rates of the Bank's employees are determined under the staffing chart. The payment of fixed official salaries depends on employee monthly performance of working time norm. The actual salary amount is determined in proportion to working hours in the reporting period.

Salary deductions and transfers of retained taxes and contributions to the budget and related funds are made along with the payment of salaries.

Withholding of tax from individuals and military contributions is carried out under the Tax Code of Ukraine of No. 2755 dated 12 February 2010. Withholding of a single fee is carried out in accordance with the Law of Ukraine No. 2464-VI "On Collection and Accounting of the Single fee on Mandatory National Social Insurance" dated 8 July 2010.

All withholdings from salaries, in addition to those established by the applicable law, shall be made upon an employee's written request.

The Bank has charged vacation allowances according to the laws of Ukraine and the Bank's accounting policies in compliance with IAS 19 Employee Benefits and para. 13, 14 of UAS 11. In addition, an allowance has been charged for the amount of single contribution charges for vacation payments.

Note 4.36. Operating segment information

An operating segment is a component of the Bank's business engaged in business activities (from which it may earn revenues and incur expenses), operating results of which are regularly reviewed by the management for decision-making regarding resource allocation within the Bank and performance evaluation.

The principle of selection of the Bank's operating segments lies in the separation of information about the activities that are capable of bringing economic benefits and provide for related costs. Separation of operating segments is based on the management reporting system.

The Bank recognised the following operating segments:

- services to corporate customers - entities of all forms of ownership (other than banks);
- services to individuals;
- transactions with other banks;
- investment banking - securities transactions.

The Bank recognises income directly related to the respective segment and the respective part of the Bank income, which can be related to the respective segment from external activity or from operations between other segments within the Bank as the income of reporting segment. The expenses related to the main activity of the segment that directly related to the respective segment and the respective part of the expenses, which can be reasonably related to the respective segment including expenses from external activity. The segment result is a segment revenue less segment expenses.

Note 4.37. Related party information

In accordance with the requirements of Article 52 of the Law of Ukraine "On Banks and Banking", the Bank's related parties are:

- the Bank's controllers;
- persons having a qualifying holding in the bank, and persons through which indirect ownership of a qualifying holding in the Bank is exercised by such persons;
- the Bank's managers, head of the internal audit service, chairmen, and committee members of the Bank;
- the Bank's congenerous parties and affiliates including banking group participants;
- persons having a qualifying holding in the Bank's congenerous parties and affiliates;
- managers of legal entities and banks' managers who are the Bank's congenerous parties and affiliates, head of the internal audit service, chairmen, and committee members of such persons;
- persons associated with individuals specified in paragraphs 1-6 of this definition;
- legal entities where the individuals mentioned in this part are managers or qualifying shareholders;
- any person through which a transaction is performed in the interests of persons referred to in this part, and which is influenced during any such transaction by persons referred to in this part, through labour, civil, and other relations.

As at 31 December 2019, the number of persons related to the Bank was 194 persons, including 13 entities and 181 individuals. Information on management personnel identified as parties related to the Bank is provided in the Management Report of JSC BANK ALLIANCE. Information about related-party transactions is presented in Note 33 Related Party Transactions.

When conducting transactions with related parties, the Bank may not provide for conditions that are not current market conditions. Transactions entered into by the Bank with related parties on terms that are not current market conditions are declared null and void from the date of signing.

Note 4.38. Changes in accounting policies and estimates, correction of significant errors and their presentation in the financial statements

The accounting policies are applied by the Bank to similar items of financial statements consistently. *Changes in the accounting policies* are possible in two cases:

- if required by the new standard;
- changes to the financial statements result in reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Changes in accounting policies are applied retrospectively. Exemption (prospective application) is possible only if it is required by the transitional provisions of a new standard or interpretation. Retrospective application of accounting policies means the application to previous

(comparative) periods of new principles, rules, standards of accounting and disclosures. The application of accounting policies for transactions, other events or conditions that differ in substance from those previously occurred, not occurred previously or were not material is not considered a change in accounting policies.

A change in accounting estimates is a value adjustment of an asset or liability as a result of revision of the expected future benefits or debts. Estimates are subject to review as a result of changing circumstances on which it was based, the receipt of new information. Changes in accounting estimates are introduced prospectively and do not affect the financial statements for prior periods. A change in accounting estimates is recognised by adjusting the carrying amount of an asset or liability with simultaneous disclosure of the result in the statement of comprehensive income for the period.

The Bank corrects **significant errors** of a prior period by means of retrospective restatement. Exception to this rule applies where it is impracticable to determine either the period-specific effects or the cumulative effect of the error (in this case the Bank restates the relevant item of assets, liabilities or equity at the beginning of the earliest period for which retrospective restatement is possible).

IFRS 16 was applied in the reporting period as discussed in Note 3.

During 2019, there were no changes in accounting policies, accounting estimates and identifications of significant errors.

Note 4.39. Significant accounting estimates and assumptions that affect the recognition of assets and liabilities.

During the preparation of the financial statements in accordance with the requirements of IFRS the Bank's Management applies judgments, estimates and assumptions affecting the application of accounting policies, amounts of assets and liabilities, income and expenses recognised in the financial statements and the disclosure of contingent assets and liabilities. Actual results may differ from those estimates. Estimates and assumptions on which they are based are reviewed regularly. The results of review of accounting estimates are recognised in the period in which they are reviewed and in any future periods affected by such estimates.

Professional judgments and estimates having the most significant effect on the financial statements include:

- impairment of loans granted to borrowers and estimation of expected loan losses;
- impairment losses on other assets and estimation of expected losses.

Significant judgments required when applying the accounting requirements to estimate ECLs include:

- determination of criteria for a significant increase in credit risk;
- selection of appropriate models and assumptions to measure the ECLs;
- determination of the number and relative weights of the forecast scenarios for each type of product / market and relevant ECLs;
- determination of groups of similar financial assets to measure ECLs.

Note 5. New and revised standards issued but not yet effective

For the purpose of these financial statements, the following is the list of new or revised standards that have become mandatory for the financial year beginning on 1 January 2019 or effective for annual periods beginning after 1 January 2019, the early adoption of which is permitted:

- IFRIC 23 Uncertainty over Income Tax Treatments (published in June 2017) – effective for annual periods beginning on or after 1 January 2019 (early application is permitted), clarifies the accounting for uncertainties in income taxes in accordance with IAS 12: (i) whether each tax treatment should be considered independently, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) Effect of changes in facts and circumstances. The Bank does not expect a material effect of the interpretation on its financial statements;
- IFRS 16 Leases is effective from 1 January 2019. The standard replaces IAS 17 and its interpretation. IFRS 16 introduces a single lessee accounting model requiring lessees to recognise assets and liabilities for all leases (unless the lease term is 12 months or less, or the underlying asset has a low value), which eliminates the difference between operating and finance leases. However, the lessor accounting remains effectively unchanged and the lessor continues to classify leases as operating or finance;
- IFRS 17 Insurance Contracts effective from 1 January 2021. The Bank does not expect a material effect of the standard on its financial statements;
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – designed to facilitate an understanding of the definition of material in IAS 1 and is not intended to alter the underlying concept of materiality in IFRS. The definition of material in IAS 8 was superseded by a reference to IAS 1. Effective for annual period beginning on or after 1 January 2020, early application is permitted.
- On 26 September 2019, the IASB issued the Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39 and IFRS 7) to provide relief from the potential effects caused by the reform on the financial statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2020;
- On 22 October 2018, the IASB issued amendments to IFRS 3 Business Combinations that revise the definition of a business. Entities shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting periods beginning on or after 1 January 2020. Early application is permitted.

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Cash	180,438	123,225
Balances with the National Bank of Ukraine (excluding mandatory reserves)	73,042	31,298
Cash at correspondent accounts with banks	56,090	225,749
domestic banks	56,088	225,724
foreign banks	2	25
Total cash and cash equivalents, net of provisions	309,570	380,272
Provision for impairment of cash at correspondent accounts with Ukrainian banks	(2,126)	(12,270)
Total cash and cash equivalents, net of provisions	307,444	368,002

As at the end of 2019 and 2018, cash and cash equivalents comprised cash on hand and funds at correspondent accounts with other banks (including the correspondent account with the National Bank of Ukraine). During 2019 and 2018, the Bank had no non-cash investment and financial transactions.

The information of Note 6 is disclosed in the statement of financial position (balance sheet), the statement of cash flows and in Note 20.

Note 7. Loans and advances to customers

Table 7.1. Loans and advances to customers

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Corporate loans for current operations	2,354,952	1,431,360
Rights of recourse acquired under factoring transactions	69,197	-
Retail loans for current operations	20,044	34,517
Retail mortgage loans	5,354	-
Total loans	2,449,547	1,465,877
Provision for loan impairment	(120,547)	(74,730)
Total loans less provisions	2,329,000	1,391,147

The information of Note 7 is disclosed in the statement of financial position (balance sheet), the statement of cash flows and in Note 20.

The final amount of Note 7 Loans and Advances to Customers as at 1 January 2020 is net of guarantee coverage in the amount of UAH 18,173 thousand, including allowance of UAH 776 thousand (2019: UAH 8,307 thousand, including allowance of UAH 581 thousand).

Table 7.2. Analysis of changes in provisions for loan impairment for 2019

<i>In thousands of UAH</i>	Corporate loans	Retail loans	Total
Balance as at 31 December 2018	(71,507)	(3,223)	(74,730)
(Increase)/decrease in provision for impairment during the period	(46,038)	(370)	(46,408)
Loans written off against provision	591	-	591
Balance as at 31 December 2019	(116,954)	(3,593)	(120,547)

Table 7.3. Analysis of changes in provisions for loan impairment for 2018

<i>In thousands of UAH</i>	Corporate loans	Retail loans	Total
Balance as at 31 December 2017	(20,212)	(585)	(20,797)
(Increase)/decrease in provision for impairment during the period	(54,650)	(2,638)	(57,288)
Effect of translation into presentation currency	3,355	-	3,355
Balance as at 31 December 2018	(71,507)	(3,223)	(74,730)

Table 7.4. Loan structure by types of economic activity

(UAH '000)

Economic activity	31/12/2019		31/12/2018	
	amount	%	amount	%
Wholesale trade, except of motor vehicles and motorcycles	881,907	36.00	319,440	21.79
Agriculture	364,011	14.86	-	-
Construction of buildings, specialised construction activities	294,443	12.02	238,988	16.30
Electricity, gas, steam and air-conditioning supply	206,865	8.44	235,511	16.07
Provision of financial services	173,647	7.09	43,313	2.95
Air transport	94,895	3.87	69,421	4.74
Manufacture of basic metals	89,777	3.67	-	-
Activities of head offices, management consultancy activities	51,863	2.12	74,245	5.06
Water transport	43,638	1.78	-	-
	41,525	1.70	40,580	2.77
Warehousing and support activities for transportation	24,508	1.00	50,426	3.44
Wholesale and retail trade and repair of motor vehicles and motorcycles	23,041	0.94	35,557	2.43
Food manufacturing	7,702	0.31	74,240	5.07
Mining of metal ores	-	-	70,440	4.81
Manufacture of chemicals and chemical products	-	-	61,019	4.16
Other	126,327	5.16	118,180	8.06
Retail	25,398	1.04	34,517	2.35
Total loans and advances to customers less provisions	2,449,547	100.00	1,465,877	100.00

The Bank minimises a concentration risk in the loan portfolio (concentration of credit transactions in a particular industry or group of related industries or lending to certain categories of customers) through diversification of the loan portfolio, which lies in the distribution of loans among borrowers who differ from each other both by characteristics (volumes of capital, forms of ownership) and by business environments (economic sector, geographic region).

Table 7.5. Information on loans by types of collateral for 2019

<i>In thousands of UAH</i>	Corporate loans	Retail loans	Total
Unsecured loans	633,429	8,382	641,811
Loans secured by:	1,790,720	17,016	1,807,736
cash	158,069	-	158,069
real estate	439,303	14,637	453,940
including residential	22,654	9,453	32,107
guarantees and sureties	121,727	1,505	123,232
other assets	1,071,621	874	1,072,495
Total loans and advances to customers less provisions	2,424,149	25,398	2,449,547

Table 7.6. Information on loans by types of collateral for 2018

<i>In thousands of UAH</i>	Corporate loans	Retail loans	Total
Unsecured loans	272,090	5,534	277,624
Loans secured by:	1,159,270	28,983	1,188,253
cash	195,109	-	195,109
real estate	327,610	26,666	354,276
including residential	4,842	10,296	15,138
guarantees and sureties	812	1,411	2,223
other assets	635,739	907	636,646
Total loans and advances to customers less provisions	1,431,360	34,517	1,465,877

Table 7.7. Analysis of credit quality for 2019

<i>In thousands of UAH</i>	Corporate loans	Retail loans	Total
Not overdue and not impaired	2,423,573	24,572	2,448,145
	593,441	-	593,441
new large borrowers	735,201	-	735,201
loans to small companies	1,094,931	-	1,094,931
Loan impairment estimated on an individual basis:	576	826	1,402
overdue 93 -183 days	576	394	970
overdue 184 - 365 (366) days	-	432	432
Total loans, gross of provision charges	2,424,149	25,398	2,449,547
Provision for loan impairment	(116,954)	(3,593)	(120,547)
Total loans less provisions	2,307,195	21,805	2,329,000

Table 7.8. Analysis of credit quality for 2018

<i>In thousands of UAH</i>	Corporate loans	Retail loans	Total
Not overdue and not impaired	1,431,360	34,517	1,465,877
	104,761	-	104,761
new large borrowers	544,251	-	544,251
loans to small companies	782,348	-	782,348
Total loans, gross of provision charges	1,431,360	34,517	1,465,877
Provision for loan impairment	(71,507)	(3,223)	(74,730)
Total loans less provisions	1,359,853	31,294	1,391,147

Table 7.9. Effect of collateral value on credit quality as at 31 December 2019

<i>In thousands of UAH</i>	Loans carrying amount	Expected cash flows from sale of collateral	Collateral effect
1	2	3	4 = 2 - 3
Corporate loans	2,424,149	200,555	2,223,594
Retail loans	25,398	2,229	23,169
Total loans	2,449,547	202,784	2,246,763

Table 7.10. Effect of collateral value on credit quality as at 31/12/2018

<i>In thousands of UAH</i>	Loans carrying amount	Expected cash flows from sale of collateral	Collateral effect
1	2	3	4 = 2 - 3
Corporate loans	1,431,360	110,932	1,320,428
Retail loans	34,517	4,036	30,481
Total loans	1,465,877	114,968	1,350,909

The Bank defines market value of a collateral in the form of mortgage of real estate, vehicles, integral property complexes, equipment, biological assets, property rights to real estate, products, commodities, future harvest, offspring of animals based on the assessment of such property conducted by an appraiser (at least once a year). In accordance with the internal regulations, the market value of collateral in the form of cash deposits is taken as their nominal value; for securities - market value determined by securities departments as current fair value of securities included into the stock register of securities traded on stock exchanges. The Bank determines the value of a collateral up to the conclusion of a credit agreement. Where significant changes have occurred in operating and physical condition of collateralised property and/or in market conditions since the date of the last assessment, the Bank reassesses such property, regardless of terms and conditions of loan and/or collateral agreement.

The Bank determines the expected cash flows from the sale of collateral considering future cash flows, which consist of the amount of expected payments from the sale of a collateral in

accordance with the relevant contract (regardless of probability of foreclosure on such collateral), taking into account the time required to realise the collateral.

The Bank estimates future cash flows under the contract as stipulated by the relevant internal regulations, developed in compliance with International Financial Reporting Standards. The estimated future cash flows from the sale of a collateral are reduced by the cost to sell.

The total amount of undiscounted future cash flows, including cash flows from the sale of a collateral, may not exceed the amount of payments stipulated in a credit agreement.

Future cash flows from a collateral are discounted given the time required by the Bank for the sale of collateral.

Table 7.11. Loan impairment provisions subject to 3-staged impairment model as at 31/12/2019

<i>In thousands of UAH</i>	Stage 1	Stage 2	Stage 3
Provisions for loan impairment:	-	102,903	17,644
including provisions for impairment of corporate loans	-	100,769	16,185
including provisions for impairment of retail loans	-	2,134	1,459

Table 7.12. Loan impairment provisions subject to 3-staged impairment model as at 31/12/2018

<i>In thousands of UAH</i>	Stage 1	Stage 2	Stage 3
Provisions for loan impairment:	-	74,730	-
including provisions for impairment of corporate loans	-	71,507	-
including provisions for impairment of retail loans	-	3,223	-

Note 8. Investments in securities

Table 8.1. Securities held at amortised cost

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Debt securities – corporate bonds	27,348	27,348
Deposits certificates issued by NBU	425,536	270,355
Provision for impairment of securities	(27,348)	(27,348)
Total securities, net of provisions	425,536	270,355

Table 8.2. Securities held at fair value through profit or loss

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Domestic Government Loan Bonds – Ministry of Finance of Ukraine	136,868	27,440
Provision for impairment of securities	-	-
Total securities, net of provisions	136,868	27,440

Table 8.3. Analysis of credit quality of securities

<i>In thousands of UAH</i>	31/12/2019	31/12/2019
Impaired debt securities estimated on an individual basis	27,348	27,348
Provision for impairment of securities	(27,348)	(27,348)
Total impaired debt securities, net of provisions	-	-

Table 8.4. Provisions for impairment of debt securities subject to 3-staged impairment model as at 31/12/2019

<i>In thousands of UAH</i>	Stage 1 impairment model	Stage 2 impairment model	Stage 3 impairment model
Provisions for debt securities	-	-	27,348
Total	-	-	27,348

Table 8.5. Provisions for impairment of debt securities subject to 3-staged impairment model as at 31/12/2018

<i>In thousands of UAH</i>	Stage 1 impairment model	Stage 2 impairment model	Stage 3 impairment model
Provisions for debt securities	-	-	27,348
Total	-	-	27,348

During reporting year 2019 and previous year 2018, debt securities accounts (the Bank's portfolio of securities held at amortised cost) comprised discount registered bonds (A series) of LLC "NAVIUM" in the amount of 2,486,188 bonds with the par value of UAH 11.00 per bond. The Bank recognised 100% impairment for these securities. With regard to LLC "NAVIUM" the provision for securities impairment was created for the whole amount of UAH 27,348 thousand.

At the end of reporting year 2019 and previous year 2018, the Bank's securities portfolio held at amortised cost comprised deposit certificates issued by the National Bank of Ukraine with the maturity up to 30 days. The Bank received interest payments on such assets.

During 2019 the Bank carried out transactions with the foreign-currency Domestic Government Loan Bonds held at fair value through profit or loss. As at 31 December 2019, their par value was UAH 27,440 thousand. The Bank received interest payments on such securities.

Note 9. Derivative financial assets

Table 9.1. Derivative financial assets

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Assets under swap contracts in the Bank's trade portfolio	-	1,560
Assets under forward contracts	3,646	-
Total financial assets held at fair value through profit or loss	3,646	1,560

At the end of reporting year 2019 and previous year 2018, the Bank had not financial assets held at fair value through profit or loss and transferred without derecognition. Information of Note 9 is disclosed in the statement of financial position (balance sheet) and in Note 20.

Note 10. Property, plant and equipment (PP&E) and intangible assets (IA)

(UAH '000)

Line	Item	Machinery and equipment	Vehicles	Tools, fixtures and fittings (furniture)	Other PP&E	Other non-current tangible assets	In-progress capital investments in PP&E and IAs	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10
1	Opening carrying amount as at 1 January 2019	8,590	5,055	357	1,383	1,435	116	4,254	21,190
1.1	<i>initial (revalued) cost</i>	12,347	6,091	540	1,699	4,264	116	7,659	32,716
1.2	<i>opening depreciation</i>	(3,757)	(1,036)	(183)	(316)	(2,829)	-	(3,405)	(11,526)
2	Additions	13,103	563	384	567	3,394	24,745	7,484	50,240
3	Disposals	(165)	-	(3)	-	(4)	(24,396)	-	(24,568)
3.1	<i>initial (revalued) cost</i>	(464)	-	(10)	-	(181)	(24,396)	-	(25,051)
3.2	<i>depreciation</i>	299	-	7	-	177	-	-	483
4	Depreciation/amortisation charge	(3,626)	(872)	(134)	(160)	(3,001)	-	(1,910)	(9,703)
5	Closing carrying amount as at 31 December 2019	17,902	4,746	604	1,790	1,824	465	9,828	37,159
5.1	<i>initial (revalued) cost</i>	24,986	6,654	914	2,266	7,477	465	15,143	57,905
5.2	<i>depreciation</i>	(7,084)	(1,908)	(310)	(476)	(5,653)	-	(5,315)	(20,746)

As for the property, plant and equipment restricted in ownership, use and disposal, within the reporting period the Bank had on its books the following leased items:

- motor vehicle Volkswagen Transporter TDI 2,0 140PS 2018 YOM – 2 vehicles, under finance lease agreements No. FL052-07/18, No. FL053-07/18 dated 26 July 2018 with Personalnyi Ukrainyskyi Lizyng LLC (Personal Ukrainian Leasing LLC).
- motor vehicle Renault DUSTER 1.5D 4x2 Zen AGB 2019 – 1 vehicle, under a finance lease agreement No. FL108-03/19 dated 7 March 2019 with Personalnyi Ukrainyskyi Lizyng LLC (Personal Ukrainian Leasing LLC).

The Bank does not have any property, plant and equipment and intangible assets pledged as collateral. In the reporting period, intangible assets have not been generated by the Bank. There are no intangible assets whose title is restricted. The cost of fully depreciated property, plant and equipment amounted to UAH 799 thousand. During the reporting period, no property, plant and equipment or intangible assets were revalued by the Bank.

Information of Note 10 is disclosed in the interim abbreviated statement of financial position (balance sheet), the interim abbreviated statement of cash flows and in Note 20.

Note 11. Right-of-use assets

Table 11.1. Right-of-use assets

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Carrying amount at 1 January 2019	20,659	-
Additions	18,130	-
Disposals	(10,716)	-
Amortisation and depreciation charges	(10,034)	-
Modifications	13,860	-
Total right-of-use assets	31,899	-

Information of Note 11 is disclosed in the statement of financial position (balance sheet).

Note 12. Other assets

Table 12.1. Other assets

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Income from cash management services, accrued but not received	40	19
Fees for guarantees granted, accrued but not received	2,414	927
Accounts receivable on transactions with other banks	6	12
Revaluation surplus under spot contracts at FX market	116,826	12,373
Funds placed with other banks as a security	3,495	3,495
Settlement of accounts within international payment systems	969	855
Accounts receivable from transactions with customers	3,320	1,188
Precious metals at the bank outlet	773	691
Trade accounts receivable	2,677	3,322
Accounts receivable on taxes and mandatory payments	7	9
Deferred expenses	36,070	2,334
Other assets	162	194
Provision for impairment of other financial assets	(4,677)	(1,675)
Total other assets less provisions	162,082	23,744

During the reporting and previous years, the Bank did not enter into finance lease contracts, where the Bank acted as a lessor.

Funds pledged with other banks as a collateral shall include transaction relating to payment system settlements in the amount of UAH 3,495 thousand.

Information of Note 12 is disclosed in the statement of financial position (balance sheet) and in Note 20.

Table 12.2. Analysis of changes in provision for impairment of other assets

<i>In thousands of UAH</i>	Accrued income provisions	Provisions for receivables on transactions with other banks	Provisions for funds pledged as collateral with other banks	Accounts receivable on transactions with bank customers	Trade accounts receivable	Total
Balance as at 31 December 2017	-	(1)	(21)	(52)	(343)	(417)
(Increase)/decrease in provision	(25)	-	(162)	-	(1,071)	(1,258)
Balance as at 31/12/2018	(25)	(1)	(183)	(52)	(1,414)	(1,675)
(Increase)/decrease in provision	(2,150)	-	88	-	(974)	(3,036)
Assets written off against provision	33	1	-	-	-	34
Balance as at 31/12/2019	(2,142)	-	(95)	(52)	(2,388)	(4,677)

Note 13. Due to banks**Table 13.1.** Due to banks

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Correspondent accounts	1	-
Total amounts due to banks	1	-

During the reporting and previous periods, the Bank has not failed to fulfil its obligations relating to principal amount and interest. The Bank had no assets delivered to third parties by way of security for its obligations under the funds received from the other banks and deposits with other banks taken as security for lending transactions.

Information of Note 13 is disclosed in the statement of financial position (balance sheet) and in Note 20.

Note 14. Due to customers**Table 14.1.** Due to customers

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Entities:	1,779,940	978,827
current accounts	1,014,722	515,199
term deposits	765,218	463,628
Individuals:	1,080,677	686,411
current accounts	77,622	45,783
term deposits	1,003,055	640,628
Total amounts due to customers	2,860,617	1,665,238

Information of Note 14 is disclosed in the statement of financial position (balance sheet) and in Note 20.

Table 14.2. Breakdown of amounts due to customers by types of economic activity

Economic activity (UAH '000)	31/12/2019		31/12/2018	
	amount	%	amount	%
Retail	1,080,677	37.78	686,411	41.22
Wholesale and retail trade, except for motor vehicles	395,655	13.83	108,268	6.50
Manufacture of basic metals	193,966	6.78	209,689	12.59
Financial services, except for insurance and pension provision	171,331	5.99	78,006	4.68
Electricity, gas, steam and air-conditioning supply	140,242	4.90	5,054	0.31
Manufacturing of machinery and equipment and other motor vehicles	115,788	4.05	34,554	2.08
Warehousing facilities and transportation activities	91,594	3.20	44,818	2.69
Building, construction works	87,299	3.05	235,295	14.13
Air transport	63,219	2.21	22,693	1.36
Mining and quarrying	62,851	2.20	4,963	0.30
Insurance, reinsurance and non-governmental pension provision	39,540	1.38	8,942	0.54
Manufacture of paper and paper products	36,367	1.27	6,002	0.36
Services to buildings and landscape activities	25,205	0.88	7,419	0.45
Real estate activities	23,542	0.82	33,589	2.02
Travel agency activities	9,128	0.32	22,670	1.36
Postal and courier activities	40	0.00	108,156	6.49
Deposits of non-residents	163,054	5.70	1,883	0.11
Other	161,119	5.64	46,826	2.81
Total amounts due to customers	2,860,617	100.00	1,665,238	100.00

At the end of the reporting year 2019, amounts due to customers collateralised under lending transactions and guarantees issued was UAH 81,845 thousand (2018: UAH 181,954 thousand).

Note 15. Derivative financial liabilities

Table 15.1. Financial liabilities at fair value through profit or loss

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Liabilities under currency swap contract	45	797
Liabilities under forward contracts	23	-
Total financial liabilities at FVTPL	68	797

Information of Note 15 is disclosed in the statement of financial position (balance sheet) and in Note 18.

Note 16. Provisions for liabilities

Table 16.1. Changes in provisions for loan commitments

<i>In thousands of UAH</i>	Provisions for loan commitments	
	2019	2018
Opening balance	14,181	3,069
Formation and/or (reduction) of provision	(7,502)	11,112
Closing balance	6,679	14,181

Information of Note 16 is disclosed in the statement of financial position (balance sheet) and in Note 20.

Table 16.2. Provisions for impairment of issued guarantees subject to 3-staged impairment model as at 31 December 2019

<i>In thousands of UAH</i>	Stage 1	Stage 2	Stage 3
Provisions for financial guarantees issued	-	6,369	2
Provisions for loan commitments	-	308	-
Total	-	6,677	2

Table 16.3. Provisions for impairment of issued guarantees subject to 3-staged impairment model as at 31/12/2018

<i>In thousands of UAH</i>	Stage 1	Stage 2	Stage 3
Provisions for financial guarantees issued	-	14,181	-
Total	-	14,181	-

The Bank applies the same risk management procedures for loan commitments as for the recognised credit operations. The maximum potential credit risk for loan commitments equals to the total liabilities. Considering the availability of a collateral and the fact that such commitments (excluding guarantees) are revocable, the management believes that the potential credit risk and potential liquidity risk are actually non-existent during these operations. In the reporting and previous years, a provision is formed as a collateral for guarantees.

Note 17. Lease liabilities

Table 17.1. Lease liabilities

On initial application of IFRS 16 Leases, the closing carrying amount of liabilities is the opening amount of liabilities plus new lease liabilities and expenses accrued minus lease payments made.

The following are the carrying amounts of lease liabilities and their movement for the reporting year:

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Inflow of lease liabilities	50,464	-
Accrued interest	3,487	-
Lease payments made	(22,348)	-
Balance as at 31 December 2019	31,603	-

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
including:		-
current liabilities	-	-
non-current liabilities	31,603	-

Future minimum lease payments and present value of net minimum lease payments as at 31 December 2019 were as follows:

<i>In thousands of UAH</i>	31/12/2019
Lease payments payable:	
Within 1 year	17,116
1 to 5 years	20,121
More than 5 years	-
Total lease payments	37,237

Amounts recognised in profit or loss:

Amortisation of right-of-use assets is charged monthly over the contractual term of the lease.

Lease payments made by the Bank as a lessee under operating lease contracts are recognised in administrative costs.

The Bank charges interest expense on lease liabilities on a monthly basis.

<i>In thousands of UAH</i>	2019
Right-of-use assets depreciation expense	(13,318)
Included in administrative costs:	
Short-term lease expenses not qualifying for recognition under IFRS 16.	(3,165)
Included in finance costs:	
Interest expense on lease liabilities	(3,780)
Total recognised in profit or loss	(20,263)

Information of Note 17 is illustrated in Note 21 Interest Income and Expense and in Note 24 Administrative and Other Operating Expenses.

Note 18. Other liabilities

Table 18.1. Other liabilities

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Accounts payable on customers' transfers	17,165	400
Liabilities of the Bank on e-cash issued by GLOBALMONEY LLC	8,000	-
Salaries payable	6,930	3,654
Revaluation deficit under spot contracts at FX market	4,545	3,424
Payables for taxes and mandatory charges	2,681	1,171
Accounts payable on funds received as a security payment	2,203	197
Accounts payable on transactions with banks	1,725	-
Deferred income	1,206	573
Other accrued expenses	641	301
Accounts payable on finance leases (less than 1 year)	465	1,012
Fees under issued guarantees	311	3,198
Trade accounts payable	193	-
Payments received in favour of customers	40	219
Other accounts payable	23	5,742

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Commitment fee to originate a loan	6	-
Accounts payable on FX transactions	-	2,475
Payables to customers at closed accounts	-	21
Total other liabilities	46,134	22,387

Information of Note 18 is disclosed in the statement of financial position (balance sheet) and in Note 20.

Note 19. Authorised capital and share premium

Table 19.1. Authorised capital and share premium

<i>In thousands of UAH</i>	Number of outstanding shares (in thousands)	Ordinary shares	Total
<i>Closing balance (31 December 2017)</i>	16,000	200,000	200,000
Contributions for newly issued shares (interests, stocks)	-	60,000	60,000
<i>Closing balance (31/12/2018)</i>	16,000	260,000	260,000
Contributions for newly issued shares (interests, stocks)	-	105,120	105,120
<i>Closing balance (31/12/2019)</i>	16,000	260,000	260,000

As at 31 December 2019, the Bank's registered and fully paid authorised capital amounted to UAH 260,000 thousand and consisted of 16,000,000 ordinary registered shares with a nominal value of UAH 16.25 each. Certificate of state registration of the issue of shares with a nominal value of UAH 16.25 each was issued to the Bank by the National Commission for Securities and Stock Market on 3 July 2018.

The General Meetings of Shareholders as of 27 November 2019 passed a decision to increase the authorised capital, more specifically, to increase the authorised capital of JSC BANK ALLIANCE by UAH 105,120,000.00 up to a total of UAH 365,120,000.00 by increasing the nominal value of shares from UAH 16.25 up to UAH 22.82 by directing a portion of the Bank's profits of 105,120,000.00 earned for 2018 to its authorised capital.

As at 31 December 2019, the procedure for registering changes to the Charter has not been completed and, accordingly, the issue of shares at the new nominal value in 2019 has not been registered.

The data of Note 19 are disclosed in the statement of financial position (balance sheet) and statement of changes in equity (statement of equity).

Note 20. Analysis of assets and liabilities by maturities**Table 20.1.** Analysis of assets and liabilities by maturities

In thousands of UAH	Note	31/12/2019			31/12/2018		
		1 year or less	More than 1 year	Total	1 year or less	More than 1 year	Total
ASSETS							
Cash and cash equivalents	6	307,444	-	307,444	368,002	-	368,002
Loans and advances to customers	7	2,179,056	168,117	2,347,173	1,231,419	167,454	1,398,873
Investments in securities	8	562,404	-	562,404	270,355	27,440	297,795
Derivative financial assets	9	3,646	-	3,646	1,560	-	1,560
Current income tax receivable		450	-	450	450	-	450
Deferred tax asset		1,202	-	1,202	2,553	-	2,553
Property, plant and equipment and intangible assets	10	-	37,159	37,159	-	21,190	21,190
Right-of-use assets	11	-	31,899	31,899	-	-	-
Other assets	12	162,056	26	162,082	23,744	-	23,744
Total assets		3,216,258	237,201	3,453,459	1,898,083	216,084	2,114,167
LIABILITIES							
Due to banks	13	1	-	1	-	-	-
Due to customers	14	2,806,702	53,915	2,860,617	1,464,299	200,939	1,665,238
Derivative financial liabilities	15	68	-	68	797	-	797
Current income tax payable		10,770	-	10,770	10,520	-	10,520
Provisions for liabilities	16	6,239	440	6,679	13,574	607	14,181
Lease liabilities	17	12,928	18,675	31,603	-	-	-
Other liabilities	18	39,014	7,120	46,134	18,734	3,653	22,387
Total liabilities		2,875,722	80,150	2,955,872	1,507,924	205,199	1,713,123

Information of Note 20 is disclosed in the statement of financial position (balance sheet).

Note 21. Interest income and expenses**Table 21.1.** Interest income and expenses

<i>In thousands of UAH</i>	for 2019	for 2018
INTEREST INCOME:		
Loans and advances to customers	374,812	227,664
Due from banks	3,266	6,542
Correspondent accounts with other banks	89	36
NBU deposit certificates held at amortised cost	11,635	3,069
Other interest income	2,624	8
Total interest income	392,426	237,319
INTEREST EXPENSE:		
Corporate current accounts	(54,059)	(16,932)

<i>In thousands of UAH</i>	for 2019	for 2018
Current amounts due to individuals	(1,047)	(2,396)
Current amounts due to other banks	(377)	-
Term deposits of entities	(87,179)	(34,859)
Term deposits of individuals	(90,564)	(46,910)
Term deposits of other banks	(233)	(139)
Finance lease liabilities	(3,780)	(1,198)
Other borrowings	(3,272)	(5,642)
NBU deposit certificates held at amortised cost	-	(3)
Other expenses	(14)	-
Total interest expenses	(240,525)	(108,079)
Net interest income (expenses)	151,901	129,240

Information of Note 21 is disclosed in the statement of profit or loss and other comprehensive income (statement of profit or loss) and Note 28.

Note 22. Commission income and expenses

Table 22.1. Commission income and expenses

<i>In thousands of UAH</i>	for 2019	for 2018
COMMISSION INCOME:		
Cash and settlement services	46,236	38,129
Credit services to customers	1,064	926
Currency market trading for customers	32,110	17,775
Guarantees issued	54,216	57,977
Transactions with securities for customers	17	720
Total fee and commission income	133,643	115,527
COMMISSION EXPENSE:		
Cash and settlement services	(11,112)	(12,944)
Transactions with securities	(19)	(199)
Total commission expense	(11,131)	(13,143)
Net commission income/expenses	122,512	102,384

Information of Note 22 is disclosed in the statement of profit or loss and other comprehensive income (statement of profit or loss) and Note 28.

Note 23. Other operating income

Table 23.1. Other operating income

<i>In thousands of UAH</i>	for 2019	for 2018
Income from safe deposit box rental	1,038	696
Income from entering data into the State Register of Movable Property Encumbrances	89	91
Income from operating lease	34	17
Income from lease modification	355	-
Gains from disposal under assignation agreements	5,538	-
Gains from interest accrued on early termination of deposit agreements	1,605	-
Penalties and fines received by the Bank	5,500	12,563
Other	1,218	1,753
Total other income	15,377	15,120

The data of Note 23 are disclosed in the statement of profit or loss and other comprehensive income (statement of profit or loss).

Note 24. Administrative and other operating expenses

Table 24.1. Administrative and other operating expenses

<i>In thousands of UAH</i>	for 2019	for 2018
Cost of maintenance of property, plant and equipment and intangible assets, telecommunication and operational expenses	(22,979)	(15,713)
Operating lease expenses	(3,165)	(11,091)
Other expenses attributable to property, plant and equipment	(172)	(3)
Professional fees	(2,248)	(1,926)
Marketing and advertising	(29,314)	(3,112)
Insurance expenses	(26)	(76)
Payment of other taxes and duties, other than income tax	(7,149)	(3,876)
Referral fees	(18,459)	(21,339)
Expenses for payment cards transactions	(12,397)	(1,855)
Other	(11,196)	(5,907)
Total administrative and other operating expenses	(107,105)	(64,898)

Information of Note 24 is disclosed in the statement of profit or loss and other comprehensive income (statement of profit or loss) and Note 28.

Note 25. Result of transactions with financial instruments at fair value through profit or loss

Table 25.1. Result of transactions with financial instruments at fair value through profit or loss

<i>In thousands of UAH</i>	for 2019 (Year To Date)	for 2018 (Year To Date)
Result of transactions with derivative financial instruments held at FVTPL, incl.:	30,044	51,267
Revaluation surplus/(deficit) on foreign currency swaps	(2,597)	2,529
Revaluation surplus/(deficit) on foreign currency swaps	3,623	-
gain/(loss) from sale of foreign currency swaps	18,983	47,278
gain/(loss) from sale of foreign currency swaps	146	-
gain/(loss) from transactions with securities held at FVTPL	9,889	1,460
Total gain/(loss) from transactions with financial assets held at FVTPL	30,044	51,267

Information of Note 25 is disclosed in the statement of profit or loss and other comprehensive income (statement of profit or loss) and Note 28.

Note 26. Income tax expenses**Table 26.1.** Income tax expenses

<i>In thousands of UAH</i>	2019	2018
Current income tax	20,519	26,774
Change in deferred income tax	1,351*	(2,000)
Total income tax expenses	21,870	24,774

The data of Note 26 are disclosed in the statement of profit or loss and other comprehensive income (statement of profit or loss).

The following changes to the deferred income tax occurred in 2019:

- the deferred income tax increased by UAH 1,351 thousand as a result of charging provisions for guarantees.

Table 26.2. Reconciliation of accounting profit (loss) and taxable profit (loss)

Line	<i>In thousands of UAH</i>	2019	2018
1	Profit before tax	113,995	135,974
2	Theoretical tax deductions at applicable tax rate (18%)	20,519	24,475
ADJUSTMENTS TO THE REPORTED PROFIT (LOSS):			
3	Expenses not included in the amount of expenses aiming at taxable income calculation, but recognised in the accounting records	10,195	19,577
3.1.	Differences that arise from amortisation of non-current assets and increase financial result	7,785	4,770
3.2.	Differences that arise from charging provisions and increase financial result	569	14,181
3.3.	Differences that arise from write-off of debt against provisions and increase financial result	623	-
3.4	Differences that arise from of PP&E and increase financial result by the amount of residual value	173	3
3.5	Differences that arise from royalty accrual and increase financial result		623
3.6.	Differences that arise from purchase of services from non-residents and increase financial result.	1,045	
4	Expenses included in the amount of expenses for calculation of taxable income, but not recognised in accounting records (differences that arise from depreciation of non-current assets and decrease financial result)	(14,612)	(6,805)
4.1	Differences that arise from depreciation of non-current assets and reduce financial result	(6,318)	(3,736)
4.2	Differences that arise from write-off (sale) of PP&E and decrease financial result by the amount of residual value	(222)	
4.3	Differences that arise from charging provisions and reduce financial result	(8,072)	(3,069)
5	Income tax expenses, incl.:	(20,519)	24,774
6	- against deferred tax assets	(1,351)	(2,000)

The Bank made a decision to record deferred tax assets of UAH 1,202 thousand in its balance sheet. At the year-end, the Bank has differences that arise from provisions charged for impairment of guarantee assets and increase the financial result before tax in the amount of UAH 569 thousand. As

the matter of the Bank's experience of dealing with guarantees in 2019, the provision for impairment of guarantee assets in 2018 for the total amount of UAH 8,072 was undone once the guarantees matured in 2019.

Differences that arise from amortisation of intangible and increase the financial result in the amount of UAH 264 thousand are temporary differences (mainly related to improvement of leased premises). However, due to the long term of amortisation (144 months) and potential lease of other premises these difference are carried from temporary to permanent differences. The Bank made a managerial decision that the Bank shall not recognise the deferred tax assets of UAH 264 thousand, as it is uncertain that the asset will be realised. The Bank does not recognise differences from writing-off the property, plant and equipment in the amount of UAH 50 thousand. Moreover, the Bank has permanent differences, for which deferred tax assets are not accrued: differences of UAH 623 thousand from writing-off the debt against provisions, differences of UAH 1,045 thousand from purchasing services from non-residents that increase the financial results before tax.

Income tax expenses in 2019 amounted to UAH 20,519 thousand. At the same time according to international standards due to recognition of the deferred tax asset in the Bank's balance sheet the income tax expenses decreased by UAH 1,202 thousand and final income tax expenses amount to UAH 21,870 thousand.

In the reporting year 2019, taxation of the Bank's earnings was regulated by Section III of the Tax Code of Ukraine. Income tax rate for 2019 was 18%.

Table 26.3. Tax consequences related to the recognition of deferred tax assets and deferred tax liabilities for 2019

<i>In thousands of UAH</i>	Opening balance	Recognised in P/L	Recognised in OCI	Recognised in equity	Closing balance
Tax effect of temporary differences that decrease (increase) taxes payable and tax losses carried forward	-	-	-	-	-
Net deferred tax asset	2,553	(1,351)	-	-	1,202
Recognised deferred tax liability	-	-	-	-	-

At the end of 2020, the Bank has charged a provision of UAH 569 thousand for impairment of guarantee assets with maturity of guarantees in 2019, for which it recognised deferred tax assets of UAH 569 thousand at the close of 2019. At the same time certain provisions have been undone upon maturity of guarantees in 2019 and deferred tax assets were written-off in 2019 for the amount of UAH 8,071 thousand. At the end of 2019 the Bank recognised deferred tax assets in the amount of UAH 1,202 thousand as related to made provision for guarantee assets impairment.

Table 26.4. Tax consequences related to the recognition of deferred tax assets and deferred tax liabilities for 2018

<i>In thousands of UAH</i>	Opening balance	Recognised in P/L	Recognised in OCI	Recognised in equity	Closing balance
Tax effect of temporary differences that decrease (increase) taxes payable and tax losses carried forward	-	-	-	-	-
Net deferred tax asset	553	2,000	-	-	2,553
Recognised deferred tax liability	-	-	-	-	-

Note 27. Profit/(loss) per ordinary share

Table 27.1. Net and adjusted profit/(loss) per ordinary share

<i>In thousands of UAH</i>	for 2019 (Year To Date)	for 2018 (Year To Date)
Profit/(loss) for the quarter (year to date)	96,543	111,200
Profit/(loss) attributable to the holders of ordinary shares of the Bank	96,543	111,200
Annual average number of ordinary shares outstanding (in thousands of shares)	16,000	16,000
Net and adjusted profit/(loss) per ordinary share (UAH)	6.03	6.95

The data of Note 27 are disclosed in the statement of profit or loss and other comprehensive income (statement of profit or loss).

Note 28. Operating segments

Table 28.1. Income, expenses and results of reporting segments for 2019

In thousands of UAH	Reporting segment					Total
	services to corporate customers	services to individuals	services to banks	investment activity	Other segments and operations	
Income from external customers:						
Interest income	370,733	6,703	3,355	11,635	-	392,426
Commission income	106,552	9,163	17,906	17	5	133,643
Other income	7,134	1,116	-	-	7,127	15,377
Total segment income	484,419	16,982	21,261	11,652	7,132	541,446
Interest expenses	(145,018)	(91,612)	(3,881)	-	(14)	(240,525)
Commission expenses	(7)	(2,963)	(8,142)	(19)	-	(11,131)
Net loss from financial assets impairment	(48,807)	(331)	9,945	-	-	(39,193)
Net profit/(loss) from transactions with financial instruments at FVTPL	-	-	20,155	9,889	-	30,044
Net profit/(loss) from foreign currency transactions	(2,473)	4,460	31,740	-	-	33,727

<i>In thousands of UAH</i>	Reporting segment					Total
	services to corporate customers	services to individuals	services to banks	investment activity	Other segments and operations	
Net gain/(loss) from foreign currency translation	-	-	-	-	29,613	29,613
Allocated to provision for liabilities	7,502	-	-	-	-	7,502
Net gain/(loss) on derecognition of financial assets at AC	19,531	-	-	-	-	19,531
Administrative and other operating expenses (including benefits to employees)	-	-	-	-	(252,601)	(252,601)
SEGMENT RESULT: Profit/(loss) before tax	315,147	(73,464)	71,078	21,522	(215,870)	118,413

Table 28.2. Income, expenses and results of reporting segments for 2018

In thousands of UAH	Reporting segment				Other segments and operations	Total
	services to corporate customers	services to individuals	services to banks	Investment activity		
Income from external customers:						
Interest income	220,941	2,331	10,976	3,069	2	237,319
Commission income	87,778	5,223	21,806	-	720	115,527
Other income	14,091	732	-	-	297	15,120
Total segment income	322,810	8,286	32,782	3,069	1,019	367,966
Interest expenses	(51,932)	(49,307)	(5,642)	(1,198)	-	(108,079)
Commission expenses	-	(8,378)	(4,564)	(199)	(2)	(13,143)
Net loss from financial assets impairment	(55,749)	(2,636)	(8,543)	-		(66,928)
Net profit/(loss) from transactions with financial instruments at FVTPL	-	-	51,267	-	-	51,267
Net profit/(loss) from foreign currency transactions	-	282	37,005	-	-	37,287
Net gain/(loss) from foreign currency translation	-	-	-	-	15,350	15,350
Allocated to provision for liabilities	(11,112)	-	-	-	-	(11,112)
Administrative and other operating expenses (including benefits to employees)	-	-	-	-	(136,634)	(136,634)
SEGMENT RESULT: Profit/(loss) before tax	204,017	(51,753)	102,305	1,672	(120,267)	135,974

Table 28.3. Reporting segment assets and liabilities as at 31 December 2019

<i>In thousands of UAH</i>	Reporting segment			Other segments and transactions	Total
	services to corporate customers	services to individuals	services to banks		
SEGMENT ASSETS					
Segment assets	2,464,079	21,806	603,371	-	3,089,256
Unallocated assets	-	-	-	364,203	364,203
Total assets	2,464,079	21,806	603,371	364,203	3,453,459
SEGMENT LIABILITIES					
Segment liabilities	1,787,577	1,080,677	4,614	-	2,872,868
Unallocated liabilities	-	-	-	83,004	83,004
Total liabilities	1,787,577	1,080,677	4,614	83,004	2,955,872

Table 28.4. Reporting segment assets and liabilities as at 31 December 2018

<i>In thousands of UAH</i>	Reporting segment			Other segments and transactions	Total
	services to corporate customers	services to individuals	services to banks		
SEGMENT ASSETS					
Segment assets	1,726,211	32,844	324,726	-	2,083,781
Unallocated assets	-	-	-	30,386	30,386
Total assets	1,726,211	32,844	324,726	30,386	2,114,167
SEGMENT LIABILITIES					
Segment liabilities	996,518	670,547	29,354	-	1,696,419
Unallocated liabilities	-	-	-	16,704	16,704
Total liabilities	996,518	670,547	29,354	16,704	1,713,123

Note 29. Financial risk management

Risk management is an important factor in the banking business and an essential element of the Bank's operations. The main risks faced by the Bank include: credit risk, market risk (comprising risk of changes in foreign exchange rates and interest rates), liquidity risk and operational risk.

The Bank performs the integral risk management, whilst risks are assessed on the basis of the Bank's policy, which is reviewed and approved by the Supervisory Board of the Bank. Risk limits are set for credit risk, market risk and liquidity risk, and risk levels are maintained within these limits. The Bank has introduced the calculation and implementation of risk appetite (tolerance) to operational risks.

Credit risk

Credit risk is the risk of financial losses due to the possible failure to fulfil the commitments before the Bank by a borrower or counterparty. The Bank has developed policies and procedures for credit risk management (both for balance sheet and off-balance sheet items).

For the purpose of the financial statements regarding the risk management, the Bank considers and consolidates all elements of credit risk (counterparty risk, country risk, industry risk).

The Management Board of the National Bank of Ukraine adopted and introduced its resolution No. 351, dated 30 June 2016, under which the Bank shall calculate its uncovered credit risk as difference between provisions made for asset-side transactions and off-balance loan commitments. As at 1 January 2020, the uncovered credit risk amounted to UAH 74,191 thousand (as at 1 January 2019: UAH 37,199 thousand). The amount of the uncovered credit risk reduces the bank's regulatory capital and is reflected in the regulatory capital structure as at 1 January 2020.

Market risk

Market risk is the actual or potential risk to income and equity arising from unfavourable fluctuations in market rates, such as foreign exchange rates, interest rates, credit spreads and securities quotations. The Bank is exposed to market risks arising from open positions in interest rates, currency and equity products, which are largely exposed to general and specific market movements.

The goal of market risk management is the management and control of the market risk within the accepted indexes whilst optimising the return on risk.

The Bank quarterly takes stress-testing, the results of which are considered at the Meetings of the Management Board for timely response to changing market conditions and performance of market environment.

Currency risk

Foreign currency risk is the risk that the value of financial instruments owned by the Group will fluctuate due to changes in foreign exchange rates.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or projected assets in a foreign currency exceed or fall behind the liabilities in the same currency. Management establishes limits and continuously monitors currency positions in compliance with the provisions of the NBU and the approved internal methodology.

The Bank's total foreign currency risk created no burden for the Bank's equity and proceeds.

Table 29.1. Currency risk analysis

Foreign currency	31/12/2019			
	monetary assets	monetary liabilities	Financial derivatives	Net position
USD	567,371	522,873	(37,560)	6,938
EUR	419,064	253,549	(143,678)	21,837
GBP	3,235	300	(3,017)	(82)
RUB	7,729	29,771	21,024	(1,018)
CHF	436	124,262	116,503	(7,323)
HUF	210	210	-	-
PLN	90	-	-	90
Gold	773	1	-	772
Total	998,908	930,966	(46,728)	21,214

(UAH '000)

Foreign currency	31/12/2018			
	monetary assets	monetary liabilities	Financial derivatives	Net position
USD	422,379	404,149	(10,923)	7,307
EUR	72,219	67,121	(3,968)	1,130
GBP	1,244	5	-	1,239
RUB	1,020	103	-	917
CHF	92	-	-	92
Gold	691	-	-	691
Total	497,645	471,378	(14,891)	11,376

Table 29.2. Changes in financial result and equity due to possible changes in exchange rates set at the reporting date, assuming that all other variables remain constant

(UAH '000)

Foreign currency	31/12/2019		31/12/2018	
	effect on profit/(loss)	effect on equity	effect on profit/(loss)	effect on equity
USD strengthening by 5%	2,225	2,225	912	912
USD weakening by 5%	(2,119)	(2,119)	(868)	(868)
EUR strengthening by 5%	8,276	8,276	255	255
EUR weakening by 5%	(7,882)	(7,882)	(243)	(243)
GBP strengthening by 5%	147	147	62	62
GBP weakening by 5%	(140)	(140)	(59)	(59)
RUB strengthening by 5%	(1,102)	(1,102)	46	46
RUB weakening by 5%	1,050	1,050	(44)	(44)
CHF strengthening by 5%	(6,191)	(6,191)	5	5
CHF weakening by 5%	5,896	5,896	(4)	(4)
PLN strengthening by 5%	5	5	-	-
PLN weakening by 5%	(4)	(4)	-	-
Gold strengthening by 5%	(36)	(36)	35	35
Gold weakening by 5%	(36)	(36)	(33)	(33)

Interest rate risk

Interest rate risk arises from the possibility of adverse changes in market interest rates resulting in a negative effect on interest income and equity.

Interest rate risk is measured by the extent of effect of changes in market interest rates on interest rate margin and net interest income. When the structure of assets that generate interest income differs from the structure of liabilities bearing interest, net interest income will increase or decrease as a result of changes in interest rates. As part of the interest rate risk management, the Bank's management continually assesses market interest rates on various types of assets and liabilities for which interest is charged.

Interest rate margin on assets and liabilities with different payouts and maturities may increase as a result of changes in market interest rates. In practice, the management changes interest rates for

certain financial assets and liabilities based on current market conditions and reciprocal arrangements documented as a supplement to the main agreement, where the new interest rate is indicated.

The Bank has no financial instruments with a floating interest rate. The Bank does not account for any of its financial instruments with fixed interest rates at fair value (with changes recognised through profit or loss). Accordingly, a change in interest rates would have no effect on profit or loss.

Table 29.3 General analysis of interest rate risk

<i>In thousands of UAH</i>	On demand and less than 1 month	1 to 6 months	6 to 12 months	More than 1 year	Total
31/12/2019					
Total financial assets	385,929	493,801	1,356,429	181,201	2,417,360
Total financial liabilities	1,211,526	235,527	1,092,410	228,925	2,768,388
Net gap on interest-bearing assets and liabilities at the end of reporting period	(825,597)	258,274	264,019	(47,724)	(351,028)
31/12/2018					
Total financial assets	408,895	485,017	376,092	190,888	1,460,892
Total financial liabilities	765,914	258,356	534,451	15,430	1,574,151
Net gap on interest-bearing assets and liabilities at the end of reporting period	(357,019)	226,661	(158,359)	175,458	(113,259)

Liquidity risk

Liquidity risk - existing or potential risk, which arises from the failure of the Bank to meet its obligations in due time, without incurring unacceptable losses.

Assets, liabilities and liquidity are managed by the Asset and Liability Committee (ALCO). The ALCO analyses assets and liabilities by maturities and provides recommendations on elimination of inconsistencies arising over time. In addition, the ALCO considers the cost of liabilities and profitability of assets, analyses the compliance with economic standards, monitors compliance with reserving requirement established by the National Bank of Ukraine and provides recommendations on asset and liability management to comply with regulatory parameters. The ALCO is also responsible for the optimisation of cash flows and ensuring payment discipline; coordinates corporate forecasting system and so on.

Liquidity risk is a key financial risk, the Banks stable financial position depends on the effective liquidity risk management. In order to manage liquidity risk, the Bank analyses the structure of assets and liabilities, liquidity conditions as a whole, in all currencies, and in the context of each individual currency of the Bank's transactions. In addition, the Bank's adherence to the requirements of mandatory reserving of raised funds on correspondent accounts, economic standards set by the National Bank of Ukraine (N6 short-term liquidity ratio, liquidity coverage ratio) and internal

regulations is subject to controls. An important tool for the effective liquidity management is to use the maturity balancing analysis method for active deposits and borrowed funds, cash flow forecasting.

Compliance with the established limits shall be monitored daily on a basis of the report on the adherence to the established limits.

Table 29.4. Analysis of financial liabilities by maturities for 2019

<i>In thousands of UAH</i>	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 mont hs to 5 years	Total
Due to banks	1	-	-	-	1
Due to customers:	1,286,881	748,765	597,756	229,002	2,862,404
due to individuals	171,113	473,077	420,236	17,617	1,082,043
other	1,115,768	275,688	177,520	211,385	1,780,361
Other financial liabilities	21,141	-	-	-	21,141
Other credit-related commitments	476,291	215,139	677,080	188,145	1,556,655
Total potential future payments under financial liabilities	1,784,314	963,904	1,274,836	417,147	4,440,201

Due to customers are recognised as the amounts the Bank is liable to pay, without any discount or premium.

Table 29.5. Analysis of financial liabilities by maturities for 2018

<i>In thousands of UAH</i>	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	Total
Due to banks	-	-	-	-	-
Due to customers:	825,975	154,653	638,155	15,430	1,634,213
due to individuals	141,526	154,009	382,511	12,783	690,829
other	684,449	644	255,644	2,647	943,384
Other financial liabilities	7,726	90			7,816
Other credit-related commitments	233,135	267,404	747,611	165,170	1,413,320
Currency before transfer under FX transactions	139,267	-	-	-	139,267
Total potential future payments under financial liabilities	1,206,103	422,147	1,385,766	180,600	3,194,616

Table 29.6. Analysis of financial assets and liabilities by maturities based on expected maturities for 2019

<i>In thousands of UAH</i>	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	307,350	-	-	-	-	307,350
Financial assets at FVTPL	3,646	-	-	-	-	3,646
Securities (certificates of deposit issued by NBU, DGLB)	475,856	-	86,548	-	-	562,404
Loans and advances to customers	419,837	477,424	1,282,241	155,885	11,785	2,347,172
Other financial assets	160,875	10	-	-	-	160,885
Total financial assets	1,367,564	477,434	1,368,789	155,885	11,785	3,381,457
Liabilities						
Due to banks	1	-	-	-	-	1
Due to customers	1,262,872	241,864	1,123,813	232,068	-	2,860,617
Financial liabilities at FVTPL	68	-	-	-	-	68
Other financial liabilities	34,964	101	611	7,120	-	42,796
Total financial liabilities	1,297,905	241,965	1,124,424	239,188	-	2,903,482
<i>Net liquidity gap at 31 December (COB)</i>	<i>69,659</i>	<i>235,469</i>	<i>244,365</i>	<i>(83,303)</i>	<i>11,785</i>	<i>477,975</i>
<i>Cumulative liquidity gap as at 31 December</i>	<i>-</i>	<i>305,128</i>	<i>549,493</i>	<i>466,190</i>	<i>477,975</i>	<i>-</i>

Table 29.7. Analysis of financial assets and liabilities by maturities based on expected maturities for 2018

<i>In thousands of UAH</i>	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	371,290	-	-	-	-	371,290
Financial assets at FVTPL	-	-	1,560	-	-	1,560
Securities (certificates of deposit issued by NBU)	270,355	-	-	27,688	-	298,043
Loans and advances to customers	455,080	188,971	630,833	139,072	-	1,413,957
Other financial assets	20,670	2,024	233	-	-	22,927
Total financial assets	1,117,395	190,995	631,066	166,760	-	2,106,217

<i>In thousands of UAH</i>	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	More than 5 years	Total
Liabilities						
Due to banks	-	-	-	-	-	-
Due to customers	802,062	185,034	659,690	22,627	-	1,669,413
Financial liabilities at FVTPL	-	255	542	-	-	797
Other financial liabilities	16,900	6,086	9,512	1,514	-	34,011
Total financial liabilities	818,962	191,119	669,202	24,140	-	1,703,424
<i>Net liquidity gap at 31 December (COB)</i>	<i>298,433</i>	<i>(124)</i>	<i>(38,136)</i>	<i>142,620</i>	<i>-</i>	<i>402,793</i>
<i>Cumulative liquidity gap as at 31 December</i>	<i>-</i>	<i>298,309</i>	<i>260,173</i>	<i>402,793</i>	<i>402,793</i>	<i>-</i>

Geographical risk

Geographical risk is the risk of financial losses due to the possible failure to fulfil the commitments before the Bank by customers or counterparties residing in a particular country and therefore subject to the risks inherent into this country. Geographical risk is managed through assessing risks peculiar to each country (region, if necessary), which is considered by the management in decision-making. Geographical risk assessment is carried out by the risk management unit and approved by the appropriate authority of the Bank.

Operational risk

Operational risk is the risk of financial losses due to inadequacy or failures in internal processes, human factor, failures and errors in systems, and impact of external events. This includes, in particular, all types of fraud, legal risk. In case of a system upset, operational risk may lead to financial losses, have legal or regulatory implications, or cause damage to reputation.

The Bank holds monthly expert assessments of operational risks. According to its results, the decisions are taken on the implementation of appropriate measures to minimise and prevent operational risks. In addition, the assessment includes both monitoring of risk events and pro-active management of foreseeable operational risks.

The level of operational risk has been reduced by means of a comprehensive set of measures, including:

- introduction of a system for operational risks incident management;
- analysis and monitoring of processes, products in terms of operational risk management;
- personnel training and awareness of operational risk as a whole;
- control over compliance by the Bank's employees with the regulations.

Note 30. Capital management

The Bank's capital is assessed and analysed by the individual components of its types, taking into account the convention of this approach and interrelation of all types.

The regulatory capital is one of the most important Bank's activity indicators, which main purpose is to cover negative implications of different risks that Bank takes during its activity and to ensure the protection of deposits, financial firmness and the Bank stability.

Table 30.1 Regulatory capital structure

(UAH '000)			
Line	Item	31/12/2019	31/12/2018
1	<i>Common equity</i>	390,333	285,520
1.1	Actually paid registered authorised capital	260,000	260,000
1.2	Contributions in the non-registered authorised capital	105,120	-
1.3	Disclosed reserves created or increased at expense of retained earnings:	25,576	29,844
1.3.1	General provisions and reserve funds formed under the laws of Ukraine	35,404	28,715
1.3.1.1	including reserve funds	35,404	28,715
1.4	Reduction of core capital:	(10,191)	(4,324)
1.4.1	intangible assets less amortisation	(9,828)	(4,324)
1.4.2	capital investments in intangible assets	(363)	-
2	<i>Additional capital</i>	19,217	83,501
2.2	Current year profit	19,217	83,501
2, 2. 1	Current year financial results	96,543	120,700
2, 2. 2	Financial results decrease amount	(77,326)	(37,199)
2.2.2.1	Uncovered credit risk	(74,191)	(37,199)
2.2.2.2	Past years profits (5030)	520	-
2.2.2.3	Income not received for more than 30 days from the accrual date, for which the term of payment has not expired	(1,109)	-
2.2.2.4	Accrued income for which the term of payment has expired	(4,186)	-
2.2.2.5	Partial amount of the provision for asset-side banking transactions that is included in the income accrued but not received for more than 30 days	1,640	-
3	<i>Redeployment</i>	-	-
4	Total regulatory capital	409,550	369,021

The components and procedures of calculation of the Bank's basic and additional capitals are governed by the Instruction on the Order of Regulation of Bank Activities in Ukraine No. 368 approved by the NBU on 28 August 2001 ("the Instruction") and Methodology for Calculation of Economic Standards of Regulation of Banks in Ukraine approved by Decree No. 803-III of the Board of the National Bank of Ukraine on 15 December 2017.

Capital management processes represent the sequence of the following actions:

- quality control of all the assets and off-balance sheet liabilities;
- implementation of appropriate adjustments of their value by forming provisions to cover the expected losses for liabilities of counterparties;

- adjustment of a capital amount by the volumes of contributions according to the Methodology;
- calculation of the projected ratios of a regulatory capital;
- permanent analysis of changes in the absolute value of a regulatory capital by components in the context of items;
- assessment of impact of changes in capital volume to other standards, in the calculation of which the regulatory capital ratio is used.

Regulatory capital adequacy ratio calculated according to the requirements of the NBU amounts to 11.04% with the threshold value of 10%.

Core capital adequacy ratio calculated according to the requirements of the NBU amounts to 9.85% with the threshold value of 7%.

Note 31. Contingent liabilities

1) legal proceedings

As at 1 January 2020, the Bank is dealing with property claims:

- 17 claims seeking to recover UAH 56,095 thousand from the Bank;
- 6 claims seeking to recover UAH 9,812 thousand from the Bank.

Given the special nature of suretyship and that sureties constitute legal relations due to their substance and are not limited only to the guarantor's obligation before the beneficiary but comprise a whole set of commitments between parties in respect of the surety, and given the legal and unlimited right of the Bank to recourse against the principal, the Bank's management views potential legal risks of making cash payments in compliance with the court's decision and obtaining no recovery of the payment as unlikely and insignificant. This is evidenced by a low level of non-performing assets in the Bank as whole.

2) contingent tax liabilities

The ambiguity of interpretations by the State Tax Service of Ukraine on separate taxation issues and frequent changes in tax legislation do not exclude the risk of possible additional charges of tax liabilities, fines, penalties in the future. However, given that the Bank's policy on taxation of banking transactions with income tax, accruals and payments of other taxes, fees, mandatory payments is based on the principles of compliance with current tax laws, prudence and diligence, the management consider the potential tax risks of future cash outflows due to the payment of any additional tax liabilities, fines, penalties to be remote and insignificant.

3) capital investment commitments

The Bank has no contractual obligations related to the reconstruction of buildings, purchase of property, plant and equipment and intangible assets.

4) operating lease commitments

The Bank did not enter into non-cancellable operating lease agreements, therefore, it has not had any potential liability for non-cancellable lease payments.

5) adherence to special requirements

The Bank did not enter into agreements for the receipt of funds on special requirements.

6) credit-related commitments

Table 31.1. Structure of loan commitments

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
Credit-related commitments provided	633,872	694,230
Guarantees issued	1,512,230	1,411,571
Avals issued	44,425	4,947
Uncovered letters of credit	3,849	-
Provision for credit-related commitments	(6,679)	(14,181)
Total credit-related commitments, net of provision	2,187,697	2,096,567

Table 31.2. Credit-related commitments by currencies

<i>In thousands of UAH</i>	31/12/2019	31/12/2018
UAH	2,005,280	1,993,444
USD	79,602	110,833
EUR	109,494	6,471
Total	2,194,376	2,110,748

7) collateralised assets and assets with restricted in title, use and disposal

As at 31 December 2018 (end of day), the Bank had collateralised assets and restricted assets with the following carrying amount:

- guarantee coverage under conversion agreement allocated to the financial company in the amount of UAH 18,949 thousand (2018: UAH 8,307 thousand);
- guarantee deposits under settlement of accounts with MasterCard international payment system and Prostrir national system in total amount of UAH 3,495 thousand (2018: UAH 3,495 thousand).

Note 32. Financial derivatives

Table 32.1. Fair value of derivative financial instruments recorded in the Bank's trading portfolio

<i>In thousands of UAH</i>	31/12/2019		31/12/2018	
	positive fair value	negative fair value	positive fair value	negative fair value
Forward contracts	3,646	23	1,560	797
Foreign exchange swaps	-	45	-	-
Net fair value	3,578	-	763	-

During 2019 and 2018, the Bank did not use derivative financial instruments for hedge accounting.

Note 33. Related party transactions**Table 33.1.** Balances of related party transactions as at 31 December 2019

<i>In thousands of UAH</i>	Majority participants (shareholders) of the Bank	Key management personnel	Other related parties
Due to customers (contractual interest rate 0-15%)	13,419	8,810	16,098
Loans and advances to customers (contractual interest rate 18-21 %)	230	2,491	87,606
Provision for loan impairment as at 31 December 2019	18	687	6,945

Table 33.2. Balances of related party transactions as at 31 December 2018

<i>In thousands of UAH</i>	Majority participants (shareholders) of the Bank	Key management personnel	Other related parties
Due to customers (contractual interest rate 0-15%)	14,770	8,796	3,834
Loans and advances to customers (contractual interest rate 18-21 %)	150	2,553	56,429
Provision for loan impairment as at 31 December 2018	22	397	11,666

Table 33.3. Income and expenses on related party transactions for 2019 (Year To Date)

<i>In thousands of UAH</i>	Majority participants (shareholders) of the Bank	Key management personnel	Other related parties
Interest income	0	420	13,449
Interest expenses	2,096	102	1,029
Commission income	-	-	56
Administrative and other operating expenses	-	23,180	2,720

Table 33.4. Income and expenses on related party transactions for 2018 (Year To Date)

<i>In thousands of UAH</i>	Majority participants (shareholders) of the Bank	Key management personnel	Other related parties
Interest income	11	210	3,784
Interest expenses	1,488	36	294
Commission income	34	111	580
Administrative and other operating expenses	-	15,440	1,054

Table 33.5. Total amount of loans issued to related parties and reimbursed by the related parties within 2019 (Year To Date)

<i>In thousands of UAH</i>	Majority participants (shareholders) of the Bank	Key management personnel	Other related parties
Amount of loans issued to related parties for the period	1,690	9,133	136,450
Amount of loans repaid by related parties for the period	1,610	8,256	94,438

Table 33.6. Total amount of loans issued to related parties and reimbursed by the related parties within 2018 (Year To Date)

<i>In thousands of UAH</i>	Majority participants (shareholders) of the Bank	Key management personnel	Other related parties
Amount of loans issued to related parties for the period	1,336	2,552	37,790
Amount of loans repaid by related parties for the period	1,186	3,611	4,846

Table 33.7. Other rights and commitments under related-party transactions at the end of the reporting period (year to date)

<i>In thousands of UAH</i>	Majority participants (shareholders) of the Bank	Key management personnel	Other related parties
Import letters of credit	-	-	3,849

Table 33.8. Executive management remuneration (UAH ‘000)

Line	<i>In thousands of UAH</i>	31/12/2019		31/12/2018	
		expenses	accrued liabilities	expenses	accrued liabilities
1	Current payments to the employees	17,910	2,889	10,906	1,863
2	Layoff costs	-	-	360	-

Note 34. Subsequent events

As at the date of these financial statements, there have been no:

- business combination;
- discontinued operations, or decisions to discontinue operations;
- restructurings of the Bank;
- court decisions ruled in the claimants' favour that would give rise to significant financial liabilities not recorded in the Bank's financial statements.

On 31 December 2019, the World Health Organization reported a limited number of cases of pneumonia of unknown origin detected in Wuhan, Hubei. On 7 January 2020, the Chinese government identified the cause of a new type of coronavirus (COVID-19). On 31 December 2019 and onwards, the development and spread of COVID-19 have led to numerous related events. Early 2020 was characterised by the spread of the pandemic caused by the COVID-19 coronavirus. In Ukraine, the first case of a coronavirus was detected on March 3.

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

One cannot rule out that this may affect the economic slowdown followed by potential implications, which cannot be quantified yet, as well as on the Bank's operations and returns, mainly through its effect on operating income and expenses associated with the risk management.

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

Chairperson of the Management Board

Chief Accountant



Y.M. Frolova
N.A. Bochkovska