

**JOINT STOCK COMPANY
"BANK ALLIANCE"**

**Management Report,
Financial Statements according to
International Financial Reporting Standards,
Independent Auditor's Report**

December 31, 2018

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I. Management Report of JSC BANK ALLIANCE for 2018

Kyiv

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 2018 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

The Bank has been showing throughout 2018 profitable results of operations, having stable sources to finance operations (the mail of which were funds contributed to the authorized capital in accordance with Resolutions of the General Shareholders Meetings for increasing the Bank's authorized capital by UAH 60,000,000.00 to the amount of UAH 260,000,000.00 by increasing the nominal value of shares through transferring to the authorized capital a part of profits made in 2017).

The Bank is described for a viable business model enabling to demonstrate advancing growth pace as compared to the banking system in general. Although the Bank was ranked 62nd by the asset value as of the beginning of the year, yet as of 01/01/19 it was ranked 38th (and 18th in the group of banks with private capital). In addition, the Bank continues to be one among the most profitable on the market – by its profits the Bank was ranked 21st (and even 7th in the group of banks with private capital) as compared to the 28th position in the previous reporting year.

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 in a step by step manner (the protection of creditors' rights has been strengthened /Credit Register of the National Bank has commenced its operations), while the lending cost will be reducing (due to scope of funding growing in parallel, either at the expense of funds of the public and business or due to free flow of capital).

Generally speaking, the development of the banking system will be described by step-by-step digitalization of products, automation of business processes, strengthening role of the risk management and corporate governance.

It is quite reasonable to conclude that operations will be continuous for at least the next 12 months after the reporting date (but not limited to this period).

2. INFORMATION RELATED TO THE DEVELOPMENT OF JSC BANK ALLIANCE

JSC BANK ALLIANCE is a general-purpose bank providing a full range of banking services to legal entities and individuals and enjoying an impeccable reputation. In accordance with the 2018 to 2020 Strategy of JSC BANK ALLIANCE approved by the resolution of the Supervisory Board, dated 22/11/2018 (minutes No. 113), the Bank sees its mission in creating favorable conditions for developing the Ukrainian economy and stable growth of the domestic gross product, which aim may be attained through good-quality and comfortable service of customers by means of modern

technologies, presence in the biggest cities of Ukraine and meeting the highest standard of corporate governance.

The Bank has been operating on the market for more than 26 years (registration certificate, dated 10 March 1992, registered under No. 89 with the State Registers of Banks). The Bank offers the comprehensive service to legal entities and individuals under 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 and General License No. 97-3 issued by the National Bank of Ukraine to carry out exchange operations, dated 30 December 2016.

The Bank is entitled to exercise professional open-market operations - trading in securities (brokerage activity) on the basis of a license issued by the National Securities and Stock Market Commission dated 11/28/2014 series AE No. 294590 with no expiry date.

As of 31/12/2018, the registered and fully paid share 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 Charter of JOINT STOCK COMPANY BANK ALLIANCE as amended and restated was approved by the annual General Shareholders Meeting of JOINT STOCK COMPANY BANK ALLIANCE (minutes No. 1/2018, dated 17 April 2018) and registered on 24 May 2018 with the State Registrar.

The regulatory capital was UAH 369.02 million as of 1 January 2019. The Bank complies with all economic normative standards and currency position limits set out in legal and regulatory acts of the National Bank of Ukraine.

JSC BANK ALLIANCE is a member of MasterCard WORLDWIDE international payment systems, approved member of VISA ASSOCIATION and member of the National Payment System "Ukrainian Payment Area (Prostir)".

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

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

The Bank is a member of the Deposit Insurance Fund (certificate No. 023 dated 10/18/2012, registration No. 025 dated 09/02/1999), the Independent Association of Banks of Ukraine, National Payment System "Ukrainian Payment Area (Prostir)".

In 2018, the Tender Commission of the Ministry of Finance of Ukraine decided, based on results of considering documentation and analyzing the bank's performances, to recognize JSC BANK ALLIANCE as the authorized bank successful bidder for the right to pay out pensions, cash benefits and salaries to employees of budgetary organizations.

JSC BANK ALLIANCE enables to send to any country of the world or receive urgent money transfers (either with or without opening an account) through such international payment systems as WesternUnion, MoneyGram, Welsend, either in US Dollars, Euro, Russian rubbles and in the national currency (within Ukraine).

At the Rating Committee meeting held on 24/01/2019, RURIK National Rating Agency confirmed that JSC BANK ALLIANCE had such long-term credit rating as uaAA of investment category with a change of the outlook into "positive".

As of 1 January 2019, the Bank has a regional network comprising 13 branches and presented in the biggest cities of Ukraine.

No new licenses (permits) for specific types of activities were obtained in 2018.

3. INFORMATION RELATED TO JSC BANK ALLIANCE EXECUTING DERIVATIVES OR ENTERING INTO DERIVATIVE SECURITIES TRANSACTIONS IF THIS AFFECTS THE VALUATION OF ASSETS, LIABILITIES, FINANCIAL STANDING AND INCOME OR EXPENSES OF THE BANK

During the reporting period, JSC BANK ALLIANCE did not execute any derivatives nor entered into any transactions in relation to derivative securities. Accordingly, there was no impact from such transactions on the valuation of assets, liabilities, financial standing and income or expenses of the Bank.

3.1. Mission and policy for financial risk management, including the policy for insurance each key type of expected operations, for which hedging transactions are in place.

The mission and policy for financial risk management, including the policy for insurance each key type of expected operations, for which hedging transactions are in place, are defined in the Risks Management Policy of the JSC BANK ALLIANCE. Detail information relating to the functioning of the Bank's risks management system is set out in section 6.6 – Description of the Key Characteristics of Internal Control and Risks Management System.

3.2. Exposure to pricing risks, credit risk, and liquidity risk

The Bank's exposure to pricing risks, credit risk, and liquidity risk shall be defined in resolutions of the Bank's Supervisory Board.

As of 01.01.2019, the following tolerance levels have been identified:

The interest rate risk is acceptable if:

- the interest spread has reduced during one calendar month by two percentage points and less.

The market risk is acceptable if:

- the value of securities and other goods held in the trade portfolio has reduced by less than 10% during one calendar month.

The foreign exchange risk is acceptable if:

- actual value of the foreign currency open long position is less than the statutory one by 0.1 percentage point and more;
- actual value of the foreign currency open short position is less than the statutory one by 1 percentage point and more;

The credit risk is acceptable if:

- actual value of the credit risk and investment standard is less than the statutory one by 0.25 percentage point and more;
- amount of non-performing assets is less than 10 percent of the total assets used to assess risk and make provisions in accordance with regulations of the National Bank.

The liquidity risk is acceptable if:

- actual value of the liquidity indicators exceeds by 1 percentage point or more statutory

one.

The Risks Management Unit controls the compliance with the prescribed limits. Information relating to the compliance with the tolerance levels shall be reported to the Supervisory Board on a quarterly basis.

4. LITIGATIONS INVOLVING JSC BANK ALLIANCE

There were no litigations in 2018, in which the claims exceeded UAH 1 mln.

5. PENALTIES IMPOSED ON JSC BANK ALLIANCE

The aggregate amount of penalties paid by the Bank to governmental bodies in 2018 amounted to UAH 8,189.55.

No.	Number and date of the decision imposing the penalty	Authority that imposed the penalty	Type of penalty	Amount payable, UAH	Information relating to the progress status
1	Report No. 4392002336, dated 24/07/2018	The National Bank of Ukraine	Default interest	249,38	Paid
2	Report No. 4392002499, dated 23/08/2018	The National Bank of Ukraine	Default interest	32,76	Paid
3	Report No. 1001/26-15-14-06-01-10/14360506, dated 02/11/2016	Office of the State Treasury Service in Shevchenkiivskiyi District, Main Department of the State Treasury of Ukraine in Kyiv	Default interest	3 060,00	Paid
4	Report No. 4320080507, dated 24/10/2018	The National Bank of Ukraine	Default interest	839,64	Paid
5	Report No. 4320078678, dated 24/05/2018	The National Bank of Ukraine	Default interest	3,98	Paid
6	Report No. 4392001730, dated 23/03/2018	The National Bank of Ukraine	Default interest	10,54	Paid
7	Report No. 15420/26-15-12-13-20, dated 21/08/2018	Office of the State Treasury Service in Shevchenkiivskiyi District, Main Department of the State Treasury of Ukraine in Kyiv	Monetary obligations	1 564,20	Paid
8	Report No. 1001/26-15-14-06-01-10/14360506, dated 02/11/2016	Office of the State Treasury Service in Shevchenkiivskiyi District, Main	Monetary obligations	51,31	Paid

		Department of the State Treasury of Ukraine in Kyiv			
9	Report No. 15420/26-15-12-13-20, dated 21/08/2018	Office of the State Treasury Service in Shevchenkiivskyi District, Main Department of the State Treasury of Ukraine in Kyiv	Monetary obligations	2 377,74	Paid

6. REPORT ON CORPORATE GOVERNANCE OF JSC BANK ALLIANCE

6.1. Corporate Governance Code

The General Shareholders Meeting of JSC BANK ALLIANCE, by its resolution (minutes No. 1/2018, dated 17/04/2018), approved the Corporate Governance Code of BANK ALLIANCE JOINT STOCK COMPANY. The Code contains rules the Bank shall be abided by upon forming, maintaining and improving its corporate governance system, as well as in managing the risks arising out of banking activities, strategic planning and implementing of objectives set out in the Charter. The Code is placed (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 the requirements set out in the laws. Moreover, the Bank does not apply other corporate governance codes; however, being a member of PFTS Stock Exchange Joint Stock Company and other associations, the Association adheres in its activities the Stock Exchange Rules and Codes and other codes adopted by such associations.

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 upon conducting their activities.

6.3. Information relating to 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 same are described in the applicable laws of Ukraine, the Bank's Charter and the Regulation on the Bank's General Shareholders Meeting.

The procedure for preparation and holding of the General Meeting shall provide for equal treatment of all shareholders and protection of their rights irrespective of their residence and number of shares held by them.

The stages for convocation and preparation of General Meetings shall enable shareholders to prepare properly to attend them, get a complete notion of the Bank's business and make measured decisions related to the items put on the agenda.

The Bank shall arrange for holding of General Meetings in a manner to ensure that the shareholders' attendance is not coupled with considerable material and time costs, and shall provide equal treatment of all shareholders irrespective of the number of shares held by them and their

residence.

The Bank shall disclose the information pertaining 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 summarizing 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 2018. An ordinary General Shareholders Meeting was held on 17/04/2018.

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

Type of the general meeting	ordinary	extraordinary
		X
Date of the meeting	17 April 2018	
Quorum constituted at the meeting	91.481011% 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 2017 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 2017 and approving the measures to be taken based on results of its consideration. Making resolutions based on results of considering the Supervisory Board's Report. 6. Considering the Audit Opinion (Report) issued by the external auditor in relation to the financial statements of JSC BANK ALLIANCE for 2017 and approving the measures to be taken based on results of its consideration. 7. Approving the annual report of JSC BANK ALLIANCE for 2017. 8. Distributing profits of JSC BANK ALLIANCE for 2017. 9. Designating the main areas of activities of JSC BANK ALLIANCE . 10. Changing the type of the joint stock company of JSC BANK ALLIANCE . 11. Changing the name of JSC BANK ALLIANCE . 	

12. Increasing the Bank's authorized capital by increasing the nominal value of shares through transferring to the authorized capital a part of profits made in 2017.

13. Issuing the Bank's shares with the new nominal value.

14. Amending the Bank's Charter and approving its new wording.

15. Approving and amending internal documents of the Bank.

16. Terminating powers and authorities of members of the Supervisory Board of JSC BANK ALLIANCE .

17. Electing members of the Bank's Supervisory Board.

18. Electing the Chairperson of the Bank's Supervisory Board from among of the elected members of the Supervisory Board.

19. 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 authorized to sign such agreements (contracts).

RESOLUTION PASSED ON THE FIRST ITEM OF THE AGENDA: 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 O.O. Komarnytska shall be the members of the Counting Commission. The resolution has been passed unanimously.

RESOLUTION PASSED ON THE SECOND ITEM OF THE AGENDA: 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 O.V. Zhuk, corporate secretary, shall be and hereby is elected to act as the secretary of the General Meeting. The resolution has been passed unanimously.

RESOLUTION PASSED ON THE THIRD ITEM OF THE AGENDA: 3.1. the following rules of procedure of the General Shareholders Meeting of JSC BANK ALLIANCE shall be and hereby are 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 showing hands.

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 2017 and the measures set out therein shall be and hereby are approved. 4.2. Operations of the Management Board in 2017 shall be and hereby are recognized as satisfactory and consistent with the objective and profiles of the Bank's activities and provisions of its constituent documents.

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 2017 and the measures set out therein

shall be and hereby are approved. 5.2. Operations of the Supervisory Board in 2017 shall be and hereby are recognized 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 by a simple majority vote.

RESOLUTION PASSED ON THE SIXTH ITEM OF THE AGENDA: 6.1. The Audit Opinion (Independent Auditor's Report) of BAKER TILLY UKRAINE LLC issued in relation to the financial statements of JSC BANK ALLIANCE for 2017 shall be and hereby is taken into account. 6.2. 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 2017. The resolution has been passed by a simple majority vote.

RESOLUTION PASSED ON THE SEVENTH ITEM OF THE AGENDA: 7.1. The annual report of JSC BANK ALLIANCE for 2017 shall be and hereby is approved. The resolution has been passed by a simple majority vote.

RESOLUTION PASSED ON THE EIGHTH ITEM OF THE AGENDA: 8.1. Net profits made based on results of activities of JSC BANK ALLIANCE in 2017 in the amount of UAH 64,289,379.42 shall be and hereby are distributed as follows: • a part of the profits in the amount of UAH 60,000,000.00 shall be applied towards increasing the authorized capital of JSC BANK ALLIANCE . • a part of the profits in the amount of UAH 4,289,379.42 comprising 6.67 % of the total profits, shall be applied towards increasing the reserve of JSC BANK ALLIANCE . The resolution has been passed by a simple majority vote.

RESOLUTION PASSED ON THE NINTH ITEM OF THE AGENDA: 9.1. 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 by a simple majority vote.

RESOLUTION PASSED ON THE TENTH ITEM OF THE AGENDA: 10.1. The type of Bank' joint stock company shall be and hereby is changed from public joint stock company into a private joint stock company (with the indication of the type of the joint stock company in the Charter). The resolution has been passed by more than three quarters vote of the shareholders who registered for participation in the General Meeting and holding the shares voting on certain item.

RESOLUTION PASSED ON THE ELEVENTH ITEM OF THE AGENDA: 11.1. The official name of the Bank shall be and hereby is changed as follows: - in Ukrainian: full name, from ПУБЛІЧНОГО АКЦІОНЕРНОГО ТОВАРИСТВА «БАНК АЛЪЯНС» into АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК АЛЪЯНС»; abbreviated name, from ПАТ «БАНК АЛЪЯНС» into АТ «БАНК АЛЪЯНС»; - in Russian: full name, from ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «БАНК АЛЪЯНС» into АКЦИОНЕРНОЕ ОБЩЕСТВО «БАНК АЛЪЯНС», abbreviated name, from ПАО «БАНК АЛЪЯНС» into АО «БАНК АЛЪЯНС»; - in English: full name, from JOINT STOCK COMPANY BANK ALLIANCE into JOINT STOCK COMPANY BANK ALLIANCE , abbreviated name, from JSC BANK ALLIANCE into JSC BANK ALLIANCE . The resolution has been passed by a simple majority vote.

RESOLUTION PASSED ON THE TWELFTH ITEM OF THE AGENDA: 12.1. The Bank's authorized capital shall be and hereby is

increased by UAH 60,000,000.00 to the amount of UAH 260,000,000.00 by increasing the nominal value of the shares from Twelve Hryvnias and 50 kopeks (UAH 12.50) to Sixteen Hryvnias and 25 kopeks (UAH 16.25) by applying a part of profits made in 2017 to the authorized capital. The resolution has been passed by more than three quarters vote of the shareholders who registered for participation in the General Meeting and holding the shares voting on certain item.

RESOLUTION PASSED ON THE THIRTEENTH ITEM OF THE AGENDA: 13.1. The bank's registered ordinary shares shall be and hereby are issued in the amount of 16,000,000 shares with the new nominal value of Sixteen Hryvnias and 25 kopeks (UAH 16.25) each and the Resolution on issuing the shares of new nominal value shall be and hereby is approved. The resolution has been passed by a simple majority vote.

RESOLUTION PASSED ON THE FOURTEENTH ITEM OF THE AGENDA: 14.1. The Bank's Charter shall be and hereby is amended and approved as amended and restated. 14.2. Y.M. Frolova, Acting Chairperson of the Bank's Management Board, shall be and hereby is authorized to sign the Charter as amended and restated. 14.3. Y.M. Frolova, Acting 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 by more than three quarters vote of the shareholders who registered for participation in the General Meeting and holding the shares voting on certain item.

RESOLUTION PASSED ON THE FIFTEENTH ITEM OF THE AGENDA: 15.1. The internal regulation of the Bank shall be approved as amended and restated, including the titles: - Regulation on the General Shareholders Meeting of BANK ALLIANCE JOINT STOCK BANK; - Regulation on the Supervisory Board of BANK ALLIANCE JOINT STOCK BANK; - Regulation on the Management Board of BANK ALLIANCE JOINT STOCK BANK; - Corporate Governance Code of BANK ALLIANCE JOINT STOCK COMPANY. 15.2. The Regulation on Remuneration of Members of the Supervisory Board of JOINT STOCK COMPANY BANK ALLIANCE shall be and hereby is approved. The resolution has been passed by a simple majority vote.

RESOLUTION PASSED ON THE SIXTEENTH ITEM OF THE AGENDA: 16.1. powers and authorities of the following members of the Supervisory Board of JSC BANK ALLIANCE shall be and hereby are terminated: Yuriy Vasyliovych Girman (independent member); Volodymyr Vasyliovych Kartak (independent member); Nataliia Serhiivna Bakurova (representative of shareholder O.Y. Sosis); Mykhailo Mykhailovych Umnikov (shareholder of the Bank); Oleksandr Olehovych Dekomba (independent member). 16.2. 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 unanimously.

RESOLUTION PASSED ON THE SEVENTEENTH ITEM OF THE AGENDA: 17.1. The following members of the Bank's Supervisory Board who received the largest number of votes shall be and hereby are elected: Nataliia Serhiivna Bakurova (representative of shareholder O.Y. Sosis); Andrii Ihorovych Lekhitskyi (shareholder); Yuriy Vasyliovych

	<p>Girman (independent director); Mykhailo Mykhailovych Nehrych (independent director); Volodymyr Vasylovych Kartak (independent director); 17.2. The members of the Supervisory Board so elected shall be and hereby are ordered to proceed with their official duties with effect from 18 April 2018</p> <p>RESOLUTION PASSED ON THE EIGHTEENTH ITEM OF THE AGENDA: 18.1. The following person from among of the elected members of the Supervisory Board who received the largest number of votes shall be and hereby is elected to act as the Chairperson of the Bank's Supervisory Board: Yuriy Vasylovych Girman (independent director).</p> <p>RESOLUTION PASSED ON THE NINETEENTH ITEM OF THE AGENDA: 19.1. The 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, 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>19.2. Y.M. Frolova, Acting Chairperson of the Bank's Management Board, shall be and hereby is elected as the person who is authorized to sign the agreements (contracts) with the Chairperson and members of the Bank's Supervisory Board. The resolution has been passed by a simple majority vote.</p>
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The body that last registered shareholders for attending the General Shareholders Meeting

	Yes	No
Registration commission appointed by the person who convened the general meeting	X	
Shareholders		X
Depository institution		X
Other (to write down)		

The body that controls the registration of the shareholders or their representatives to participated 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 (to write down)		

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

No extraordinary general meeting has been held during 2018.

6.4. Information relating to the Supervisory Board

Composition of the Supervisory Board

	Number of Persons
members of the Supervisory Board who are the shareholders	-
members of the Supervisory Board who are the shareholders	1
members of the Supervisory Board who are independent directors	3

Committees comprising the Supervisory Board

	Yes	No
for Auditing	X	
for Appointments		X
for Remuneration		X
Other (to write down)		

12 meetings of the committee for auditing have been held during 2018.

Personal composition of the Supervisory Board

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

Requirements to the members of the Supervisory 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 (to write down)	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 supervisory board, such member has reviewed his or her rights and duties as follows:

	Yes	No
The new member of the Supervisory Board reviewed on his or her own the contents of internal documents if the joint stock company	X	
A meeting of the Supervisory 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 Supervisory Board (dedicated to corporate governance or financial management)	X	
All members of the Supervisory Board have been re-elected for a new term or no new member has been elected		X
Other (to write down)		

Determining the remuneration payable to the members of the Supervisory 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 Supervisory Board receive no remuneration		X
Other (to write down)		

Report on Remunerations to the members of the Supervisory Board

1. Terms and conditions for accruing and paying the remuneration

In consideration for the functions and duties fulfilled as a member of the Supervisory Board and set out in the Regulation on the Remuneration to the Members of the Supervisory Board of JSC BANK ALLIANCE and the Agreement, the Chairperson / member of the Supervisory 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.

The Bank shall pay the remuneration in Hryvnias, national currency of Ukraine, by wire transfer of funds transfer to the current account of the Supervisory Board member stated in the details section of the Agreement or in separate notice (letter) given by the Supervisory Board member.

The Bank shall pay the remuneration in cash to:

✓ Chairperson / members of the Supervisory Board, with whom an employment agreement (contract) has been made and who are recorded as members of the Bank's staff, two time a month (on the 16th day of the current month, an advance for the first half of the month; on the last day of the current month, final settlement for the month). If the pay day falls on a day off, holiday or nonworking day, the salary shall be paid the day before. The advance shall be paid to an employee for the time actually worked out 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 Supervisory 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 next following the month of accrual).

Upon paying the remuneration in cash to a Supervisory Board member, the Bank shall deduct from the remuneration amount 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 Supervisory 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 Supervisory Board.

The Bank may, pursuant to supporting documents, compensate to a member of the Supervisory Board costs and expenses incurred by him or her in connection with the fulfillment of the functions (works) as a member of the Supervisory 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 Supervisory Board member 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 2018

The total amount of salaries paid to members of the Bank's Supervisory Board in 2018 was UAH 1,203,901.43.

Compensations for costs and expenses related to business trips of Supervisory Board members amounted to UAH 24 thousand.

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

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

No compensation has been paid to members of the Supervisory Board in connection with the termination of their activities in 2018.

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

Supervisory Board's Report

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

The Supervisory Board (the "Board") consists of five (5) members.

The Board shall consist of the Chairperson and other members of the Board. Since 20/06/2018, the Board has been acting as composed of four members in view of resignation the member pf Supervisory Board Andrii Ihorovych Lekhitskyi (minutes No. 60 of the Supervisory Board meeting, dated 20/06/2018) Supervisory Board	Position	Full name
	Chairperson of the Supervisory Board	Yuriy Vasylovych Girman
	Member of the Supervisory Board	Nataliia Serhiivna Bakurova
	Member of the Supervisory Board	Volodymyr Vasylovych Kartak
	Member of the Supervisory Board	Mykhailo Mykhailovych Nehrych
	Member of the Supervisory 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 aimed at 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 among its members to preliminarily examine preliminarily and prepare for consideration at meetings the matters falling within the competence of the Board.

A Supervisory 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 Supervisory Board, fulfill the following functions (works):

- Participating in work and meetings of the Supervisory 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 Supervisory Board upon transacting 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 (restriction) with respect to each risk and escalations 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 interests within the bank, facilitating their settlement and giving notice to the National Bank of any conflicts of interests 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 optimization and improving the organizational 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 defects 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 the Bank publishing 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 Supervisory Board.
- Participating in work of and chairing committees of the Supervisory Board pursuant to resolutions of the Supervisory Board.
- Preparing proposals falling within the expertise of his or her committee and, acting in under the procedure designated by the Supervisory Board, reporting on results of its

activities.

- Participating in the assessment of the work performances 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 Supervisory Board if the Chairperson of the Supervisory Board is not absent, pursuant to the relevant resolutions of the Supervisory Board.
- Performing other functions and powers and authorities set out in the laws of Ukraine, the Bank's Charter, Regulation on the Supervisory Board, internal regulations of the Bank as may be necessary for efficient operation of the Supervisory Board and falling with the functions and powers and authorities of the Supervisory Board.

The organizational 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.

123 meetings of the Supervisory Board have been held in 2018, at which 435 issues have been considered. **General description of resolutions passed by the Supervisory Board:**

- Considering and approving reports of the Management Board relating to the status of implementing the Bank's Development Strategy 2018 to 2020
- Considering and approve the Work Plan of the Internal Audit Service of JSC BANK ALLIANCE and amendments thereto.
- Approving the Implementation Plan of JSC BANK ALLIANCE in relation to the requirements of the National Bank of Ukraine (Regulation on Organizing Risk Management Systems in Ukrainian Banks and Bank Groups).
- Approving the Development Business Plan of JSC BANK ALLIANCE .
- Approving Bank's Budget for 2019.
- Making decisions to approve active transactions falling within the competence of the Supervisory Board.
- Considering reports issued by the Internal Audit Service based on results of its audits.
- Approving the report on assessment of compliance risks.
- Designating from and intervals for submitting the Bank's management reports and considering such reports.
- Controlling the compliance with the regulators' recommendations
- Issues related the convening, arranging for and holding annual general shareholders meetings in April 2018
- Approving limits of powers and authorities of collegial bodies.
- Approving the Bank's internal documents that fall within the competence of the Supervisory Board.
- Electing an independent auditor for auditing the financial statements and approving terms and conditions of the agreement to be entered into with such auditor.
- Approving the organizational structure of JSC BANK ALLIANCE .
- Approving the personal distribution of powers and authorities of the Chairperson and members of the Management Board of JSC BANK ALLIANCE .
- Approving staff arrangements and amendments thereto.
- Paying bonuses to the members of the Management Board on accordance with the terms and conditions of the Contract.
- Changes in the composition of the Management Board and committees of the

- Supervisory Board, appointing and removing from office the Corporate Secretary
- Setting up separate units of the Bank.
 - Other organizational issues.

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. decisions shall be made by a simple majority vote of the members attending the meeting. 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.

2. Assessing the competence and efficiency of each member of the board, including information relating to its 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 interests. Sufficient time is available to fulfill functions, subject to duties of each of the Board members. All of the Board members have impeccable business reputation. Members of the Supervisory Board acts in compliance with the standards of business practice and professional ethics.

The Board operates efficiently due to a high level of organizational work performed by the Board, optimal intervals set to hold meeting of the Board and sufficient time being available for Board members to discharge efficiently their duties. At Board meetings, much time is dedicated to discussing issues, including the analysis of the Bank's current financial standing and development strategy.

The outcome of the Board's works is distinctive for an efficient level of interaction between the Board and Management Board of the Bank and, consequently, financial / management reports that have been furnished meet the requirements to their fullness, timeliness and understandable presentation, availability of necessary internal documents, efficiency of protecting 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.

Table of Sufficiency Assessment in relation to Knowledge (Education) of Members of the Bank's Board

<i>Main activities of the Bank</i>	<i>Availability of primary and/or additional education</i>	<i>Level</i>
Risk 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
Investment activities	N.S. Bakurova	Sufficient
Treasury	-	-
Corporate governance	Y.V. Girman N.S. Bakurova M.M. Nehrych V.V. Kartak	Sufficient

Table of Sufficiency Assessment in relation to the Managerial Experience of Members of the Bank's Board

<i>Main activities of the Bank</i>	<i>Availability of managerial experience</i>	<i>Level</i>
Risk management	Y.V. Girman N.S. Bakurova M.M. Nehrych V.V. Kartak	Sufficient
Finance	Y.V. Girman N.S. Bakurova M.M. Nehrych V.V. Kartak	Sufficient
Retail and corporate business	Y.V. Girman N.S. Bakurova V.V. Kartak	Sufficient
Information technology	-	-
Non-performing asset management	Y.V. Girman M.M. Nehrych V.V. Kartak	Sufficient
Investment 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. Kartak	Sufficient

Table of Sufficiency Assessment in relation to the Professional Experience of Members of the Bank's Board

<i>Main activities of the Bank</i>	<i>Availability of professional experience</i>	<i>Level</i>
Risks management	Y.V. Girman N.S. Bakurova M.M. Nehrych V.V. Kartak	Sufficient

Finance	N.S. Bakurova M.M. Nehrych	Sufficient
Retail and corporate business	Y.V. Girman N.S. Bakurova V.V. Kartak	Sufficient
Information technology	N.S. Bakurova	Sufficient
Investment activities	Y.V. Girman N.S. Bakurova M.M. Nehrych V.V. Kartak	Sufficient
Treasury	N.S. Bakurova	Sufficient
Corporate governance	Y.V. Girman N.S. Bakurova M.M. Nehrych V.V. Kartak	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 that efficient control is in place in relation to the Bank's activities, subject to the functions assigned.

3. Assessing the independence of each of the independent members of the Bank's Board

Independent members of the Bank's Board:

Chairperson of the Supervisory Board	Yuriy Vasylovych Girman
Member of the Supervisory Board	Volodymyr Vasylovych Kartak
Member of the Supervisory 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

It was decided on 18/04/2018 at a Board meeting to set up the Committee for Auditing (the "Committee"). The Committee arranges its operations by virtue of the Regulation on the Committee of the Supervisory Board for Auditing and is composed of:

Committee (of the Supervisory Board)		
Committee for Auditing	Chairperson of the Committee	Mykhailo Mykhailovych Nehrych
	Member of the Committee	Nataliia Serhiivna Bakurova
	Member of the Committee	Volodymyr Vasylovych Kartak

The Committee is competent to:

1. – review at least once a year the efficiency of internal audit and risk management system,
2. Issue recommendation for hiring, appointing, re-appointing and dismissing the managers of the Internal Audit Service and manager of the Bank's unit that is competent to deal with budgeting issues,
3. Prepare and submit for approval the budget of the Bank's Board,
4. Issue recommendation to the Bank's Board for hiring, appointing, re-appointing and dismissing the external auditor (audit firm) and terms and conditions of the agreement with them,
5. Control that the external auditor (audit firm) is independent and impartial in compliance with the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services,
6. Revise the efficiency of the internal audit process and management's quick response to the recommendations issued in writing to the external auditors (audit firm).

The Committee has held 12 meetings in 2018.

Resolutions have been passed on the following issues:

- Considering results of auditing the Bank's units.
- Considering results of auditing the currency value encashment and transportation process.
- Auditing the information safety management system (ISMS).
- Considering the audit report on results of auditing transactions related to transfers of funds on instructions and in favor of individuals by JSC BANK ALLIANCE .
- Designating audit firms to render audit services to the Bank.
- Considering the audit report based on results of the audit undertaken to verify whether the Bank complies with the laws of Ukraine for prevention of the legalization (laundering) of proceeds from crime, terrorist financing and financing of the proliferation of mass destruction weapons.
- Approving budget of the Bank's Supervisory Board and controlling units for 2019.

Assessing the Board complying with the set objectives:

The Board has timely taken the actions scheduled by it, including the Plan of Meetings in 2018, to the fullest extent. The outcome of the Board's operations in 2018 is the successful implementation of the Bank's Strategy for 2018 to 2020, improved comprehensive, adequate and efficient risks management system in relation to the risks to which the Bank is exposed in its activities, including the intensified role of the Board in the Bank's risk management system by re-subordination of controlling units (Risk Control Department and Compliance Department) directly to the Supervisory Board, setting up a three-level risk management system; efficient functioning of internal control system within the Bank; improving and developing the corporate governance system in the Bank; Bank's compliance with its own Code and Rules of Corporate Ethics.

The composition of the Bank's Supervisory Board and its changes for the year, including the committees set up by it

Supervisory Board	Position	Full name	Decision, data and number of the appointment	Decision, data and number of the removal from office / termination of powers
	Chairperson of the Supervisory Board	Yuriy Vasylovych Girman	Minutes No. 1/2017 of the extraordinary General Shareholders Meeting of JSC BANK ALLIANCE , dated 24/02/2017	Minutes No. 1/2018 of the annual General Shareholders Meeting of JSC BANK ALLIANCE , dated 17 April 2018
			Minutes No. 1/2018 of the annual General Shareholders Meeting, dated 17 April 2018	-
	Member of the Supervisory Board	Nataliia Serhiivna Bakurova	Minutes No. 1/2017 of the extraordinary General Shareholders Meeting of JSC BANK ALLIANCE , dated 24/02/2017	Minutes No. 1/2018 of the annual General Shareholders Meeting, dated 17 April 2018
			Minutes No. 1/2018 of the annual General Shareholders Meeting, dated 17 April 2018	-
	Member of the Supervisory Board	Volodymyr Vasylovych Kartak	Minutes No. 1/2017 of the extraordinary General Shareholders Meeting of JSC BANK ALLIANCE , dated 24/02/2017	Minutes No. 1/2018 of the annual General Shareholders Meeting, dated 17 April 2018
			Minutes No. 1/2018 of the annual General Shareholders Meeting, dated 17 April 2018	-
	Member of the Supervisory Board	Mykhailo Mykhailovych Umnikov	Minutes No. 1/2017 of the extraordinary General Shareholders Meeting of JSC BANK ALLIANCE , dated 24/02/2017	Minutes No. 1/2018 of the annual General Shareholders Meeting, dated 17 April 2018
	Member of the Supervisory Board	Oleksandr Olehovych Dekomba	Minutes No. 1/2017 of the extraordinary General Shareholders Meeting of JSC BANK ALLIANCE , dated 24/02/2017	Minutes No. 1/2018 of the annual General Shareholders Meeting, dated 17 April 2018
	Member of the Supervisory Board	Mykhailo Mykhailovych Nehrych	Minutes No. 1/2018 of the annual General Shareholders Meeting, dated 17 April 2018	-
	Member of the Supervisory Board	Andrii Ihorovych Lekhitskyi	Minutes No. 1/2018 of the annual General Shareholders Meeting, dated 17 April 2018	Minutes No. 60 of the meeting of the Supervisory Board, dated 20/06/2018
Committees (of the Supervisory Board)				

Committee for Auditing	Chairperson of the Committee	Mykhailo Mykhailovych Nehrych	Minutes No. 39 of the meeting of the Supervisory Board, dated 18/04/2018	-
	Member of the Committee	Nataliia Serhiivna Bakurova	Minutes No. 39 of the meeting of the Supervisory Board, dated 18/04/2018	-
	Member of the Committee	Volodymyr Vasylovych Kartak	Minutes No. 39 of the meeting of the Supervisory Board, dated 18/04/2018	-

6.5. Information relating to 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 the Chairperson, deputy Chairmen and members of the Management Board appointed by the Board of the Bank in the amount no less than 3 (three) members.

As of the end of 2018, the Bank's Management Board was composed of six (6) members:

Yuliia Mykolaivna Frolova, Chairperson of the Management Board, started discharging her duties with effect from 29/12/2018.

Pavlo Pavlovych Shcherban, Deputy Chairperson of the Management Board, started discharging his duties with effect from 04/06/2018.

Viktor Hryhorovych Burkytsia, Deputy Chairperson of the Management Board, started discharging his duties with effect from 08/12/2017.

Nataliia Anatoliivna Bochkovska, Chief Accountant and member of the Management Board, started discharging her duties with effect from 28/12/2015.

Kostiantyn Vasyliovych Moiseienko, Director for Analysis and Credit Administration and member of the Management Board, started discharging duties of a member of the Management Board with effect from 01/09/2017.

Olha Oleksandrivna Laktionova, Head of the Department for Financial Monitoring and member of the Management Board, started discharging her duties with effect from 02/11/2018.

Changes in the composition of the Management Board during 2018:

Nataliia Vasylivna Onyshchenko, Chairperson of the Management Board, ceased discharging her duties with effect from 15/03/2018.

Kateryna Volodymyrivna Lokoshchenko, Head of the Department for Financial Monitoring and member of the Management Board, ceased discharging her duties with effect from 11/09/2018.

Information relating to meetings held

The organizational form of the Management Board's work shall be meetings. The Management

Board meetings shall be held in the form of a joint presence of the Management Board members at a definite 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 voting the Chairperson and each Member of Management Board shall have one vote. Any Management Board member shall have no right to give his 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 two business days from the date of the meeting, 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 due account of all of the shareholders, as well as the interests of 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.

General description of the passed resolutions

During 2018, the Bank's Management Board has held 169 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 and working groups 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 organizational 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 measures to be taken based on reports issued by the Internal Audit Service;
- approving a package of main reports to the provisional financial report, etc.;
- considering management reports relating to the risk positions;
- other organizational 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>As of the end of 2018, 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, Deputy Chairperson of the Management Board. 3. Viktor Hryhorovych Burkytsia, Deputy Chairperson of the Management Board. 4. Nataliia Anatoliivna Bochkovska, Chief Accountant and member of the Management Board. 5. Kostiantyn Vasylovych Moiseienko, Director for Analysis and Credit Administration and member of the Management Board. 6. Olha Oleksandrivna Laktionova, Head of the Department for 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> <p>Preparation for approval by the Board of the Bank of the draft budget of the Bank, strategy and business development plan of the Bank.</p> <p>Implementation of the strategy and business plan of the Bank.</p> <p>Determination of the form and establishment of the procedure for monitoring the Bank's activities.</p> <p>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.</p> <p>Formation of the organizational structure of the Bank determined by the Board of the Bank.</p> <p>Development of regulations governing the activities of structural and separate divisions of the Bank in accordance with the development strategy of the Bank.</p> <p>Approval of internal documents of the Bank, except for those referred to the competence of the General Meeting and the Board of the Bank.</p> <p>Security of the Bank's information systems and systems used to store the assets of the clients.</p> <p>Informing the Board of the Bank about the performance of the Bank, revealed violations of the current legislation of Ukraine, internal regulations of the Bank and any deterioration of the financial condition of the Bank or such potential deterioration, the level of risks arising in the course of the Bank.</p>

	<p>Organization of implementation of decisions of the Board and the General meeting of the Bank.</p> <p>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.</p> <p>Approving the list of data 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.</p> <p>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.</p> <p>Making decisions on write-off of financial instruments and accounts receivable from the Bank's balance sheet at the expense of formed reserves, as well as fixed assets or other assets within the limits of authority established by the Board.</p> <p>Approval of the staff schedule and its changes within the budget approved by the Board.</p> <p>Approval of the staff of the regular boards/committees, commissions of the Bank, appointment of their heads and deputy heads, and resolution of organizational issues on their activities in accordance with the regulations approved by the Management Board.</p> <p>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.</p>
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Composition of the Management Board of JSC BANK ALLIANCE and its changes in 2018

<i>Full name</i>	<i>Position</i>	<i>Decision of the Supervisory Board for appointment / election</i>	<i>Decision of the Supervisory Board for terminating powers and authorities / removal from office</i>
Yuliia Mykolaiivna Frolova	Chairperson of the Management Board	Minutes No. 105, dated 31/10/2018 (she started discharging her duties on 29/12/2018)	-
	Acting Chairperson of the Management Board	Minutes No. 25, dated 15/03/2018	Minutes No. 84, dated 17/08/2018
	First Deputy Chairperson of the Management Board	Minutes No. 76, dated 06/10/2017	Minutes No. 105, dated 31/10/2018
Pavlo Pavlovych Shcherban	Deputy Chairperson of the Management Board	Minutes No. 54, dated 01/06/2018	-

	Acting Chairperson of the Management Board	Minutes No. 83, dated 17/08/2018 Minutes No. 105, dated 31/10/2018 (before the NBU approved Y.M. Frolova to act as the Chairperson of the Management Board)	Y.M Frolova started discharging her duties on 29/12/2018
Viktor Hryhorovych Burkytsia	Deputy Chairperson of the Management Board	Minutes No. 94, dated 07/12/2017	-
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	-
Olha Oleksandrivna Laktionova	Head of the Department for Financial Monitoring and member of the Management Board	Minutes No. 107, dated 02/11/2018	-
Nataliia Vasylyvna Onyshchenko	Chairperson of the Management Board	Minutes No. 3, dated 16/01/2017	Minutes No. 25, dated 15/03/2018
Kateryna Volodymyrivna Lokoshchenko	Head of the Department for Financial Monitoring and member of the Management Board	Minutes No. 17, dated 07/03/2017	Minutes No. 91, dated 11/09/2018

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.

Sufficient time is available to fulfill functions, subject to duties of each of the Management Board members.

The Management Board members have skills to stand for their views and to influence the collective decision making process and able to oversee efficiently the resolutions made by the Bank's Management Board and their implementation.

All members of the Management Board have impeccable business reputation described for no material and/or systematic violations of the banking, foreign exchange, taxation, financial services, financial monitoring, securities, joint stock companies and stock exchange laws; no failures to comply with financial obligations and activities of the Management Board members being in compliance with the standards of business ethics 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 that efficient control is in place 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 Bank's Management 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, including, but not limited to: risk management, control over the compliance with rules (compliance), corporate governance, financial accounting and reporting, information technology management and safety, managing the Bank's business (all of the activities), strategic planning, non-performing asset management, investment activities, treasury, and professional discussion of issues to be decided.

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 is in place 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 have caused positive changes in financial and commercial activities of the Bank in 2018.

**Main Indicators for Financial and Commercial Activities of the Bank
in 2018**

(UAH, thousand) Item	Reporting year	Previous year
1	3	4
Total assets	2 114 167	777 264
Loans and receivables from customers	1 398 873	430 858
Due to customers	1 665 238	460 496
Equity capital	401 044	289 844

Profit and Loss Statement for 2018

Item	Reporting year	Previous year
1	3	4
Net interest income	129 240	49 332
Commission income	115 527	36 980
Profit before taxation	135 974	78 570
Profit	111 200	64 290

Therefore, the total growth of funds due to customers based on results of 2018 amounted to + UAH 1,205 million, while the loan portfolio grew by + UAH 968 million and aggregate assets grew by + UAH 1 337 million. Growing balance sheet indicators have caused a significant increase in interest income which was by UAH 80 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 resulted in raising commission income of the Bank by UAH 79 mln. Generally speaking, profits have grown based on results of the year by UAH 47 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 unprofitable in Ukraine (annual rate of return from assets and capital is 8% and 34% accordingly).

Financial results of activities in 2018 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 to 2020.

Report on remunerations to the members of the executive body

1. Terms and conditions for accruing and paying the remuneration

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 that has been worked out 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 Hryvnias, national currency of Ukraine, by wire transfer of funds transfer to the current account of the Management Board member stated in the 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 nonworking day, the salary shall be paid the day before. The advance shall be paid to an employee for the time actually worked out 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 if the Bank's Board so decides and in compliance with 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 costs and expenses incurred by him or her in connection with the fulfillment 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, which may be or shall be compensated under 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.

3. Remuneration for 2018

The total amount of salaries paid to members of the Bank's Management Board in 2018 was UAH 5,620,419.10, including non-purposeful material benefits of UAH 10,000.00 and bonuses of UAH 412,042.39.

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.

The compensation has been paid to members of the Supervisory Board in connection with the termination of their activities in 2018 is UAH 360,250.00.

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

As of 01/01/2019, the Bank had 3 committees of the Management Board, such as Credit Committee. Assets and Liabilities Management Committee, and Tariff Committee.

Credit Committee

Composition as of 01/01/2019

Name of the committee	Members of the Committee	Position as of the date of decision	Details of the appointment decision	Notes
1	2	3	4	5
Credit Committee	Y.M. Frolova	First Deputy Chairperson of the Management Board	Minutes No. 131 of the Management Board, dated 25/09/2018, item 2	Chairperson of the Credit Committee
Credit Committee	V.Y. Hrytsenko	Deputy Head of the Lending Transaction Department	Minutes No. 131 of the Management Board, dated 25/09/2018, item 2	
Credit Committee	A.S. Ivanchenkov	Head of the Banking Security Department	Minutes No. 131 of the Management Board, dated 25/09/2018, item 2	
Credit Committee	O.A. Osadcha	Head of the Legal Department	Minutes No. 131 of the Management Board, dated 25/09/2018, item 2	
Credit Committee	K.V. Moiseienko	Director for Analysis and Risk Management	Minutes No. 131 of the Management Board, dated 25/09/2018, item 2	Deputy Chairperson of the Credit Committee
Credit Committee	P.P. Shcherban	Acting Chairperson of the Management Board	Minutes No. 152 of the Management Board, dated 15/10/2018, item 3	

Credit Committee	S.A. Kravchenko	Head of the Risk Control Department	Minutes No. 152 of the Management Board, dated 15/10/2018, item 3
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Information relating to changes in the membership in 2018

Full name	Position as of the date of decision	Term of office from ___ to ___	Notes
1	2	3	4
I.M. Savchenko	Director of the Department for Documentary and Lending Transactions	from 07/03/2017 to and including 25/09/2018	Minutes No. 18 of the Management Board, dated 07/03/2017, item 5 (Appointing as the CC member) Minutes No. 131 of the Management Board, dated 25/09/2018, item 2 (Terminating powers and authorities as CC member)
V.Y. Hrytsenko	Deputy Head of the Lending Transaction Department	from and including 26/09/2018 to the present time	Minutes No. 131, dated 25/09/2018, item 2 (Appointing as a CC member)
P.P. Shcherban	Acting Chairperson of the Management Board	from and including 15/11/2018 to the present time	Minutes No. 152 of the Management Board, dated 15/10/2018, item 3 (Appointing as a CC member)
S.A. Kravchenko	Head of the Risk Control Department	from and including 15/11/2018 to the present time	Minutes No. 152 of the Management Board, dated 15/10/2018, item 3 (Appointing as a CC member)

The Credit Committee has hold 233 meetings during the period from 01/01/2018 to 31/12/2018, at which 929 issues have been considered and decisions have been made for:

1. Issuing guarantees / setting limits of guarantee facilities, 556 issues;
2. Making available loans / setting limits of loan facilities, 162 issues;
3. Changing the terms and conditions of existing loan agreements / guarantee agreements, 118 issues;
4. Making provisions, 61 issues;
5. Setting limits applicable to transactions with counterparty banks, 12 issues;
6. Repaying the fee (in full or in part), 5 issues;
7. Carrying out of securities transactions, 3 issues;
8. Making payments on demand, 2 issues;
9. Giving consent to receive insurance indemnity, 2 issues;
10. Other, 8 issues

Asset and Liability Management Committee

As of 1 January 2019, the Asset and Liability Management Committee of JSC BANK ALLIANCE was composed of:

Chairperson of the ALMC:

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

Deputy Chairperson of the ALMC:

- **K.V. Moiseienko**, Director for Analysis and Credit Administration

Members of the ALMC:

- **Y.M. Frolova**, Chairperson of the Management Board;
- **N.A. Bochkovska**, Chief Accountant;
- **O.A. Hryshchenko**, Head of the Operating Department;
- **S.V. Khliakin**, Head of the Treasury Department

During 2018 January 2019, the Deputy Chairperson of Management (P.P. Shcherban) was included in the composition of the Asset and Liability Management Committee of JSC BANK ALLIANCE and the Chairperson of the ALMC was appointed. The Director for Analysis and Credit Administration (K.V. Moiseienko) has been conferred with duties of the Deputy Chairperson of the ALMC. Constant control has been conducted during the reporting period in relation to changes in the personal composition of the ALMC, if any.

The Assent and Liabilities Management Committee of JSC BANK ALLIANCE has hold **135 meetings** during the period from **01/01/2018** to **31/12/2018**, at which 216 issues have been considered and decisions have been made for:

- ✓ Setting and updating interest rates on deposit products for retail business customers (individuals), 33 decisions;
- ✓ Setting and updating interest rates for lending corporate and retail sector, 8 decisions;
- ✓ Reviewing key indexes of the Bank's activities, 8 decisions;
- ✓ Setting interest rates for individual customers of the Bank in relation to deposit programs, balances available on current accounts, placement periods, etc., 155 decisions;
- ✓ Setting and updating cash desk limits in relation to securities transactions and concentration limits for lending transactions, 12 decisions.

Tariff Committee

As of 01/01.2019, the Tariff Committee of JSC BANK ALLIANCE was composed of:

Chairperson of the Tariff Committee:

Chief Accountant

N.A. Bochkovska

Members of the Tariff Committee:

Chief Accountant and Chairperson of the Tariff Committee

N.A. Bochkovska

Director for Analysis and Credit Administration

K.V. Moiseienko

and Deputy Chairperson of the Tariff Committee

Head of the Operating Department

O.A. Hryshchenko

Head of the Software Division, Information Technology Department

I.K. Lebedko

Head of the Documentary Transactions Administration Department

V.V. Borovytskyi

Director for Operating Work and Reporting of the Bank

V.H. Rehuretska

The Tariff Committee has held 106 meetings as of 01/01/2019 (for 2018), at which 151 issues have been considered and decisions have been made for:

- ✓ approving **standard terms and conditions** for servicing customers, both individuals and legal entities (updating existing and approving new tariffs and tariff packages for settlement and cash service of 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), **51 issues** in total,
- ✓ 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; issuing cash from an account; purchasing and selling foreign currencies on the interbank foreign currency market of Ukraine and making payments in foreign currency), 68 issues,
 - 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), 32 issues.

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

Key characteristic of the system for controlling activities

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 activities.

	General Meeting of Shareholders	Supervisory Board	Executive body	Not falling within the competence of any body
Determining the main areas of the business (strategies)	Yes			
Approving action plans (business plans)		Yes		
Approving the annual financial report, balance sheet or budget	Yes			
Electing and removing from office the chairperson and members of the executive body		Yes		
Electing and removing from the office the chairperson and members of the Supervisory Board	Yes			
Electing and removing from office the chairperson and members of the Audit Committee				Yes
Determining the remuneration payable to the		Yes		

chairperson and members of the executive body				
Determining the remuneration payable to the chairperson and members of the Supervisory Board	Yes			
Making decisions to bring to property liability the 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			
Approving the external auditor		Yes		
Approving agreements, in respect to which there is a conflict of interests		Yes		

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

Provisions on a conflict of interest, i.e., conflict between personal interests of the officer and his or her related person and the duty to act and for 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, which purpose is to minimize the risk of (avoid) conflicts of interest in the Bank.

The Bank has the following documents in place 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 Officers of the Joint Stock Company		X
Regulation on the Audit Committee (or Controller)		X
Regulation on Shares in the Joint Stock Company	X	
Regulation on the Procedure for Distribution of Profits		X
Other (to write down)		

The 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 NSSMC related to the securities market	Documents made available for review directly by the joint stock company	Document copies provided at a shareholder's request	Information posted at its own 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 authorized 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 relating to how often 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
Supervisory Board	X	
Executive body		X
Other (to write down)		

Information relating to what body initiated that audit committee (controller) carried out inspection 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 (to write down)		

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 Organizing the Internal Control System at JSC BANK ALLIANCE (approved by the Bank's Supervisory Board, minutes No. 122, dated 22/12/2018).

The internal control system comprises:

- preliminary control over transactions actually performed by the Bank;
- current control in place when the Bank carries out its operations, including the monitoring of the compliance with the Bank's legal acts and internal regulatory documents relating to the conduct of transactions, procedure for decision making on their implementation, and monitoring complete, timely and accurate recordation in records and accounts.
- further control carried out after the transaction is made and consisting in verifying the validity and correctness of a transaction, including journal for registration of transactions and operations, compliance of the documents with the established forms and requirements for their execution, compliance of the duties performed by the employees with their official instructions, identified reasons for violations and shortcomings and determining measures to eliminate them, checking the completeness and reliability of financial, statistical and other reporting data generated by the Bank.

Availability of a risk management system and its key characteristics

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 invested funds make profits;
- ensuring the effective operation of the risk management system increasing the reliability for all stakeholders: 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 test of the level of significant risks;
- creating mechanisms for managing the structure and volume of risks adopted by the Bank, including the establishment of a system of limits to restrict (control) the risks faced by the Bank;
- monitoring and controlling the scope of risk accepted, implementing measures to reduce the level of risk accepted by the Bank to maintain the same within the established external and internal limits;
- complying with mandatory rules and restrictions imposed by the NBU;
- ensuring efficient allocation of resources to optimize the risk and profitability of the Bank;
- assessing the adequacy of available financial resources to cover significant risks;
- capital planning based on results of comprehensive assessment of significant risks, testing of the Bank's resistance to internal and external risk factors, business development strategy benchmarks, and requirements of the NBU to the capital adequacy;
- 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 taking into account the best global practices.

Taking into account the specifics of the risks:

- credit risk;
- liquidity risk;
- bank book interest rate risk;
- market risk;
- operation risk;
- compliance risk,

The Bank believes they are significant on a permanent basis.

For effective risk management and taking into account the need to minimize the conflict of interests between risk acceptance, risk level limitation and control and the audit of the risk management system, the Bank's organizational 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 protection":

- At the level of the Bank's structural units carrying out operations and directly assuming risks (front offices), and structural units that register operations (back offices), i.e., first level control or linear control;
- At the level of the Risk Management Unit, i.e., the second level control;
- At the level of verification and evaluation of the risk management system effectiveness by the Internal Audit Service, i.e., third level control.

The entities involved in the bank's risk management system are:

- Bank's Supervisory Board;
- Bank's Management Board;
- Credit Committee of the Bank's Management Board;
- Assets and Liabilities Management 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, while 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, while the Compliance Department ensures that the function of compliance control is in place.

The Bank's Supervisory Board shall, in line with its functions:

- 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 organizational structure, information system on 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 (CCO);
- determine the nature, format and extent 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 informs the National Bank of conflicts of interests arising from the Bank.
- fulfill other functions as required by laws of Ukraine, Bank's Charter and the Regulations 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 informing of relevant structural subdivisions and Bank's employees of information relating to the changes made to the risk management strategy and policy, other internal risk 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 in the Supervisory Board of the Bank.
- 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 condition of the Bank or such potential deterioration, the level of risks arising in the course of the Bank.
- fulfill other functions as required by laws of Ukraine, Bank's Charter and the Regulations on the Bank's Management Board.

In order to control and reduce the level of significant risks, the Bank may make decision on hedging risks, including by their insurance. In particular, in accordance with the Credit Policy and to the extent the credit risk reduces, the Bank accepts collateral for credit operations in accordance with the principle of preservation that provide for the existence of a contract for security insurance against loss / damage, under which the Bank is 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 transaction. All transactions shall be carried out by observing internal normative and/or organizational and administrative documents. New transactions exposed to significant risks, in terms when there are no internal normative, organizational and administrative documents or relevant decisions of collegiate bodies regulating the procedure for their implementation, shall not 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 of 01/01/2019, the Bank's levels of tolerance existed in relation to the following risks:

- Credit
- Liquidity
- Interest rate
- Market
- Foreign exchange
- Operation

The Risk Management Department reports to the Supervisory Board on 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 2018.

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 2018, 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) of the Bank's shares is a citizen of Ukraine Oleksandr Yosypovych Sosis, who as at 31/12/2018 owns a block of shares comprising 89.289006% of the authorized capital of the Bank. The person did not give his consent to disclosure of his data. The owner meets requirements set out in the laws. There were no other owners of significant shareholding in the Bank in 2018. There were no changes in the owners of significant shareholding in the Bank in 2018.

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 2018, the total number of shares placed by the Bank is sixteen million (16,000,000) ordinary registered shares. As at 31 December 2018, the total number of voting shares is fifteen million eight hundred sixty-three thousand nine hundred thirteen (15,863,913) ordinary registered shares. The owner of 10 shares selected a depository institution, which, as of 31 December 2018, terminated depository operations of a the depository institution, its shares are in safe custody of the authorized depository of the National Depository of Ukraine JSC; the owners of the remaining shares did not conclude with a depository institution any agreement for servicing the securities account on their own behalf nor transferred their securities rights to their securities account; therefore, such owners' securities are not taken into account upon determining the quorum and voting at the issuer's bodies in accordance with the Law of Ukraine on the Depository System of Ukraine.

The information about any restrictions on the rights of participation and voting of shareholders (participants) at the general meeting of the issuer, which took place on 17 April 2018, the register was as of 11 April 2018:

Total number of shares	The number of shares with restrictions	The basis for the restriction	Date of restriction
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16 000 000	152 557	The Law of Ukraine on the Depository System of Ukraine	11/10/2013
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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

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

The Bank's Board is elected by the General Meeting from among of 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 he or she 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 and subject to written notice sent to the Board 14 calendar days in advance.

- In case of impossibility of performance of duties of the member of Board due to health condition.

- In the case of entry into force of the judgment or decision of the court, under which he/she are sentenced to punishment, which excludes the possibility of fulfillment of duties of the member of the Board.

- if he or she dies or is recognized incapable, restrictedly capable, 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 to him.

- 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 Supervisory Board. The decision on the appointment of 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 decisive 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, his or deputies and Members of the Bank's Management Board. Qualification requirements for business reputation and professional suitability of the Chairperson, his or 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, his or deputies and members of the Bank's Management Board shall be terminated by decision of the Bank's Board.

During 2018, the amount of remuneration paid to officials amounts to UAH 412,042.39 and the compensation paid to the former members of the Management Board in connection with their termination is UAH 360,250.00.

The total amount of compensation for officials who retired during the reporting period was UAH 360,250.00.

6.10. Powers and authorities of the officers

The chairperson and members of the Supervisory Board shall, for implementing the competences set out in clause 13.7 of the Bank's Charter in general and acting as a collegial body, have the following powers:

Members of the Supervisory Board:

receive complete, accurate, and timely information relating to the Bank as necessary 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 organizes operations of the Supervisory Board, convenes and presides at meetings of the Supervisory Board, organizes that minutes are kept at meeting of the Supervisory Board, and has the same powers as the Supervisory Board members.

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

The Chairperson of the Management Board:

Without a power of attorney, represent the Bank in relations with any state bodies, enterprises, institutions, organizations of all forms of ownership and public organizations, 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 according to the 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 labor 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 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 in whole or in part 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 on 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 regarding 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 authorized 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.

Give written comments on resolutions made by the Management Board; Initiate the convening of an extraordinary meeting of the Supervisory Board.

Initiate the convening of an extraordinary General Shareholders Meeting in cases stipulated by the applicable laws of Ukraine.

Demand from the employees of the Bank's subordinated units, according to the organizational structure of the Bank, timely and qualitative fulfillment 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

The purpose of the Bank's activities

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

The purpose of the Bank's activities shall be meeting public needs in banking and other financial services (excluding insurance services), other banking activities, as defined by the applicable laws of Ukraine; raising, accumulation, provision of movement and redistribution of money supply, as well as the receipt of profits on the results of implementation of activities not prohibited by the applicable

laws of Ukraine.

Organizational 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 organizational 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 in respect 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 17/04/2018, 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 31/12/2018, the Bank's organizational structure comprised the head office in Kyiv and 13 branches:

- Head Office at 50 Sichovykh Striltsiv Street, Kyiv, 04053;
- Central Office at 50 Sichovykh Striltsiv Street, Kyiv, 04053;
- Kyiv Regional Directorate at 8 Illinska Street, Kyiv;
- Dnipro Branch at 3 Cheluiskina Street, building 2, Dnipro, Dnipropetrovsk Region;
- Zaporizhia Branch at 17 Metalurhiv Avenue, Zaporizhia, Zaporizhia Region;
- Lviv Branch at 15 V. Stefanyka Street, apt 2, Lviv, Lviv Region;
- Lviv Branch No. 1 at 66 I. Franka Street, apt. 2A, Lviv, Lviv Region;
- Odesa Branch at 5/1 Bazarna Street, Odesa, Odesa Region;
- Kharkiv Branch at 65 Chernyshevskaya Street, Kharkiv, Kharkiv Region;
- Chernivtsi Branch, at 8 Tsentralna Square, Chernivtsi, Chernivtsi Region;
- Kyiv Branch No. 1 at 43/4 Metrolohichna Street, premises 44, Kyiv;
- Mykolaiv Branch, 14 Soborna Street, Mykolaiv, Mykolaiv Region;
- Chornomorsk Branch at 5R Myru Avenue, Chornomorsk;
- Kremenchuk Branch at 16A Haharina Street, Kremenchuk.

In 2018, the Bank set up four new separate units of the Bank. The further expansion of the regional network is expected to continue in 2019.

The changes in the organizational structure of JSC BANK ALLIANCE , which took place in accordance with the decisions of the Supervisory Board of JSC BANK ALLIANCE in 2018, were aimed at expanding and improving the Bank's quality, increasing the responsibility of all employees for achieving high end results. The basic principles of building an organizational structure of the Bank are: the hierarchy of the organizational structure; standardization 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 of the staff (persons), average number of non-staffed employees and persons working part-time (persons), number of employees working under conditions of part-time (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 program 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 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 of the accounting staff (persons) at the Bank in 2018 was 189. Freelancers -11 people. One person was a dual job holder. A number of part time (day or week) employees is one person.

The payroll fund of JSC BANK ALLIANCE(for full-time employees) for 2018 was UAH 51,310,333.18 and grew significantly as compared with the payroll fund for 2017, which was UAH 28,285,662.81. The increase of the payroll fund was UAH 23,024,670.37. Moreover, the number of employees increased from 156 to 240 persons.

Issues relating to the organization of labor and conditions of employment with the Bank are governed in accordance with the applicable laws of Ukraine on labor, the Bank's personnel management policy, Collective Bargaining Agreement, Internal Labor Regulation Rules, Regulation on Training of Employees, Regulation on the Procedure for Labor Standardizing 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: women, 139 (58%) / men, 101 (42%).

Age of employees of the Bank:

CATEGORY:	Quantity	SHARE
under the age pf 30	23	10%

31 to 40 years old	123	51%
41 to 50 years old	68	28%
more than 51 years	26	11%
TOTAL:	240	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 organization. The expenses of the Bank for training employees in 2018 amounted to UAH 378,904.00.

Corporate events are held on a regular basis to allow creating and developing a favorable 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 Associations, Ukrainian Credit Union Bank, UkrSWIFT and Ukrainian Stock Traders and also a member of the Individuals' Deposit Guarantee Fund. In 2018, the Bank joined the Ukrainian National Committee of the International Chamber of Commerce and the European Business Association (EBA).

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 authorized 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 organizations 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 nonprofit, nonprofit organization. In accordance with 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 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 EBA Kyiv Office is located at 1A Andriivskiy 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, custodian depository activities, securities management activities. The Association acts as a self-regulatory organization 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 (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 programs 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, organizational 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 citizens' confidence in the banking system of Ukraine; - coordination of actions of the Association members for the implementation of joint projects.

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 users 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 nonprofit 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. 66 Ukrainian financial institutions are now the Association members. 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 centralized 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 Klovskyi Descent, 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.

The Individuals' Deposit Guarantee Fund is located 17 Sichovykh Strilstiv Street, Kyiv. The Bank is a participant of the Fund, which operates in accordance with Law of Ukraine No. 2740-III on the Individuals' Deposit Guarantee Fund, dated 2 September 1999 (Certificate of Fund Participant No. 023 dated 18 October 2012). The Fund is a state-owned, specialized institution that performs functions of public administration in the field of guaranteeing deposits of individuals. The main purpose of the Fund's activities in Ukraine is to protect the rights and interests of individuals - depositors of banks and branches of foreign banks. The Individuals' Deposit Guarantee Fund provides for the return of depositors in the amount of UAH 200,000 for one person.

the joint activities that the issuer conducts with other organizations, enterprises, institutions, while 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 organizations, enterprises and institutions.

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

During the year 2018, JSC BANK ALLIANCE did not receive any proposals for reorganization by third parties.

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

The Bank's accounting policies are based on the accounting rules in line 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 recognized 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 recognized by the Bank on a settlement date. Assets and liabilities of the Bank are measured and recognized in accounting records with due diligence in order to avoid the possibility of transfer of the existing financial risks to the following reporting periods. An asset is recognized 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

In accordance with IFRS 9, financial assets are classified in one of three categories:

- those measured at amortized cost;
- fair value with recognition of revaluation in other comprehensive income;
- fair value with recognition of revaluation of profits or losses.

When financial assets are recognized initially, they are measured at fair value, less (in the case of investments not at fair value through profit or loss) directly attributable transaction costs.

If, at the date of initial recognition, the fair value of a financial asset differs from the transaction price (excluding transaction costs), the Bank recognizes the following difference:

- in transactions with shareholders: in equity;
- for other operations: in profits or losses.

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

The classification and measurement of financial assets reflects the business model of management of financial assets and the characteristics of their cash flows.

A financial asset is to be measured at amortized cost if the following conditions are met simultaneously:

- an asset is held within the business model, whose purpose is to hold assets for contractual cash flows;
- the contractual terms of a financial asset give rise to cash-flow receipts that are only repayment of the principal amount and payment of interest on the outstanding part of the principal amount.

A financial asset is classified for further measurement at fair value with the recognition of revaluation in other comprehensive income, if it is held within the business model with the purpose

of contractual cash flows and the sale of financial assets; and the contractual terms of a financial asset include cash-settled cash payments that are exclusively due to principal and interest on an outstanding portion, the Bank may take an undisclosed 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 do not qualify for classification at amortized cost or fair value with the recognition of revaluation in other comprehensive income, are classified for further measurement at fair value with recognition of changes in profits or losses. 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 fair value through profit or loss, if such a choice eliminates or significantly reduces the inconsistency in the estimates or disclosures (sometimes referred to as " inconsistency of accounting") 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

The Bank, after initial recognition, assesses and records in accounting all financial liabilities at amortized cost, except:

- financial liabilities at fair value through profit or loss;
- financial liabilities that arise if the transfer of a financial asset does not comply with the terms of a withdrawal or the continued participation principle applies;
- contracts of financial guarantee, aval, guarantee;
- loan commitments at a rate below market;
- conditional indemnity recognized by the buyer when combining business to which the International Financial Reporting Standard 3 "Business Combinations" applies. Such conditional compensation is subsequently measured at fair value through profit or loss.

Impairment of Financial Assets.

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

The Bank assesses, on a projected basis, the expected credit losses associated with active debt instruments measured at amortized cost and fair value with the recognition of revaluation gains and losses, as well as debt arising from lending, lease receivables and financial guarantees. The Bank generates a provision for such losses for each reporting date.

The estimation of expected loan losses reflects an objective and probabilistic amount, which is determined by estimating a number of probable outcomes, time value of money and reasonable and acceptable information that is available without excessive cost or effort at the reporting date on past events, current conditions and future forecasts. economic conditions.

An estimate of provisions for expected loan losses for financial assets measured at amortized cost and at fair value through profit or loss is an area that requires the use of complex models and significant assumptions about future economic conditions and debt servicing status.

The essential judgments required in applying the accounting requirements to estimate expected credit losses are:

- determination of criteria for significant increase of credit risk;
- selection of appropriate models and assumptions for estimating expected loan losses;
- Determination of the quantity and relative weight of the forecast scenarios for each type of product / market and the corresponding expected credit losses;
- definition of groups of similar financial assets for estimation of expected credit losses.

For the Bank, credit risk is determined by the risk of financial loss if any of the counterparties, clients or market partners fail to fulfill their contractual obligations. Credit risk arises mainly from interbank, commercial and consumer loans, as well as loans granted in connection with such lending activities, but may also arise as a result of providing security in the form of financial guarantees, letters of credit and acceptances.

Credit risk assessment for risk management purposes is complex and requires the use of models, as the debt varies with the changing market conditions, expected cash flows and over time.

The assessment of credit risk in relation to the portfolio of assets implies further estimates, both as to the likelihood of a default, appropriate loss ratios and correlations of default between counterparties. The Bank calculates credit risk using default probability (PD), default risk (EAD) and default loss (LGD).

IFRS 9 provides for a three-step model of impairment that is based on changes in the credit quality of the instrument since initial recognition. According to this model, a financial instrument that is not credit-impaired on 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 moves to Stage 3.

For financial instruments at Stage 1, expected credit losses are estimated at the amount of expected loss for the entire duration of the financial instrument that may result from the occurrence of default events over the next 12 months. Expected credit losses for instruments at Stages 2 or 3 are estimated on the basis of credit losses expected from the events of default for the entire duration of the instrument.

In accordance with IFRS 9, when forecasting expected loan losses, it is necessary to take into account forward-looking information. Purchased or created loan-loss financial assets are financial assets that are impaired at the date of initial recognition. Expected credit losses for such instruments are always measured based on the entire maturity.

Impairment of fixed assets and intangible assets.

Depreciation (amortization) represents a systematic allocation of cost of property, plant and equipment (intangible assets) depreciated (amortized) over their useful lives.

Property and equipment (intangible assets) are depreciated (amortized) within the period of their useful lives set by the Bank during their initial recognition and reviewed at each financial year-end during the annual inventory, and adjusted as necessary.

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

Useful lives of property and equipment are presented as follows:

Buildings, constructions	50 years
Vehicles	7 years
Furniture	5 years
Computer equipment	4 years
Machinery and equipment (except computer equipment)	4 years
Tools, fixtures and fittings	5 years
Other fixed assets	12 years
Leased premise's improvement	end of lease term

Depreciation of low-value non-current assets is accrued in the first month of an asset use in the amount of 100% of its value.

The useful lives of the Bank's intangible assets are within the range from 5 to 25 years.

The main types of services, due to which the Bank received 10 or more percent of income for the reporting year

JSC BANK ALLIANCE is a universal bank providing a full range of services to corporate clients and individuals, has an impeccable business reputation; its mission is to create favorable conditions for the Ukrainian economy development and sustainable growth of the gross domestic product.

As of 1 January 2019, the Bank has a regional network comprising 13 branches and presented in the biggest cities of Ukraine.

During 2018, the Bank demonstrated strong growth rates for all key performance indicators, in particular, as of 1 January 2019:

- the currency of the balance sheet amounted to 2 114 mln. (+ 172% on results of the year)
- Credit portfolio of clients - UAH 1 399 mln.
- funds of clients - UAH 1,665 mln.
- capital - 401 million hryvnas (+ 38%)

This, in turn, resulted in the growth of the returns of individual business areas and the profitability of the Bank as a whole - thus, according to the results of 2018, the Bank's total profit amounted to 111 200 UAH million, which is by UAH 46 909 million, or by 73%, more than in the previous financial year. At the same time, the profitability of assets amounted to 8%, while the return on capital was 34%.

The total revenue was UAH 471,870 million, including:

INCOME ITEM	SCOPE, UAH thousand	SHARE, %
Interest incomes	237 319	50,3%

Commission income	115 527	24,5%
Trading result	103 904	22,0%
Income from other operations	15 120	3,2%

TOTAL:	471 870	100,0%
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Thus, about half of the Bank's income is the interest income, the main component of which is the interest income from lending to corporate customers. **The corporate lending** is a priority area of 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:

- agro-industrial complex;
- foreign economic activities;
- transport & Infrastructure
- - processing industry;
- wholesale trade, including energy carriers, mineral fertilizers, etc.;
- medical services;

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 2018, the portfolio of documentary business of the Bank continued to grow. In the guarantee service segment, the Bank issues bids, warranties for performance of contracts, payment guarantees, advance payment guarantees, IATA payment guarantees. The share of income in the direction of the documentary business is also significant and is 12.3%.

Along with the directions of active operations, the Bank actively expands the list of payment and cash services and other services, both for corporate and individual clients. In developing and implementing new products, the Bank takes into account the needs and activities of individual clients. In general, the Bank's activities are not seasonal, but it depends to some extent on the seasonality of its clients. The aggregate share of commission income from customer service (excluding documentary operations) as of 2018 was 12.2%.

JSC BANK ALLIANCE is one of the leaders of the interbank market of Ukraine. The Bank carries out operations on the purchase / sale of foreign currency on the IBRD and conversion operations in international markets with foreign currency. As a result, the Bank received UAH 103.9 million of the **trading income**.

JSC BANK ALLIANCE in the interbank market is actively engaged in resource operations, namely, placement / attraction of resources with counterparty banks, SWAP operations and operations to purchase deposit certificates from the National Bank of Ukraine.

In 2018, the treasury business of the Bank was developing in the Collection area. It purchased

new cars, significantly increased the number of customers and the market share of this city in Kyiv. The collection services are provided both to legal entities and individuals. Professionalism and efficiency are the main values that allow you to quickly develop this line of business.

New services were introduced, such as FOREX for individuals and real-time electronic trading for legal entities. These products are innovative among the banking sector in Ukraine.

During the previous year, JSC BANK ALLIANCE was an active participant in trading securities in the Ukrainian stock market and, according to the results of 2018, the Bank was ranked 14th among the banks that traded T-bills on the PFTS Stock Exchange.

The Bank provides brokerage services to customers, it also carries out operations with securities in its own interests at its own expense.

Given below is a table of deviations for each of the key indicators of the Bank's performance in comparison with the Strategy as of 01/01/2019:

KEY INDICATOR			(in UAH thousands)
	TARGET	FACT	Δ
Credit portfolio of customers	1 716 082	1 465 877	-14%
Client funds portfolio	1 625 307	1 665 238	+2%
Net Assets	2 157 609	2 114 167	-2%
Operating Profit	320 805	350 648	+9%
Non-operational expenses	-147 112	-136 634	+7%
Total profit	51 624	111 200	+115%

The Bank overcame the plan for a number of key performance indicators, including the total profit for the results of the year is more than twice the planned value. The results of the 2018 results provide significant confidence in achieving the strategic objectives set by the Bank for 2018 to 2020.

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 2018.

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

Basic acquisitions of assets during the last five years:

For 2013:

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

For 2014:

- Personal computers, UAH 472,027.50

For 2015:

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

For 2016:

- Oracle database software product license, 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:

- software products and modules Fudo, 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.

Major alienations of assets during the last five years:

- 2014, sale of two motor for UAH 102,000.00.

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

Transactions with owners of significant shareholding, members of the supervisory board or members of the executive body, affiliates, including, in particular, all transactions concluded during the accounting year between the issuer or its subsidiaries / affiliated enterprises, separate

units, on the one hand, and owners of significant shareholding, 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, its content, the amount, the basis of the conclusion and the pricing method used by the issuer to determine the amount of the transaction and, if necessary, other information

General information relating to these transactions is provided by the Bank in Note 33 to the annual financial statements of JSC BANK ALLIANCE- Related Parties Transactions. Detailed information relating to the dates, parties of the transaction, content, amounts, grounds for the 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, the consent for the disclosure of which did not provide participants of the deals.

The Bank's principal assets, including leased assets and any significant Bank's transactions with them; production capacity and degree of equipment use; way of holding assets, location of fixed assets. 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 fixed assets, the nature and causes of such plans, the amount of expenditures, including those already made, a description of the method of financing, the forecast dates of beginning and end activity and expected growth of production capacity after its completion

Name of fixed assets (at residual value)	Owned fixed assets (ths. UAH)		Rented fixed assets (ths. UAH)		Fixed assets, total (ths. UAH)	
	at the beginning of the period	Period end	at the beginning of the period	Period end	at the beginning of the period	Period end
1. Production purpose:	10 415	16 395	2 448	4 725	12 863	21 120
buildings and structures	0	0	0	0	0	0
Machinery and equipment	5 559	8 590	0		5 559	8 590
vehicles	398	330	2 448	4 725	2 846	5 055
land plots;	0	0	0	0	0	0
other	4 458	7 475	0	0	4 458	7 475

2. Nonproductive 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						
Total	10 415	16 395	2 448	4 725	12 863	21 120

The period of exploitation of fixed assets by main groups is:

- machinery and equipment, from 3 to 4 years;
- vehicles, 7 years;
- other fixed assets, from 1 to 12 years;
- (improvement of the rented premises), until the end of the lease term.

As of 31 December 2018, the initial value of fixed assets amounted to 32 716 thousand UAH, the amount of estimated depreciation – UAH 11,526 thousand. The initial value of fully depreciated property, plant and equipment amounted to UAH 795 thousand.

The original cost of fully amortized fixed assets amounted to 795 thousand UAH. Fixed assets that have restrictions on ownership, use and disposal in the reporting period - there are leasing objects on the balance sheet, namely Volkswagen Transporter TDI 2.0 140PS 2018 vehicles (2 pieces), according to financial leasing agreements No. FL052 -07/18, No. FL053-07 / 18 dated 07/26/2018 made with Personal Ukrainian Leasing LLC. After the contract expires and the last lease payment is made, the title to the leased property shall pass to the lessee.

The Bank does not have any property, plant and equipment and intangible assets pledged as collateral. During the reporting period property, plant equipment and intangible assets were not revalued by the Bank. There are no fixed assets that are temporarily unused (preservation, reconstruction, etc.). There are no fixed assets for sale.

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;
3. 17 Metalurhiv Avenue, Zaporizhia;
4. 8 Illinska Street, Kyiv;
5. 3 Cheluiskina Street, premises 2, Dnipro, Dnipropetrovsk Region;

6. 15 V Stefanyka Street, apt. 2, Lviv, Lviv Region;
7. 66 I. Franka Street, apt. 2A, Lviv, Lviv Region;
8. 5/1 Bazarna Street, Odesa, Odesa Region;
9. 65 Chernyshevskya Street, Kharkiv, Kharkiv Region;
10. 8 Tsentralna Square, Chernivtsi, Chernivtsi Region;
11. 44 Metrolohichna Street, premises 43/4, Kyiv;
12. 14 Soborna Street, Mykolaiv, Mykolaiv Region;
13. 5R Myru Avenue, Chornomorsk, Odesa Region;
14. 16-A Haharina Street, Kremenchuk, Poltava Region.

Any capital construction is not 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)

Among the key risks that had an impact on the activities, the Bank distinguishes:

- Military conflict in eastern Ukraine, threatening macroeconomic efficiency and stability
- Presidential and parliamentary elections in 2019, accompanied by social reforms and initiatives that have a negative impact on inflation
- Negative dynamics in the growth of external debt, which increases the risk of default and increase the risk of the currency crisis
- The development of the non-banking and FINTEK sector and, as a result, increased competition in the financial market and an increase in the cost of customer involvement in servicing the Bank
- The stagnation of real estate prices, high asset wear and low liquidity reduce the value of collateral and, accordingly, increase the level of credit risk

In addition, the National Bank of Ukraine implemented a number of legislative and economic reforms in the reporting year that had and will have a significant impact on the Bank's operations. In particular, the regulatory requirements for the banks' activities (the need to reorganize the Bank's risk management and corporate governance system / the introduction by the regulator of a new model of bank monitoring by the SREP system / gradual increase of the minimum capital / introduction of the new LCR / liquidity standard) has been strengthened, as a result of which, on the one hand, the Bank's costs of operations are significantly increased and, on the other hand, the Bank loses its income, since it is forced to hold a larger amount of liquid assets (increasing the margin of safety), at eventually reducing the profitability of capital and limits the 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 statutory and, accordingly, regulatory capital of the Bank are determined by the profit from the Bank's current operations for 2017 to 2019.

The capitalization plan is based on a number of assumptions and assumes that the Bank will fulfill the following conditions:

- In order to maintain the pace of intensive development, the Bank will actively involve additional funds, primarily from individuals and legal entities;
- The bank will continue to adhere to the policy of strict control of regular non-operating costs. This will allow to optimize 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 impact 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 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.

The consequence of the abovementioned actions will be an increase in regulatory capital, which will continue to support the Bank's solvency at an adequate level, and thereby comply with the capital requirements of H1 (taking into account the necessity to comply with legislative and regulatory acts of the National Bank of Ukraine, commercial banks are obliged to bring the size of the authorized capital to a size not less than UAH 300 million by July 11, 2020) and H2, ensuring the level of growth of assets in accordance with the Bank's strategic objectives.

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

As of 01/01/2019, the total amount of UAH 2,301,411,206.22 is standing the credit of such Bank's accounts as 9210 Currency and Precious Metals for Delivery under Spot Transactions, 9218 Obligation for Delivery of Currency under Currency Swap Contracts, 9238 Commitment for Delivery of Currency under Currency Swap Contracts, which are measured at fair value through profit or loss and are settled on a net basis (without delivery of the underlying asset) under forward contracts. The profit from these transactions amounted to UAH 4,097,296.40.

As of 1 January 2019, UAH 49,860,000.00 was taken into account in the issuer's account 9129 "Other Lending Commitments Granted to Customers" under contracts of sale and purchase of REPO securities. The expected profits under these contracts is UAH 3,500,000.00.

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 monitors its implementation on a regular basis. Thus, the Supervisory Board decided on 22 November 2018 (Minutes No. 113) to approve the updated version of the Strategy of JSC BANK ALLIANCE for 2018 to 2020.

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.

Among the key goals the management is focused on are:

- Creation of a roadmap for development in the coming years
- Account of existing opportunities in the banking market
- Concentration of efforts and resources in the priority directions
- Business development:
 - increasing the volume of transactions and the number of customers
 - capitalization of business and growth of its value
 - growth of return on capital (ROE)
 - creating a brand recognition
- Ensuring a sustainable business model:
 - capital adequacy
 - Caution in conducting credit operations
 - optimal ratio of interest and commission income
- Holding order with technologies and processes, optimizing the structure
- Increasing the quality of customer service
- Involvement of independent external resources (including from international organizations)
- Improve corporate governance

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

- Corporate Business
- Retail Business
- Treasury operations.

Corporate customer service is the highest priority for the Bank in 2018-2020, corporate business will remain key to the Bank and will form the major part of the loan portfolio and revenues to the Bank. The key segment of the customers, on which the Bank will be guided, is chosen by small and medium business customers. The logic of choosing this segment of the Bank is to limit excessive dependence on large customers and to prevent overloading from a large number of transactions

inherent in micro-customers. A separate segment of customers is the international companies and banks with which the Bank plans to cooperate in a number of projects concerning financing of separate sectors (in particular, agrarian) 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 among the priority lending areas - projects on renewable energy sources, energy efficiency, modernization of buildings and structures, etc.

The strategy for developing retail business in the near future is to increase the profitability of the business through the introduction of an optimal product line and achieving a synergistic effect in the interaction with corporate business. Increasing the volume of retail services, improving the technology and quality of their provision will be a source of attraction of resources and increase of profitability of the Bank.

Interbank operations will be carried out mainly for the purpose of obtaining the trading income of the Bank from operations at the interbank exchange market of Ukraine and the international foreign exchange market, as well as management of the instant and current liquidity of the Bank, taking into account risks and value to ensure that the Bank is solvent and timely fulfills its obligations to the customers and counterparties of the Bank. 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 created in the organizational structure of the Bank.

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 provided IT services for internal 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 the advanced technologies into the Bank's information systems;
- ✓ promoting the best use of the Bank's resources.

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

During 2018, the Bank twice amended the Strategy. An analysis of the macroeconomic environment in which the Bank operates is carried out. A SWOT analysis was conducted to identify the weakness and strength, internal capabilities and external threats. Segmentation of the Bank's customers and, respectively, target segments have been identified. Plans for cooperation with international financial organizations have been added to key goals, in particular, in terms of SME financing and agro-sector of Ukraine. Implemented plans to develop their own collection service. There are plans to expand the network of branches. Requirements for the development of the risk management and corporate governance system have been intensified taking into account the requirements set out in NBU Resolutions No. 64 and No. 814.

The main criteria for measuring success are achieving the planned financial targets, the implementing key projects, observing 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 tasks for the near future is to prepare KPI (Key Performance Indicators) system based on quantitative and qualitative indicators of the Bank's activities and based on strategic development goals. 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 2018 to 2020.

Social Responsibility

JSC BANK ALLIANCE is a responsible corporate player, therefore, it invests in sponsorship and charity programs that contribute to solving social problems. From 2016 the Bank implements its own strategy of social and charitable programs. We provide donations for individual social projects and actions, as well as financial support for charitable organizations that support local communities and people in need of assistance.

By providing sponsorship and charity support, JSC BANK ALLIANCE :

- supports initiatives related to education, culture, also conducts children's sports competitions, supports sports teams
- makes targeted charitable donations.

The priority among social activities definitely is to help children. The Bank pays attention to both charity and sports and culture development programs. JSC BANK ALLIANCE gives each 19th day December for the last two years a part of its annual income to charitable needs. In particular, at the end of 2017, the Bank visited a specialized regional orphan asylum in Sumy, where they arrange a child holiday for orphans and prepared plenty of presents dedicated to the St. Mykolai Day. The Bank also gave charitable aid to this facility by donating medical equipment, household appliances, etc.

In the autumn 2018, the Bank sponsored a children's aikido and free struggle competitions among juniors of Kyiv Region, and in December, with our support, children's freestyle competitions took place in Ukrainka.

On 19 December 2018, the Bank donated washing and drying machines, rehabilitation room furniture, fruit and sweets to Zinkivskyi Orphanage named after O.V. Siniahovskyi, where 129 children suffering from defects of varying severity degrees, cerebral palsy and mental retardation live.

The most valuable results of social investments in future generations are for the Bank healthy, enlightened 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 has carried out marketing research to make the Bank's management decisions

regarding the strategy of activity in a certain direction, entering new markets / market niches, promoting new products / services, setting tariff policies, 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 initiator marketing researches.

In the reporting year, the Bank used marketing research services once only, while the study covered the existing proposals for bonus VIP-cards for individuals available on the banking market of Ukraine. The cost of the study was UAH 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 legalization of criminal incomes / terrorist financing. Auditors have special powers to perform their functional duties, while 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 the audit in 2018, the Service performed 11 audits in the following areas of the Bank's activities: operations of collegiate bodies of the Bank, funds raising, operations with payment cards, transfers of individuals, functioning of the information security management system, and compliance of the emergency action plan, cash collection and transportation of currency values, compliance by the bank with the requirements of the laws for counteracting the legalization of proceeds from crime. In addition, activities of 6 branches of the bank were audited. They are Dnipro Branch, Kyiv Regional Directorate, Lviv Branch, Lviv Branch No. Chernivtsi Branch and Kharkiv Branch. During the audits, the effectiveness and adequacy of internal control systems were assessed, the compliance of the structural subdivisions of the Bank with the requirements of the legislation was checked, the quality of performance of duties of officials was assessed, the level of risks inherent in the Bank's activity was assessed. 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 minimizing risks are being introduced in the Bank's works in accordance with approved plans. The Internal Audit Service monitors the implementation of the recommendations.

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 bodies that carry out the state regulation of financial services markets regarding the auditor's report based on the results of the audit of the annual financial statements of JSC BANK ALLIANCE for the year ended 31/12/2018 were not provided.

Information relating to the external auditor of the Bank

In accordance with the decision of the Supervisory Board dated 19/09/2018 (minutes No. 94), in 2018 BAKER TILLY UKRAINE LIMITED LIABILITY COMPANY, whose identification (USREOU) number is 2018 and having its registered office at 3 Hrekova Street, apt. 9, Kyiv, Ukraine, was appointed to act as an external auditor of JSC BANK ALLIANCE .

Information relating to activities of the external auditor

- **Total experience of auditing:** BAKER TILLY UKRAINE LIMITED LIABILITY COMPANY is an independent Ukrainian company that has been operating audit, business consultancy, independent valuation and accountancy; one of the leaders on national market, an independent member of Baker Tilly International. The company is one of the largest auditing companies in Ukraine. The total experience since the date of recordation in the register of audit firms and auditors is more than 18 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 LIMITED LIABILITY COMPANY has been providing JSC BANK ALLIANCE with services related to the audit of annual financial statements for three years: 2016, 2017, and 2018.
- **list of other audit services provided to the Bank during the year:** during 2018, BAKER TILLY UKRAINE LIMITED LIABILITY COMPANY Service provided JSC BANK ALLIANCE with the following audit services: review of the Bank's interim condensed financial statements for 3 months that ended 31 March 2018; Review of the Bank's interim financial statements for six months that ended 30 June 2018.
- **Conflicts of interest and/or combinations of internal auditor's functions:** there were no conflicts of interest and/or combinations of performance of internal auditor functions during 2018.
- **Rotation of auditors of the Bank during the last five years:** The annual financial statements for 2014 was audited by BLISKOR AUDIT FIRM LIMITED LIABILITY COMPANY (identification (USREOU) code 30116289). The annual financial statements for 2015 was audited by AUDIT-SERVIS INK LIMITED LIABILITY COMPANY (identification (USREOU) code 13659226). The annual statement for 2016, 2017 and 2018 was audited by BAKER TILLY UKRAINE LIMITED LIABILITY COMPANY (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 Limited Liability Company by the Auditing Chamber of Ukraine in 2018. There are no facts that JSC BANK ALLIANCE submitted untrue accounts, as confirmed by the auditor's report and found by the bodies that carry out the state regulation of financial services markets.

Bank's protection of rights of financial services consumers

- **availability of a mechanism for handling complaints:** Block diagram of "Consideration and Verification of Appeals (Proposals, Applications, Complaints) of Corporate and Retail Customers of JSC BANK ALLIANCE ” process (approved by the decision of the Bank's Management Board, dated 17 January 2017, minutes No. 4)
- **surname, name and patronymic of the Bank's employee authorized to consider complaints:** Heads of the Bank's structural units are responsible for consideration of appeals files by citizens, organization of personal reception, obligatory and timely notification of applicants on the results of consideration of their appeals.
- **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):** Two complaints were filed against the servicing at the Bank's Central Office in 2018 complaints, of which two were satisfied.
- **Legal actions 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 2018 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 favorable terms and conditions than the transactions made with other parties.

Balances of related party transactions as of 31 December 2018

<i>UAH, thousand</i>	Major participants (shareholders) of the Bank	Leading managerial staff	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 impairment of loans as of 31 December	22	397	11 666

Income and expenses on related party transactions for 2018 (Year To Date)

<i>UAH, thousand</i>	Major participants (shareholders) of the Bank	Leading managerial staff	Other related parties
Interest incomes	11	210	3 784
Interest expenses	1 488	36	294
Results from transactions with securities in the bank's trade portfolio	0	0	0
Commission income	34	111	580
Administrative and other operational expenses	-	15 440	1 054

Total amount of loans issued to related parties and reimbursed by the related parties within 2018 (Year To Date)

<i>UAH, thousand</i>	Major participants (shareholders) of the Bank	Leading managerial staff	Other related parties
Amount of loans issued to related parties within the period	1 336	2 552	37 790
Amount of loans reimbursed by related parties within the period	1 186	3 611	4 846

Payments to leading management personnel (ths. UAH)

Line	Item	31/12/2018	
		heat	accrued liabilities
1	2	3	4
1	Current payments to the employees	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 2018, 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.

Approved for release and signed by

21 February 2019



Chairperson of the Board

Y.M. Frolova

II. Independent Auditor's Report

28 Fizkultury Street
Kyiv, 03150
Ukraine

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INDEPENDENT AUDITOR'S REPORT

For the attention of the Shareholders and Supervisory Board of Joint Stock Company BANK ALLIANCE National Bank of Ukraine

National Securities and the Stock Market Commission

Report on the Audit of the Financial Statements

Opinion

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

- statement of financial position (balance sheet) as at 31 December 2018;
- statement of profit and loss and other comprehensive income (report on financial results) for the year that ended on 31 December 2018;
- statement of changes in equity (statement of equity) for the year that ended on 31 December 2018;
- statement of cash flows for the year that ended on 31 December 2018 (by direct method);
- notes to financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements attached hereto give, in all material respects, a true view of the Bank's financial standing Bank as of 31 December 2018 and its financial results and cash flows for the year then ended, in accordance with the Internationally International Financial Reporting Standards (the "IFRS") and requirements set out in the Law of Ukraine on Accounting and Financial Reporting in Ukraine with respect to the preparation of financial statements.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are applicable in Ukraine and are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities 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 bring to notice Note 2 to the Financial Statements stating that, notwithstanding that the managerial personnel believe that they are taking proper measures to preserve the stability of the Bank's operations in view of the existing, such as complicated political and economic situation coupled with the bureaucratization of a high level, further instability of the conditions in which the business is conducted may give rise to adverse effects on the Bank's performances and financial standing. At the moment, it is impossible to evaluate reliably the nature and extent of the impact on the Bank's operations. Our opinion is not qualified in respect of this matter.

Key audit matters comprising the most significant evaluated risks of material misrepresentation, including evaluated risks of material misrepresentation due to fraud

The key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have concluded that the matters listed below are key audit matters to be reflected in our report.

Key audit matters	How our audit addressed the key audit matters
<p>Provisions for losses from impairment of loans and receivables from customers, funds standing to the credit of correspondent accounts with other banks are UAH 87,000 thousand.</p> <p><i>See Notes 6, 7 and 4.40</i></p>	
<p>We focused on this area as a key audit matter due to the materiality of balances in such items as loans and receivables from customers, banks' credits and debts and subjective nature of judgments used in calculating the impairment.</p> <p>Provisions for impairment losses reflect management's estimate of loan portfolio losses and customer debt as at the reporting date.</p> <p>Expected loan losses under financial instruments have been evaluated in the manner that reflects: an objective and weighted likelihood amount measured by assessing certain range of potential results, time value of money, reasonably necessary and supporting information relating to past events, current conditions and forecasts of future economic conditions, taking due account of all reasonably necessary and supporting information, including forecast information.</p> <p>Any significant growth of the credit risk and impairment being identified and measuring an amount of the expected compensation shall include certain assumptions and analysis of risk factors, including borrower's financial standing, expected future cash flows, market prices that may be observed, fair value of the collateral.</p> <p>Using various models and assumptions may result in different evaluations of the provisions for impairment of loans and receivables from customers.</p>	<p>Our procedures included, among other things:</p> <ul style="list-style-type: none"> - Reviewing the internal control system put in place by the managerial personnel to the extent related to the measurement of provisions for losses from impairment of loans and receivables from customers, either on an individual or collective basis. - Moreover, we have assessed independently whether the management's judgments were appropriate regarding the use of calculation methodologies and input data relating to past events, current conditions and forecast information to calculate indicators for potential default and indemnification and collateral value. - We have tested on a selective basis the assumptions underlying the identified impairment and its quantitative assessment, including the analysis of borrowers' financial standing, forecasts for future cash flows and valuation of collateral. As regards the provisions for impairment of loans, for which no individual indications to the impairment have been identified, we have tested the models used and input data used in these models and their mathematic accuracy. <p>We have found no significant discrepancies in these testing results.</p>

Other Information

The managerial personnel shall be responsible for the other information. The other information comprises the Management's Report (report on management) for 2018, which includes as a separate section a corporate governance report (but does not include the financial statements and our auditor's report thereon) and the Issuer's Annual Information for 2018, which we expect to be provided to us after this date.

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

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

If, based on the works we have performed in relation to the other information received prior to the date of the auditor's report, we conclude that such other information is materially misstated, we shall be obligated to report such misstatement. We have not identified such facts that should be stated in the report.

Once we have reviewed the Issuer's Annual Information for 2018 and if we conclude that it is materially misstated, we would need to report information related thereto to those who have supreme authorities.

Responsibility of the Management and Those who Have Supreme Authorities for the Financial Statements

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

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

Those who are vested with the supreme authorities are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 so that the financial statements give a true and fair view.

We communicate with those who have supreme authorities regarding the planned scope and timing of the audit and significant audit findings together with other issues, including any significant deficiencies in internal control that we identify during our audit.

We also provide those who have supreme authorities 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 who have supreme authorities, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 Requirements of the Other Laws and Regulations

Other information required under article 14 of the Law of Ukraine on the Audit of Financial Statements and Auditing Activities

In compliance with article 14 of the Law of Ukraine on the Audit of Financial Statements and Auditing Activities, we state in our independent auditor's report the following information that is required in addition to the requirements set out in the International Standard on Auditing:

Designation and duration of the audit engagement

We have been engaged to act as auditors under the resolution of the Bank's Supervisory on 19 September 2018 (minutes No. 94) to conduct a mandatory audit of the Bank's financial statements for the year that ended on 31 December 2018. The aggregate duration of our audit engagement related to the mandatory audit of the bank's financial statements on a continuous basis, subject to any prolongations of the mandate that took place and repeated engagements shall be 3 years.

Rendering non-auditing services and independence

We acknowledge that, to the best of our knowledge and belief, we have not provided to the Bank and business entities controlled by it any non-auditing services prohibited by the law and described in paragraph four of article 6 of the Law of Ukraine on the Audit of Financial Statements and Auditing Activities. We, including the key audit partner, have been independent in relation to the Bank upon conducting our audit.

We have provided the Bank and business entities controlled by it with the following services, other than services related to mandatory audit that were not disclosed in the financial statements and Management Report: assessing the Bank's asset quality and adequacy of the collateral available for lending transactions as of 1 January 2018 to the extent relevant to the compliance with the Terms of Reference for resilience assessment of banks and the

banking system of Ukraine as approved by Resolution No. 848 of the Management Board of the National Bank of Ukraine, dated 28 December 2017.

Consistency with the additional report addressed to the committee for auditing matters

We acknowledge that our audit opinion on the financial statements set out in this independent auditor's report is consistent with the additional report addressed to the committee for auditing matters of the Bank's Supervisory Board.

The management report being consistent with the financial statements

Based on our audit findings and considering the knowledge and understanding of the Bank's activities and work environment obtained in the processing of auditing in all material aspects:

- management report of JSC BANK ALLIANCE for 2018, which comprises as a separate section a corporate governance report prepared in accordance with the Law of Ukraine on Accounting and Financial Reporting, Instruction on the Procedure for Preparing and Disclosing Financial Statements by Ukrainian Banks approved by Resolution No. 480 of the National Bank of Ukraine, dated 24/10/2011 and other applicable legislative and regulatory acts, and the information contained therein is consistent with the financial statements;
- we have not identified any materially misstated information in the management report.

Explanations regarding audit efficiency to the extent related to the identification of violations related to fraud

Our audit objectives related to fraud are to identify and assess risks of material misstatement of the financial statements by fraud, to obtain acceptable audit evidence to a sufficient extent in relation to the assessed risks of material misstatement by fraud by means of proper auditing procedures in response to such risks and to take necessary measures against actual or suspected frauds identified during the audit. However, those who have supreme authorities and the Bank's management shall be primarily responsible for preventing and identifying any fraud.

Identifying and assessing potential risks related to violations	Actions in response to the assessed risks
<p>Having identified and assessed the risks of significant misstatement to the extent related to the identification of violations, including, but not limited to those, related to fraud and non-compliance with legislative and regulatory requirements, our procedure was designed to include, among other things:</p> <ul style="list-style-type: none"> - requests addressed to the management and those who have supreme authorities, including receiving and reviewing supporting documents related to the Bank's policies and procedures, for: <ul style="list-style-type: none"> - identifying, assessing and complying with legislative and regulatory requirements and availability of information relating to their violations; - identifying and reacting to any risks of fraud and any information available relating to any actual, suspected or expected fraud; and - internal controls put in place to reduce risks related to fraud or non-compliance with legislative or regulatory requirements. 	<p>As a result of the procedures we have carried out to identify and assess risks, we have not identified as the key audit matters any issues related to the potential risks related to fraud or non-compliance with legislative and regulatory acts.</p> <p>Our procedures to respond to the other risks that have been identified consisted, among other things, in:</p> <ul style="list-style-type: none"> - reviewing disclosures to the financial statements and resting supporting documentation to assess the compliance with the relevant laws and regulations addressed in this section; - requests addressed to the management and those who have supreme authorities and internal lawyers with respect to existing and potential legal actions and claims; - performing analytical procedures to identify any unusual or unexpected mutual connections that may point to risks of material misstatement by fraud; - reviewing minutes of meetings of those who have supreme authorities and revising internal audit reports;

Identifying and assessing potential risks related to violations	Actions in response to the assessed risks
<ul style="list-style-type: none">- discussing with audit engagement team members under what circumstances and at which stage the Bank's financial statements may be exposed to material misstatement by fraud, including the ways to commit the fraud. In the context of such discussion, we have identified potentials for committing fraud in such fields as income recognition, discarding control measures by the management; and- obtaining the understanding of legislative and regulatory acts applicable to the Bank and comprising the legal framework for its operations. By doing so, we focused specifically on those laws and regulations that had direct impact on the financial statements and influenced fundamentally the Bank's operations. The key laws and regulations we have considered in this context including the Law of Ukraine on Banks and Banking and regulations of the National Bank of Ukraine related to the licensing and prudent supervision, Law of Ukraine on Securities and the Stock Market, and applicable regulations of the National Securities and the Stock Market Commission, Law of Ukraine on Financial Services and State Regulation of Financial Service Markets.	<ul style="list-style-type: none">- testing the adequacy of the information contained in financial records and adjustments; evaluating whether the judgments and decisions made by the management upon identifying accounting estimates point to their biased nature; assessing economic feasibility of significant transactions, which are extraordinary or not consistent with the ordinary course of business. <p>We have also communicated the relevant laws and regulations and potential risks of fraud that have been identified to all members of the audit engagement team members and have been throughout the entire audit suspicious about any indications of fraud or non-compliance with laws and regulations.</p>

Other Matters

Based on our audit findings and considering the knowledge and understanding of the Bank's activities and work environment obtained in the processing of auditing in all material aspects:

- we have verified the information contained in the corporate governance report being a part of the Management Report of JSC BANK ALLIANCE for 2018 as required in clauses 1 to 4 of paragraph three of article 40¹ of the Law of Ukraine on Securities and the Stock Market has been prepared in compliance with the Law of Ukraine on Securities and the Stock Market and other applicable legislative and regulatory requirements and found that such information is consistent with the financial statements;
- we believe that the corporate governance report being a part of the Management Report of JSC BANK ALLIANCE for 2018, for which the Bank's management is responsible, contains all information required under clauses 5 to 9 of paragraph three of article 40¹ of the Law of Ukraine on Securities and the Stock Market.

Other Laws and Regulations

Reports required under the Law of Ukraine on Banks and Banking and the Regulation on the Procedure for Banks Submitting to the National Bank of Ukraine Auditor's Reports Based on Results of Annual Audit of Financial Statements approved by Resolution No. 90 of the National Bank of Ukraine ("NBU"), dated 02/08/2018

As required under the Law of Ukraine on Banks and Banking and the Regulation on the Procedure for Banks Submitting to the National Bank of Ukraine Auditor's Reports Based on Results of Annual Audit of Financial Statements approved by Resolution No. 90 of the National Bank of Ukraine ("NBU"), dated 02/08/2018, an audit report shall contain information (evaluation) relating to

1) compliance (fair presentation) of the bank's assets and liabilities broken down by maturities in the file with statistic reporting indicators A7X – Information on the Structure of Assets and Liabilities by Their Maturities, as prepared by the bank for further submission to the National Bank as of January 1 of the year next following the reporting one;

2) bank's compliance with the requirements set out in legal and regulatory acts of the National Bank of Ukraine relating to:

- internal control;
- internal audit;
- *definition of credit risk exposure on active banking operations;*
- *related party recognition and transactions;*
- *bank's capital adequacy determined taking into account the bank's asset quality;*
- bank accounting.

An audit objective is to express an opinion on whether the Bank's annual financial statements for 2018 present fairly, in all material aspects, the financial position of the Bank in accordance with the International Financial Reporting Standards.

The information contained in this report is the result of our audit procedures within the scope of audit of the Bank's annual financial statements for 2018. This information has been derived from selective testing to the extent necessary for planning and conducting of audit procedures in accordance with International Standards on Auditing.

The report has been prepared solely for the information and use by the Bank's management and the National Bank of Ukraine and may not be used by any other party. A limited scope of procedures shall be considered in reading this report regarding the assessment of issues related to the Bank's activities, organization of accounting and internal controls.

Furthermore, consideration shall be given to the fact that our criteria for assessing issues related to the Bank's activities, organization of accounting and internal controls may differ from those applied by the National Bank of Ukraine.

As a result of our audit procedures within the scope of audit of the annual financial statements, we provided information (estimates) with respect to the above issues:

As a result of our audit procedures within the scope of the annual audit, we have found discrepancies related to the Bank reflecting information relating to the bank's assets and liabilities broken down by maturities in the file with statistic reporting indicators A7X – Information on the Structure of Assets and Liabilities by Their Maturities, as prepared by the bank for further submission to the National Bank as of January 1 of the year next following the reporting one, including, in particular, as of 01/01/2019.

Thus, having verified, on a selective basis, some operations of the Bank, we have found the following discrepancies:

Assets / liabilities	Indebtedness as of 31/12/2018 (UAH)	According to the Bank	Indebtedness as of 31/12/2018 (UAH)	According to the selective inspection data
Loans and receivables from customers	40 648 880,00	from 32 days to 365 (366) days	40 236 116,00	from 2 to 31 days
	1 024 364,00	from 366 days to 2 years	2 866 765,00	from 32 days to 365 (366) days
	7 727 691,00	from 2 to 5 years	3 023 853,00	from 366 days to 2 years
			3 274 201,00	from 2 to 5 years
Due to customers	269 590,00	from 2 to 31 days	239 133,00	On demand or overdraft
			657 850,00	from 32 days to 365 (366) days
Guarantees	49 365 280,00	from 2 to 31 days	19 882 816,00	On demand or overdraft

Assets / liabilities	Indebtedness as of 31/12/2018 (UAH)	According to the Bank	Indebtedness as of 31/12/2018 (UAH)	According to the selective inspection data
	12 016 707,00	from 32 days to 365 (366) days	85 303 014,00	from 32 days to 365 (366) days
	55 820 550,00	from 366 days to 2 years	12 016 707,00	from 366 days to 2 years

According to the comments given by the Bank's management during the audit, a test period for statistical as set forth in letter No. 31-0007/67765 of the National Bank of Ukraine, dated 20/12/2018 still continues and works are being performed to arrange files.

Regarding the bank's compliance with the requirements set out in legal and regulatory acts of the National Bank of Ukraine relating to:

internal control

As a result of our audit procedures within the scope of audit of the annual financial statements, we have identified no evidence that the structure and arrangements of the Bank's internal controls do not meet the statutory requirements of the NBU, in particular, Resolution No. 867 of the National Bank of Ukraine on Approval of the Regulations on the Organization of Internal Control in Banks of Ukraine, dated 29 December 2014.

internal audit

We believe that as of the audit date the Bank's internal regulations governing the internal audit procedures comply with the statutory requirements of the NBU, including, Resolution No. 311 of the National Bank of Ukraine on Approval of the Regulations on the Organization of Internal Audit in Banks of Ukraine, dated 10 May 2016. Internal audit procedures are performed in compliance with the requirements of the Bank's internal policies and regulations.

Regarding the definition of credit risk exposure on active banking operations

The amount of credit risk as at the reporting date is calculated by the Bank in accordance with the requirements of the National Bank's regulations, including the Regulation on the Assessment by Ukrainian Banks of Credit Risk for Active Banking Operations, as approved by Resolution No. 351 of the Board of the National Bank of Ukraine, dated 30 June 2016 ("NBU Resolution No. 351").

As a result of conducting audit procedures as part of the audit of the annual financial statements, we have not detected any material deviations with respect to the Bank's credit risk exposure calculation as at 31 December 2018.

regarding the related party recognition and transactions

As a result of our audit procedures within the scope of audit of the annual financial statements, we have identified no evidence of non-compliance of the Bank's risk management system in terms of related party transactions and related party identification and transaction procedures with the statutory requirements of the NBU. During our audit, we have identified no violations of the statutory requirements in transactions with related parties.

regarding the bank's capital adequacy determined taking into account the bank's asset quality;

The Bank's share capital as at 31 December 2018 was adequate and amounted to UAH 260,000 thousand according to the Bank's data. As disclosed in Note 19 "Share Capital and Share Premium," the Bank has registered during the year an increase in the nominal value of registered ordinary shares at the expense of a part of the profits for the past year pursuant to minutes No. 1/2018, dated 17 April 2018 of the General Shareholders Meetings, so that the authorized capital was increased by UAH 60,000 thousand.

As at 31 December 2018, according to the Bank's data, the Bank's regulatory capital amounted to UAH 369,021 thousand as required by regulations of the NBU (see Note 30 "Capital Management").

regarding the bank accounting

The Bank's accounting system generally meets the regulatory requirements of the NBU and the Bank's accounting policies.

Reports required under the Requirements to an Auditor's Report to be Submitted to the National Securities and Stock Market Commission upon Obtaining a License for Engaging in Professional Activities on the Securities as approved by decision No. 160 of the National Securities and Stock Market Commission, dated 12/02/2013.

In accordance with the Requirements to an Auditor's Report to be Submitted to the National Securities and Stock Market Commission upon Obtaining a License for Engaging in Professional Activities on the Securities as approved by decision No. 160 of the National Securities and Stock Market Commission ("NSSMC"), dated 12/02/2013, we provide the following information and conclusions:

basis data relating to the Bank

The full name is JOINT STOCK COMPANY BANK ALLIANCE

legal entity's identification code in the Unified State Register of Enterprises and Organizations set out in the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Organizations is 14360506

Place of business is 50 Sichovykh Striltsiv Street, Kyiv, 04053, Ukraine

state registration date is 10/03/1992

Principal activities are other types of monetary intermediation;

date of amendments to the constituent documents: the Bank's Charter as amended and restated was approved by the general shareholders meeting on 17/04/2018 (minutes No. 2018) and approved by NBU on 21/05/2018 and registered by the state registrar on 24 May 2018

list of participants (shareholders) (for individuals, given name, patronymic and surname; for legal entities, organizational and legal form, place of business) who own 5 % and more of the shares (participatory interests) as of the date of the auditor's report with the indication of the actual amount: Oleksandr Yosypovych Sosis, Ukrainian national, who owns the shareholding of 89.289006% in the Bank's authorized capital (this person has not given his consent to disclosure of his personal data). There are no other persons holding 5 % and of the shares (participatory interests) as of the date of the auditor's report, according to the Bank's information.

regarding the owner's equity according to the figures of applicant's financial statements prepared for the last reporting period preceding the date of filing the application for license being in compliance with the requirements set out in the regulatory acts of the Commission

The Bank's equity according to the financial statements is UAH 401,044 thousand as of 31/12/2018. The Bank's regulatory capital has been, throughout the year of 2018, in compliance with the regulatory and legal acts of the National Bank of Ukraine. The Bank's capital meets, according to the audit findings, the requirements set out in regulatory and legal acts of the NSSMC.

regarding the authorized capital being consistent with the constituent documents

The Bank's share capital as at 31/12/2018 meets the Bank's constituent documents and amounts to UAH 260,000 thousand. As disclosed in Note 19 "Share Capital and Share Premium," the Bank has registered during the year an increase in the nominal value of registered ordinary shares at the expense of a part of the profits for the past year pursuant to minutes No. 1/2018, dated 17 April 2018 of the General Shareholders Meetings, so that the authorized capital was increased by UAH 60,000 thousand.

regarding the formation and payment of the authorized capital (paid in full or in part, documents (with the indication of the title, date, number), based on which the auditor's opinion is issued). If the authorized capital has not been paid in full, an amount of the paid-up and non-paid-up part of the authorized capital shall be indicated

According to the audit findings and pursuant to letter No. 27-0006/17183 of the National Bank of Ukraine, dated 29/03/2019, the amount of the registered and actually paid-up of authorized capital of the Bank as of 31/12/2018 is UAH 260,000 thousand. The authorized capital has been formed out of cash, including direct contributions made by the Bank's shareholders and net profits made.

regarding the applicant having no overdue obligations for payment of taxes (tax debt available / not available) and duties, outstanding penalties for violating the laws on financial services, including violations occurring on the securities market

As of the date of the audit, there are, according to the Bank, no overdue obligations for payment of taxes and duties, outstanding penalties for violating the laws on financial services, including violations occurring on the securities market.

regarding the areas of application of the funds contributed to form the authorized capital of a legal entity who, in line with its charter, intends to be engaged in professional activities on the securities market starting from the date of incorporation or the date of amending the charter in relation to the principal activities of the company.

According to the Bank, all of the contributions to the Bank's authorized capital have been applied to carry out the Bank's statutory activities.

regarding the applicant's related persons found out during the audit by performing procedure for auditing the financial statements

Information relating to the managerial personnel failing within the Bank's related persons is set out in the Management Report of the JSC BANK ALLIANCE. Information with respect to related party transactions are disclosed in Note 4.38 Related Party Information and Note 33 – Related Party Transactions. Upon performing procedures for auditing the financial statements, there have been found out no related parties not identified by the Bank, transactions with whom are not disclosed in Note 33 – Related Party Transactions.

regarding the availability and scope of unforeseen assets and/or liabilities, which are very likely to be recognized on the balance sheet

Upon performing procedures for auditing the financial statements, we have not been found any contingent assets and/or liabilities, which are very likely to be recognized on the balance sheet, save for the information disclosed in Note 31 – Bank's Potential Liabilities.

regarding any events occurring after the date of the balance sheet, which were not reflected in the financial statements, but may have significant impact on the applicant's financial standing

Upon performing procedures for auditing the financial statements, we have not found any events occurring after the date of the balance sheet, which were not reflected in the financial statements, but may have significant impact on the Bank's financial standing (see Note 34 – Subsequent Events).

regarding the existence of other factors and circumstances that may have significant effects on the applicant's operations in future and assessing a degree of their impact

Based on the audit findings, we have not found out any facts or circumstances save for those stated in the emphasis of matter paragraph in the report on the audit of financial statements, which may have significant effects on the Bank's operations in future.

In particular, we believe that the composition and structure of the Bank's financial investments pose no threat to the Bank's operation in future.

As of 31/12/2018, the composition and structure of the Bank's financial investments are presented by investments in deposit certificates of the NBU for the book value of UAH 270,355 thousand (see Note 8 – Investments in Securities)

regarding the other financial information required under the laws

Our audit of the Bank's financial statements did not concern any other financial information in accordance with the laws, other than the information contained in the Bank's financial statements for 2018 and the information set out in this section of the report with respect to the other laws and regulations.

basic information relating to the terms and conditions of the audit agreement

date and number of the audit agreement: No. 190/18, dated 27/09/2018

audit start and end dates: 15/11/2018 and 19/04/2019

Key Audit Partner

Gagik Nersesyan is the partner of the audit task from which this Independent Auditor's Report results.

General Director

ADVISORY · ASSURANCE · TAX · ACCOUNTING

BAKER TILLY UKRAINE LLC 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.

General Director

BAKER TILLY UKRAINE LLC

Number of auditor's registration with the Register of Auditors and Auditing Entities: No. 100810.




Oleksander Pochkun

Partner

BAKER TILLY UKRAINE LLC

Number of auditor's registration with the Register of Auditors and Auditing Entities: No. 100799.


Gagik Nersesyan

Auditor

BAKER TILLY UKRAINE LLC

Number of auditor's registration with the Register of Auditors and Auditing Entities: No. 100785.


Oleksandr Luksha

19 April 2019

Kyiv, Ukraine

Basic information about the Audit Firm

Full name: BAKER TILLY UKRAINE Limited Liability Company.

having its place of business: 3 Hrekova Street, apt. 9, Kyiv, 04112

actual address: 28 Fizkultury Street, Kyiv, Ukraine 03150.

Number of registration with the Register of Auditors and Auditing Entities: №2091.

**III. Annual Financial Statements
for 2018
December 31, 2018**

2019

Statement of Financial Position (Balance Sheet)
JSC "BANK ALLIANCE"
as of 31 December 2018

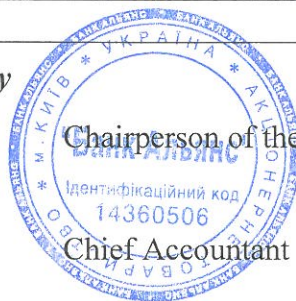
<i>UAH, ths.</i>	Note	31.12.2018	31.12.2017
ASSETS			
Cash and cash equivalents	6	368 002	167 755
Loans and advances to customers	7	1 398 873	430 858
Securities held-to maturity	8	297 795	150 103
Derivative financial assets	9	1 560	1 085
Current income tax accounts receivable		450	-
Deferred tax assets		2 553	552
Property, plant and equipment and intangible assets	10	21 190	12 863
Other assets	11	23 744	14 048
Total assets		2 114 167	777 264
LIABILITIES			
Due to banks	12	-	2
Due to customers	13	1 665 238	460 496
Derivative financial liabilities	14	797	1 029
Debt securities issued by the Bank	15	-	177
Other borrowings	16	1 012	1 546
Current income tax liabilities		10 520	13 057
Provisions for liabilities	17	14 181	3 069
Other liabilities	18	21 375	8 044
Total liabilities		1 713 123	487 420
EQUITY			
Share capital	19	260 000	200 000
Reserves and other funds of the Bank		29 844	25 554
Retained earnings (losses)		111 200	64 290
Total equity		401 044	289 844
Total liabilities and equity		2 114 167	777 264

Approved for issue and signed by

11.02. 2019

Employee in charge

I.M. Tarasun (044) 224-66-73



Chairperson of the Board

Chief Accountant

Two handwritten signatures in blue ink. The top signature is for Y.M. Frolova and the bottom signature is for N.A. Bochkovska.

Y.M. Frolova

N.A. Bochkovska

Profit and Loss and Other Comprehensive Income Statement
(Profit and Loss Statement)
JSC "BANK ALLIANCE"
for the year ended on 31 December 2018

<i>UAH, ths.</i>	Note	2018	2017
Interest income	21	237 319	60 713
Interest expenses	21	(108 079)	(11 381)
Net interest income/(Net interest expenses)	21	129 240	49 332
Fee and commission income	22	115 527	36 980
Fee and commission expenses	22	(13 143)	(6 892)
Net gain/loss on transactions with financial instruments at fair value through profit or loss	25	51 267	4 086
Net gain/(loss) from foreign currency transactions		37 287	84 836
Net gain/(loss) from foreign currency revaluation		15 350	567
Net loss from decrease in financial assets efficiency		(66 928)	(20 347)
Net loss/(profit) from increase/(decrease) in liability reserves		(11 112)	(137)
Other operating income	23	15 120	1 390
Employee benefits expenses		(65 454)	(36 168)
Depreciation and amortization expenses		(6 282)	(3 432)
Other administrative and operating expenses	24	(64 898)	(31 645)
Profit/(loss) before tax		135 974	78 570
Income tax expenses	26	(24 774)	(14 280)
Profit/(loss) from continuous activity		111 200	64 290
Profit/(loss)		111 200	64 290
OTHER COMPREHENSIVE INCOME:			
ITEMS TO BE RECLASSIFIED IN PROFIT OR LOSS			
Total comprehensive income		111 200	64 290
Profit (loss) attributable to owners of the Bank		111 200	64 290
Total comprehensive income attributable to owners of the Bank		111 200	64 290
Earnings/(loss) per share from continuous activity (UAH):	27	6,95	4,43
Earnings/(loss) per share attributable to owners of the Bank (UAH):	27	6,95	4,43

Approved for issue and signed by

11.02.2019

Employee in charge

I.M. Tarasun (044) 224-66-73



Chairperson of the Board

Chief Accountant

Y.M. Frolova

N.A. Bochkovska

Statement of Changes in Equity
(Statement of Equity)
JSC "BANK ALLIANCE"
for the year ended on 31 December 2018

<i>UAH, ths.</i>	Attributable to owners of the Bank						Total equity
	Share capital	issue profit/loss and other additional capital	unregistered share capital	reserves and other funds	retained earnings	total	
Balance as of the end of year ended on 31.12. 2016	129 779	-	-	22 791	35 208	187 778	187 778
Total comprehensive income 2017	-	-	-	-	64 290	64 290	64 290
Allocation of retained profit to reserves and other funds	-	-	-	2 763	(2 763)	-	-
Allocation of retained profit to share capital	-	-	-	-	(32 445)	(32 445)	(32 445)
Unregistered share capital	-	-	32 445	-	-	32 445	32 445
Share issue 1	32 445	-	(32 445)	-	-	-	-
Share issue 2	37 776	-	-	-	-	37 776	37 776
Balance as of the end of year ended on 31.12.2017	200 000	-	-	25 554	64 290	289 844	289 844
Total comprehensive income:	-	-	-	-	111 200	111 200	111 200
Allocation of retained profit to reserves and other funds	-	-	-	4 290	(4 290)	-	-
Allocation of retained profit to share capital	-	-	-	-	(60 000)	(60 000)	(60 000)
Unregistered share capital	-	-	60 000	-	-	60 000	60 000
Share issue:	60 000	-	(60 000)	-	-	-	-
Balance as of the end of year ended on 31.12.2018	260 000	-	-	29 844	111 200	401 044	401 044

Approved for issue and signed by

11.02.2019

Employee in charge

I.M. Tarasun (044) 224-66-73

Chairperson of the Board

Y.M. Frolova

Chief Accountant

N.A. Bochkovska



Statement of Cash Flow
JSC "BANK ALLIANCE"
for the year ended on 31 December 2018
(direct method)

<i>UAH, ths.</i>	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received	21	213 168	54 887
Interest expenses paid	21	(91 558)	(9 766)
Fee and commission income received	22	115 226	36 538
Fee and commission expenses paid	22	(12 196)	(6 892)
Results of transactions with financial derivative instruments		48 738	4 086
Results of FX transactions		37 287	84 836
Other operating income received	23	15 120	1 390
Staff costs paid		(61 800)	(34 980)
Administrative and other operating expenses paid	24	(56 009)	(27 268)
Income tax paid		(24 774)	(11 038)
Cash profit/(loss) from operating activities before changes in operating assets and liabilities		183 202	91 793
Changes in operating assets and liabilities			
Net (increase)/decrease in trade securities		(27 440)	-
Net (increase)/decrease in derivative financial assets		(475)	(375)
Net (increase)/decrease in due from banks		(4 176)	(4 049)
Net (increase)/decrease in loans and advances to customers	7	(968 015)	(256 763)
Net (increase)/decrease in other assets	11	(9 696)	(16 879)
Net increase/(decrease) in due to banks	12	(2)	2
Net increase/(decrease) in due to customers	13	1 204 742	359 572
Net increase/(decrease) in debt securities issued by the Bank		(177)	(10 708)
Net increase/(decrease) in liabilities reserves		11 112	-
Net increase/(decrease) in other liabilities	18	11 099	5 080
Net cash flows from/(used in) operating activities		400 174	167 673
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of securities		(270 000)	(88 000)
Acquisition of property, plant and equipment	10	(12 619)	(8 895)
Earnings from sale of property, plant and equipment	10	-	-
Acquisition of intangible assets	10	(1 993)	(1 154)
Net cash flows from/(used in) investing activities		(284 612)	(98 049)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of ordinary shares		60 000	37 776
Receipt of other borrowings	16	(1 012)	1 546
Net cash flows from/(used in) financing activities		58 988	39 322
Effect of NBU official exchange rates fluctuations on cash and cash equivalents		25 697	567
Net increase/(decrease) in cash and cash equivalents		200 247	109 513
Cash and cash equivalents at the beginning of the period	6	167 755	58 242
Cash and cash equivalents at the end of the period	6	368 002	167 755

Approved for issue and signed by

11.02.2019

Employee in charge
I.M. Tarasun
(044) 224-66-73

Chairperson of the Board
Chief Accountant



Y.M. Frolova
N.A. Bochkovska

Note 1. Corporate Information

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: Ukraine, 04053, Kyiv, 50 Sichovykh Striltsiv Street.

Form of incorporation: Private Joint Stock Company.

The Bank does not possess a status of a specialized bank and is a universal financial institution. The Bank is active within the territory of Kyiv city, as well as Zaporizhzhya, Dnipro, Lviv, Chernivtsi, Kharkiv, Odesa, Mykolaiv and Poltava Regions, and branches and representative offices.

On 03/10/1992, JSC “BANK ALLIANCE” was registered by the National Bank of Ukraine under the registration No. 89. The Bank has a perpetual Banking License No. 97 dated 11/17/2011 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" and the General License issued by the National Bank of Ukraine to carry out exchange operations No. 97-3 dated 12/30/2016.

The Bank is entitled to exercise professional open-market operations - trading in securities (brokerage activity) on the basis of a license issued by the National Securities and Stock Market Commission dated 11/28/2014 series AE No. 294590 with no expiry date.

The strategic objective of the Bank is to meet the social needs in provision of banking and other financial services (except for insurance), other banking activities defined by the current legislation of Ukraine; attraction, storage, propulsion and redistribution of monetary flow, as well as profit earning based on the results of banking activities.

The mission of the Bank lies in lending to businesses and individuals and provision of a full range of high quality banking services to ensure Ukraine's economic recovery and sustainable growth in gross domestic product. As a 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 impact of external and internal factors.

The target group of the Bank is formed by the corporate customers of small and medium-sized businesses. The Bank directs its efforts at forming long-term partnerships with customers, promote their financial soundness and development of banking services.

The principal activities of the Bank are as follows: loan and deposit operations, cash management services, operations on purchase and sale of currency, securities trading, consultancy and information services, including as to transactions in the stock and currency markets. The Bank actively utilizes 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 Bank is a member of the Deposit Insurance Fund (certificate No. 023 dated 10/18/2012, registration No. 025 dated 09/02/1999), the Independent Association of Banks of Ukraine, National Payment System "Ukrainian Payment Area (Prostir)".

JOINT STOCK COMPANY BANK ALLIANCE is a member of international payment system **MasterCard** and national payment system **PROSTIR**.

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 collective executive body in charge for management of the Bank's daily operations within the scope of its competence defined by the current legislation of Ukraine, the Charter, the Regulation on the Management Board which 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 of 31 December 2018 the registered and fully paid share capital of the Bank (according to the Bank's Charter) amounted to UAH 260 000 thousand and comprised of 16 000 000 ordinary registered shares with a nominal value of UAH 16.25 per share. The restated Charter of JSC "BANK ALLIANCE" was approved by the annual General Shareholders Meeting of PUBLIC JOINT-STOCK COMPANY "BANK ALLIANCE" (minutes No. 1/2018 dated 17 April 2018) and registered by the State Registrar on 24 May 2018. The restated Charter includes, but not limited to, the following amendments:

- change of the Bank's type as a joint-stock company from public to private and correspondingly the change of the Bank's name;
- change of nominal value of 1 share from UAH 12.50 to UAH 16.25;
- increase of the Bank's authorized capital up to UAH 260 000 000,00 (two hundred sixty million Ukrainian hryvnias).

The certificate on registration of issue of shares with the changed par value (UAH 16.25 per share) was issued to the Bank by the National Securities and Stock Market Commission in 03 July 2018. Mr. Alexander Sosis, a citizen of Ukraine, owns a majority participatory interest in the Bank representing 89.289006% of the share 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 share capital of the Bank.

RURIK National Rating Agency confirmed at the Rating Committee meeting held on 24 July 2018 that JSC "BANK ALLIANCE" had such long-term credit rating as uaAA, investment category with the stable outlook.

The financial statements of the Bank for 2018 (main reports to the annual financial statement) were authorized for issue on 11 February 2019 by the decision of the Management Board of JSC "BANK ALLIANCE" (Minutes No. 14).

Note 2. Description of Economic Environment where 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 eastern Ukraine and, as a consequence, deepening of crisis in Russian-Ukrainian relations; 3) complicated political and economic situation in the country.

Ukraine's economy is characterized 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 organizations 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 organizations, 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 the bureaucratization of a high level prevents 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, reorganize 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 new currently developing the documentary transaction segment. In 2018, a volume of issued guarantees increased three times. The key principals under such guarantees are Prozoro tender system participants and successful bidders, while 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.

Thus, despite the fact that management personnel believe that they take appropriate measures to support the Bank's stable activities under the existing circumstances, further instability of the operating conditions may have a negative impact on the Bank's performance and financial position, the nature and consequences of which are currently impossible to determine. These financial statements set the current assessment of management personnel on the impact of operating conditions in Ukraine on the Bank's operational activities and financial position. Future operating conditions may differ from the assessment of management personnel.

Note 3. Basis of Preparation

The Bank's financial statements for 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS).

The annual report for 2018 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 10/24/2011, 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. 965 dated 12/29/2015.

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 2018, the Bank demonstrated income-generating performance, had regular sources of funding (mainly funds received to the share 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 enhancement of banks' share capitals, on 22 November 2018 the Supervisory Board of the Bank has approved the Capital Increase Plan of JSC "BANK ALLIANCE", which is a part of the Strategy of joint stock company "bank alliance" for 2018-2020, which provides for an enhancement of the Bank's share capital at the expense of a share of current profits and shareholders' contributions. As regards its part related to 2018 the Capital Increase Plan has been completely fulfilled. 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 measurement in which the financial statements are presented is a thousand of hryvnias (UAH, ths.).

Note 4. Summary of 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 organizational 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 cessation of existence of the banking group and provided a package of documents on October 8, 2018. The National Bank of Ukraine verified it 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 the RESOLUTION No. 03 dated January 11, 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 financial statements preparation estimation

Financial assets and/or financial liabilities are recognized 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 recognized by the Bank on a settlement date. Assets and liabilities of the Bank are assessed and disclosed in the accounting records with sufficient care in order to avoid possibilities of transfers of existing financial risks to next reporting periods. An asset is recognized 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. 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: evaluated

- at depreciated cost;
- fair value with recognition of revaluation in other comprehensive income;
- fair value with recognition of revaluation in profits or losses.

At initial recognition, financial assets are evaluated at fair value plus (in case of investments not classified as financial assets at fair value, with a revaluation of profit or loss) costs directly related to the transaction.

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 own capital;
- for other transactions: in profits or losses.

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

A financial asset is to be evaluated at the depreciated cost, if the following conditions are met simultaneously:

- an asset is withheld within the business model aimed at withholding the assets for collecting the contractual cash flows;
- contractual terms of financial asset provide for the receipt on certain dates of cash flows that are only repayment of the principal amount and payment of interest on the outstanding part of principal amount.

The financial asset is classified for further valuation at fair value with recognition of revaluation in other comprehensive income, if it is withheld within the business model aimed at collecting the contractual cash flows and sale of financial assets; and the contractual terms of financial asset provide for the receipt on certain dates of cash flows that are only repayment of the principal amount and payment of interest on the outstanding part. 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 the depreciated cost or the fair value with recognition of revaluation in other comprehensive income, are classified for further valuation at fair value with recognition of changes in profits or losses. Moreover, the Bank may, at the initial recognition, assign for the financial asset the category of asset at the fair value with recognition of revaluation in profits or losses, 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 evaluates and records in accounting all financial liabilities at the depreciated cost, except for:

- 1) financial liabilities recorded at fair value with recognition of revaluation through profits/losses;
- 2) financial liabilities that arise, if transfer of financial asset does not meet the conditions for termination of recognition or the principle of continued participation is applied;
- 3) financial guarantees, bank guarantees and surety agreements;
- 4) loan liabilities at a rate below the market one;
- 5) conditional compensation recognized by the buyer at business combinations, to which the International Financial Reporting Standard 3 "Business Combinations" applies. Such conditional compensation is subsequently evaluated at fair value with the recognition of revaluation through profits/losses

Note 4.4. Impairment of financial assets.

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

The Bank evaluates, on a projected basis, the expected credit losses associated with active debt instruments reflected at the depreciated cost and the fair value with recognition of revaluation in profits or losses, as well as debt arising from the liabilities on lending, lease receivables and financial guarantees. The Bank sets up a provision for such losses on each reporting date.

Assessment of expected credit losses reflects an objective and probable weighted amount, which is determined by estimating a number of probable results, time value of money, as well as reasonable and acceptable information available without excessive costs or efforts on the reporting date on past events, current conditions and forecasts of future economic conditions.

Assessment of provisions for expected credit losses for financial assets evaluated at the depreciated cost and at the fair value with recognition of revaluation in other comprehensive income is an area that requires a use of complex models and essential assumptions about future economic conditions and debt service quality.

The essential judgments required when applying the accounting requirements to estimate the expected credit losses include:

- determination of criteria for significant increase of credit risk;
- selection of appropriate models and assumptions to assess the expected credit losses;
- determination of the number and relative weight of the forecast scenarios for each type of product / market and relevant expected credit losses;
- determination of groups of similar financial assets to assess the expected credit losses.

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

The credit risk assessment for risk management is complex and requires the use of models, since the debt changes at changing market conditions, expected cash flows and over time.

The credit risk assessment concerning the asset portfolio provides for further estimates, as to the probability of default, appropriate loss ratios and correlations of default 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 the initial recognition is classified at Stage 1, and its credit risk is subject to further continuous monitoring. If there was a significant increase in credit risk since the initial recognition, the financial instrument is transferred to Stage 2, but it is not considered as the credit-impaired yet. If a financial instrument is credit-impaired, it is transferred to Stage 3.

For financial instruments at Stage 1, expected credit losses are estimated in the amount of expected losses for the entire validity of financial instrument that may occur due to default events during the next 12 months. The expected credit losses for instruments at Stages 2 or 3 are estimated based on the credit losses expected from the default events for the entire validity of the instrument.

According to IFRS 9, when calculating the expected credit losses, it is necessary to take into account the forecasting information. Acquired or created credit-impaired financial assets are financial assets that are credit-impaired on the date of initial recognition. The expected credit losses for such instruments are always evaluated based on the entire validity.

The Bank recognizes the estimated provision for the expected credit losses on debt financial assets recorded at the depreciated cost, and debt financial assets recorded at the fair value with recognition of revaluation in other comprehensive income.

The Bank recognizes the estimated provision for financial asset at the first stage of impairment (expected credit losses during 12 months) no later than on the next following reporting date after initial recognition of the financial asset. The next following reporting date, for creating the estimated provision for the expected credit losses on financial instruments is the last day of the month, in which the financial instrument was recognized.

The Bank estimates the level of increase in the expected credit risk under the financial instrument from the date of its initial recognition on the next reporting date after the initial recognition.

The Bank continues to recognize the estimated provision for financial asset at the first stage of impairment if, on the reporting date, the level of financial asset risk has not significantly increased from the date of initial recognition of the asset or the financial asset has a low credit risk at the reporting date.

The Bank recognizes the estimated provision for a financial asset at the second stage of impairment (the expected credit losses during the entire validity of the financial asset) if, on the reporting date, the level of risk from the date of initial recognition has significantly increased, the principal amount of debt repayment or a large part thereof is payable on the final due date or within more than one year, on the individually significant assets which include active transactions, the total amount of which makes UAH 2,000,000.00 or more, or the equivalent of this amount in foreign currency, determined at the official exchange rate established by the National Bank on the date of creating the provisions, or 30 largest borrowers, regardless of the amount of debt.

The Bank recognizes the estimated provision for a financial asset at the third stage of credit risk impairment (the expected credit losses during the entire validity of the financial asset) if, on the reporting date, it has the objective evidence of the financial asset impairment, namely: there is the

observable information that becomes known and leads to a loss, which, in particular, includes, but is not limited to the following: the financial condition corresponds to 10/5/2 classes, depending on the type of financial instrument; the use of reducing factors that reduce financial condition, depending on the type of financial instrument, to 10/5/2 classes, which include, in particular, the facts of overdue debt for more than 90 days and/or the default signs, etc.

Taking into account a need to form a sufficient number of historical observations that are relevant in time and for similar financial assets, including under the usual economic conditions, the Bank, within the limits of its discretion, recognizes the estimated provision for financial assets – lending transactions including under the interbank loans and financial receivables with a repayment period of more than three months, balances on nostro accounts, warranty liabilities at the second stage of impairment – the expected credit losses during entire validity of the financial asset.

According to the simplified approach, the Bank recognizes the expected credit losses during the entire validity of financial asset under the trade receivables or contractual assets arising from transactions that fall within the scope of application of the International Financial Reporting Standard 15 "Revenue from Contracts with Customers" and which: do not include a significant component of financing according to IFRS 15 or include a significant component of financing according to IFRS 15. The Bank estimates the estimated provision for the expected losses in an amount which is equal to the expected credit losses for the entire validity of financial asset and is applied by the Bank to the financial receivables for a period of up to three months, receivables under the economic activities.

The Bank recognizes the estimated provision for a financial asset at the third stage of the credit risk impairment (the impaired financial assets based on events of default) if, on the reporting date, it has the objective evidence of the financial asset impairment, namely: there is the observable information that becomes known and leads to a loss, which, in particular, includes, but is not limited to the following: the financial condition corresponds to 10/5/2 classes, depending on the type of financial instrument; the use of reducing factors that reduce the financial condition, depending on the type of financial instrument, to 10/5/2 classes, which include, in particular, the facts of overdue debt for more than 90 days and/or the default signs, etc.

Note 4.5. Definition of default and credit-impaired assets

Definition of default used by the Bank is fully consistent with the definition of credit impairment, and default is recognized under the financial instrument in case of compliance with one or more of the following criteria.

Quantitative criteria

The borrower is behind with contractual payments for more than 90 days and the assumption that the financial assets overdue for more than 90 days must be reflected at Stage 3 is not canceled.

Qualitative criteria

The borrower does not meet the financial solvency criterion, indicating that the borrower has significant financial difficulties, which in particular include, but are not limited to the following:

- significant financial difficulties of the borrower;
- death of the borrower;
- insolvency of the borrower;
- the borrower violates financial terms of the agreement;

- disappearance of an active market for financial asset due to financial difficulties;
- providing the creditors with concession under the agreement due to financial difficulties of the borrower;
- high probability of bankruptcy of the borrower;
- financial asset is acquired or created at a large discount, reflecting the credit losses incurred.

The above criteria apply to all financial instruments of the Bank and are consistent with the definition of default used to manage the credit risk in the Bank. The instrument 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.

Note 4.6. Derecognition of financial instruments

Financial assets

Termination of recognition of a financial asset or group of similar financial assets (or part thereof) occurs if:

- the term of rights to receive cash flows from a financial asset expired;
- the Bank transferred the right to receive cash from such asset, or if the Bank retained the right to receive cash flows from the asset, but assumed the contractual obligation to transfer them in full without significant delay to a third party under the terms of a "transit agreement";
- the Bank transferred almost all risks and benefits associated with the asset or failed to transfer or retain almost all risks and benefits associated with the asset, but transferred control over such asset.

If the Bank transferred its rights to receive cash flows from the asset and, at the same time, failed to transfer or retain almost all risks and benefits associated with the asset, as well as failed to transfer control over the asset, such asset continues to be reflected in the accounting within further participation of the Bank in this asset. Further participation of the Bank in the asset that has the form of guarantee for the transferred asset is estimated at the lower of the following values: at the original carrying amount of the asset or the maximum amount of compensation that may be presented to the Bank for payment.

If further participation in the asset takes the form of a sold and/or purchased option (including options settled by cash on a net basis, or similar instruments) for the transferred asset, then the amount of the Bank's further participation is the value of transferred asset that the Bank may repurchase.

In case of the sold option deal for the put (including options settled by cash on a net basis, or similar instruments) for an asset evaluated at the fair value, the Bank's future participation is defined as the lower of two estimates: the fair value of transferred asset or the striking price.

The Bank carries out the partial or full write-off of the gross carrying amount of financial asset evaluated at the depreciated cost, unless there are reasonable expectations about their reimbursement.

Financial liabilities.

Termination of recognition of financial liability occurs in the event of execution, cancellation or expiration of the relevant liability.

When replacing one existing financial liability with another liability to the same creditor under the insignificantly different terms or in case of material changes to the terms of an existing liability, the original liability is removed from the register, and the new one is recorded with recognition of difference in the carrying amount of liabilities in the profit and loss statement.

Note 4.7. Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets that can be easily convertible to known amounts of cash at short notice and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are held for the purpose of settlement of current liabilities, rather than for investment or any other purposes.

The Bank's cash and cash equivalents comprise cash on hand, funds with the National Bank of Ukraine and funds on correspondent accounts in other banks.

Note 4.8. Financial assets and financial liabilities at fair value through profit or loss.

The Bank evaluates and records all other debt financial assets at the fair value with recognition of revaluation through profits/losses, if such financial assets do not meet the criteria for their subsequent evaluation at the depreciated cost or at the fair value with recognition of revaluation through other comprehensive income.

During the initial recognition of financial asset, the Bank, at its discretion, classifies it without the right for further reclassification as being recorded at the fair value with recognition of revaluation through profits/losses, if such classification would eliminate or significantly reduce the inconsistency of valuation of assets or liabilities, or recognition of profits and losses associated with them

The Bank's financial assets in 2018 at fair value through profit or loss, in particular, include:

- debt securities refinanced by the National Bank of Ukraine – Domestic Government Loan Bonds;
- assets and liabilities under FX swap contracts

Derivative financial instruments, such as over-the-counter instruments, are revalued monthly at the reporting date. Revaluation of derivative financial instruments (taking into account changes in swap exchange rates or swap rates, interest rates, etc.) to their fair value is recognized in the balance sheet as an asset or liability in a swap contract, depending on the result of such revaluation: in case of a positive revaluation result an asset is recognized; in case of a negative revaluation result a liability is recognized.

Note 4.9. Mandatory reserves with the National Bank of Ukraine.

As at the end of 2017 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 must have been preserved on a correspondent account with the National Bank of Ukraine.

Note 4.10. Due from 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.

Due from banks comprise short-term loans in the interbank market of Ukraine, according to which the Bank recognizes impairment. Initial recognition and subsequent measurement of such loans shall be subject to the same accounting principles as for loans to customers.

Note 4.11. Loans and advances to customers

The Bank conducts lending transactions in accordance with the legislation of Ukraine, normative legal acts of the National Bank, the Bank's credit policy and other internal documents that regulate the Bank's lending activity.

Bank loan means any liability of the Bank to provide a certain amount of money, any guarantee, any obligation to acquire the right to claim debt, any debt rescheduling given in exchange for the debtor's obligation to return the amount owed, as well as the obligation to pay interest and other fees on such amount.

The lending transactions include active transactions of the Bank related to providing customers with funds for temporary use (granting loans in cash or in non-cash form, carrying out factoring transactions, REPO transactions, etc.) or assuming obligations to provide funds for temporary use (providing guarantees, sureties, bank guarantees, etc.), any repayment of a debt given in exchange for the debtor's obligation to return the amount owed, as well as the obligation to pay interest and other fees on such amount.

Lending transactions were carried out according to the requirements of the legislation of Ukraine and internal documents of the Bank based on the concluded agreements in writing, signed by authorized 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.

Classification and assessment of credits granted were carried out based on the business model used to manage these assets and characteristics of the cash flows provided by the agreement at depreciated cost.

Depreciated cost of financial asset or financial liability is the amount at which the financial asset or financial liability is evaluated at the initial recognition, excluding any funds received or paid (principal, interest income (expenses), or other payments related to the initiation of financial asset or a financial liability), which is increased or decreased by the amount of accumulated depreciation calculated using the effective interest rate, – the difference between the initially recognized amount and the amount of repayment of financial instrument, as well as for financial assets, is adjusted based on the estimated provision for credit losses.

The business model was determined not for each loan granted, but for the group of financial assets.

Loans are evaluated at the depreciated cost and recorded, provided that the following conditions are met simultaneously:

- a financial asset is withheld within the business model aimed at withholding the financial assets for cash flows provided for by the agreement;
- the agreement provides for receipt of certain cash flows that are exclusively payments towards the principal amount and interest on the outstanding part of principal amount.

Interest income on the loans recorded at the depreciated cost is recognized at the effective interest rate to the gross carrying amount, except for:

- acquired or created impaired financial assets. For such financial assets, the effective interest rate adjusted taking into account the credit risk is applied to the depreciated cost of the financial asset from the date of initial recognition;

- financial assets which were not acquired or created by impaired financial assets, but subsequently became impaired financial assets. The Bank shall apply an effective interest rate to such financial assets to the depreciated cost of 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 recognizes the interest income at the effective interest rate to the gross carrying amount of such asset, starting from the next interest accrual date.

The Bank recognizes 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 financial instruments with variable interest rate.

The Bank depreciates the undepreciated discount amount on the loans granted at least once a month while accruing the interest.

The Bank uses a nominal interest rate to recognize the interest income for financial instruments under which it is impossible to determine future cash flows (overdraft loans, revolving loan facilities) and to which the effective interest rate does not apply.

At the reporting date, the Bank analyzes changes in the expected credit loss for creating (winding-up) the estimated provision according to the International Financial Reporting Standards, internal documents of the Bank and according to the procedure specified by the National Bank's regulations.

The analytical accounting is conducted with respect to the counterparty, which repays the credit debt, under the lending transactions (for example, factoring, discounted bills), 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 liabilities 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, recognize 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 recognized, 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 recognizes 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 terminates recognition in the balance sheet of a financial liability or part thereof, if such liability is repaid, canceled or expired.

The Bank determines significantly different conditions under which the net present value of cash flows under the new conditions is discounted using the original effective interest rate (for a financial asset with the variable interest rate – the effective interest rate that was calculated during the last change in the nominal interest rate) differs by at least 10 % of the discounted present value of cash flows remaining before the maturity date 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 liabilities 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 the overdue debts on the loan interest accrued to the current activity. 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 activity. 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 activity 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 activity and income accrued thereon.

Bad debts on lending transactions.

Debt under the loans granted (except for the off-balance-sheet transactions and guarantees) is recognized 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 recognized 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".

REPO Transactions

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 received pledge in the corresponding off-balance-sheet accounts at the cost specified in the agreement.

Securities sold under a REPO transaction are recorded in a separate analytical account of the corresponding off-balance-sheet in the securities accounting. At the same time, they are reflected on the corresponding off-balance-sheet account as the pledge provided.

When carrying out the REPO transactions, the Bank, as a buyer, 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), thus, the interest income accounting on REPO transactions differs from remuneration.

The Bank's expenses for reverse REPO transactions are depreciated during the entire validity of the agreement. In case of unlimited REPO transactions, the depreciation period is determined by the forecast method, depending on the expected transaction term.

The settlement of balances is made recorded on the accounts of loans granted, guarantees, etc. at each change in the official rate of the National Bank under the lending transactions (loans granted, guarantees etc.), the amount of which makes hryvnia equivalent of a fixed amount in foreign currency at the official exchange rate of the National Bank on the date of fulfillment of obligations.

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 4.12. 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 evaluates a debt financial asset based on the business model and characteristics of the cash flows provided for by the agreement at:

- depreciated cost;
- fair value with recognition of revaluation in other comprehensive income;
- fair value with recognition of revaluation through profits/losses.

The Bank determines the business model at the level of groups of financial assets that it manages in aggregate to achieve a particular business purpose.

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 solely in case of change in the business model used to manage financial assets, except for the financial assets, accounting of which is determined by the Bank at its discretion at the fair value with recognition of revaluation through profits/losses during the initial recognition.

The Bank evaluates and records in accounting debt securities at the depreciated cost, provided that the following conditions are met simultaneously:

- an asset is withheld within the business model aimed at withholding the financial assets for cash flows provided for by the agreement;
- the agreement (terms of issue) provides for receipt of certain cash flows that are exclusively payments towards the principal amount and interest on the outstanding part of the principal amount.

The Bank evaluates and records debt securities at the fair value with recognition of revaluation in other comprehensive income, provided that the following conditions are met simultaneously:

- an asset is withheld within the business model, the purpose of which is achieved through receipt of cash flows provided for by the agreement, and through sale of financial assets;

- the agreement (terms of issue) provides for receipt of certain cash flows that are exclusively payments towards the principal amount and interest on the outstanding part of the principal amount.

The Bank recognizes interest income [interest accruals, depreciation of discount/premium] on the debt securities at the effective interest rate during the period from the date of acquisition to the date of termination of recognition (sale, assignment of claim, repayment, write-off using the provision), reclassification.

The Bank recognizes interest income on the debt securities recorded at the fair value with recognition of revaluation through profits/losses, in revaluation. Interest accrual and depreciation of discount or premium under such securities are not carried out.

When purchasing coupon payments securities with interest accrued, the Bank records them in the account on 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 the fair value with recognition of revaluation through profits/losses) are recognized on the date of their revaluation and on the balance sheet date, but at least once a month. The amount of discount or premium depreciation is charged simultaneously with interest accrual.

The Bank depreciates the discount (premium) at the financial instrument with a variable interest rate that varies depending on the market rate fluctuations or in case of an offer, until the next date of the interest rate revision.

At the initial recognition of securities, the Bank records the profit or loss in the amount of difference between the asset fair value and the agreement cost debited to the discount/premium account, if the effective interest rate under this instrument is higher or lower than the market one. The difference between the fair value and the agreement cost 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 recognizes the estimated provision for expected credit losses for:

- securities valued at the depreciated cost;
- securities valued at the fair value with recognition of revaluation in other comprehensive income;

The Bank does not recognize the estimated provision for the capital instruments.

The Bank terminates recognition of securities if:

- the term of the rights to cash flows, determined by the agreement (terms of issue), expires;
- transfer of a financial asset meets the criteria for termination of recognition according to the requirements of IFRS 9 and other provisions provided by the law.
- write-off was made using the provision.

Note 4.13 Investment property.

During the reporting and previous years, the Bank did not maintain any investment property.

Note 4.14. Goodwill.

During the reporting and previous years, the Bank did not recognize and account for goodwill.

Note 4.15. Property and equipment.

According to IAS 16, *property, plant and equipment* are tangible items that:

a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

b) 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 12/20/2005 (as amended) and internal normative documents of the Bank. The unit of measurement 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 useful lives.

Purchased or constructed items are recognized at cost (acquisition cost plus all costs related to delivery, installation, and commissioning). Subsequent to initial recognition, property and equipment is measured at cost less accumulated depreciation and impairment losses.

At the end of each reporting period (year), the Bank assesses property 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 value to be received subsequent to its use. The carrying amount is reduced to the recoverable amount if and only if the recoverable amount of an asset is less than its carrying value. The carrying amount is reduced to the recoverable amount of the asset and impairment loss is recognized in profit/loss.

At the end of 2018 and 2017, there were no signs of impairment of property and equipment, depreciation was not calculated.

At the end of each reporting year, during the annual inventory, useful lives of property and equipment are reviewed and adjusted, as appropriate. During the reporting year, the useful lives of property and equipment remained unchanged.

The liquidation of property and equipment and other non-current assets is held in the event of unserviceability, obsolescence and/or physical deterioration. Depreciation charged at 100% of non-current assets does not constitute grounds for writing-off.

Note 4.16. Intangible assets.

According to IAS 38, an intangible asset is an identifiable non-monetary asset without physical substance. An asset is identifiable if it:

a) 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

b) 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 12/20/2005 (as amended) and internal normative documents of the Bank.

Purchased (produced) intangible assets are credited to the Bank at cost. The initial cost of an acquired intangible asset consists of the price (cost) of acquisition (excluding trade discounts),

import duties, non-refundable indirect taxes and other expenses directly attributable to purchasing and preparing the assets for their intended use.

Subsequent to initial recognition, the intangible assets are carried at cost less accumulated amortization and impairment losses.

The useful lives of the Bank's intangible assets are within the 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 inventory, 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 2018 and 2017, there were no signs of impairment of intangible assets, impairment was not calculated.

Note 4.17. 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 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 agreement concluded in accordance with the laws of Ukraine.

Lease payments made by the Bank as a lessee under operating lease contracts are recognized in administrative costs. Where under the operating lease contract facility improvements made by the lessee are permitted, such investments made by the lessee are recognized in non-current tangible assets and amortized over the term of the lease remaining after such investments being made.

During the reporting year the Bank was the lessee under the movable property and administrative buildings lease agreements.

As of January 1, 2019, the bank audited commercial agreements within application of IFRS 16 "Lease", and made the following decisions:

- the method of determining the rate as "interest rate on an example of cost of financing the Bank" of borrowing the funds raised to discount the present value of lease payments, when forming the lease liabilities, was approved;
- liabilities are calculated under the lease agreements in force as of January 1, 2019, using the borrowing rate of the funds raised as of that date;
- the asset is valued as equal to the liability as of January 1, 2019 (adjusted for prepayment and accrual), the net assets/capital of the Bank do not change;
- the bank continues to account the intangible assets within application of IFRS 38 "intangible assets";

The Bank accounts the lease transactions according to IFRS 16 "Lease", regulations of the NBU and internal documents of the Bank for the accounting of fixed assets and intangible assets, except for transactions subject to the following conditions:

- the cost of the underlying asset for lease is below hryvnia equivalent of USD 5,000.00,

- short-term lease is the lease, which has a lease term of 12 months or less on the date of beginning of the lease.

Note 4.18. Finance leases where the Bank acts as a lessee and/or a lessor

The financial leasing (lease) is the lease which terms and conditions do not provide for passing all of the risks and benefits inherent to the title to an asset. The title may or may not eventually be transferred.

The lease payments to be made by the Bank as lessee under the financial leasing agreements shall be recognized as interest expenses for accounts payable under the financial leasing. If a financial leasing agreement allows the lessee to improve the leased property, investments so made shall be recognized as non-current tangible assets and are amortized within the effective period of the leasing (lease) remaining after such investments. During the reporting year, the Bank acted as lessee under the movable property lease agreements.

Note 4.19. Non-current assets held-for-sale and disposal groups

Non-current assets held for sale are recognized if their carrying amount (balance-sheet value) is repaid by the sales operations rather than by current usage.

Non-current assets held-for-sale and disposal group assets are assets that correspond in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations to any of the following criteria:

- expected to be sold or intended for sale or use in the normal operating cycle of the entity;
- held primarily for sale;
- expected to be sold within twelve months after the reporting period; or
- is cash or cash equivalent (as defined in IAS 7) unless its exchange or use to settle the obligation is not limited for at least twelve months after the reporting period.

Non-current assets held-for-sale are not subject to depreciation.

The carrying amount of an asset is measured in accordance with the applicable IFRS prior to the initial classification of an asset as held-for-sale. Non-current assets held-for-sale are initially recognized at lower of carrying amount or fair value less costs to sell.

During the reporting and previous years, the Bank did not recognize the impairment of non-current assets held-for-sale and reversal of impairment.

In order to increase sales of non-current assets, the Bank's management have designed a plan to sell assets and initiated a program to identify a buyer and implement the plan. In addition, assets are actively promoted for sale on the market at a reasonable price given their current fair value with the expectation that the sale will be completed within one year from the date of classification, and actions taken for the implementation of the plan suggest the impossibility of cancellation of the plan or introducing any important changes.

Sales period extends for more than one year if this is due to circumstances beyond the control of the Bank. Namely, where deviations in the expected real estate sales plan arose because of stagnation in the property market of Ukraine or the absence of real buyers.

During the reporting and previous year of 2017 there were no any non-current assets held-for-sale.

Note 4.20. Depreciation and amortization

Depreciation (amortization) represents a systematic allocation of cost of property, plant and equipment (intangible assets) depreciated (amortized) over their useful lives.

Property and equipment (intangible assets) are depreciated (amortized) within the period of their useful lives set by the Bank during their initial recognition and reviewed at each financial year-end during the annual inventory, and adjusted as necessary.

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

Useful lives of property and equipment are presented as follows:

Buildings, constructions	50 years
Vehicles	7 years
Furniture	5 years
Computer equipment	4 years
Machinery and equipment (except computer equipment)	4 years
Tools, fixtures and fittings	5 years
Other property and equipment	12 years
Leased premise's improvement	end of lease term

Depreciation of low-value non-current assets is accrued 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. Accounts receivable.

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 under the 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 for Bookkeeping of the Ukrainian Banks.

Accounts receivable are recognized 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 agreement cost). 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 fulfillment 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 undistributed 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, recognized 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 4.22. Discontinued operations

The Bank has no business lines that may be classified as discontinued operations.

Note 4.23. Derivatives

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 requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

After initial recognition the Bank recognizes derivatives at fair value.

All derivatives held-for-trading with positive fair value are recognized as assets. All derivatives held-for-trading with negative fair value are recognized as liabilities. Derivative financial instruments may not be reclassified from financial instruments at fair value through profit or loss.

The Bank recognizes 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.

Certain derivatives embedded in other financial instruments are accounted for as separate derivatives when their risks and economic characteristics are not closely related to the risks and economic characteristics of an underlying transaction. The Bank does not use hedge accounting.

Note 4.24. Borrowings

Borrowings include due to customers, representing non-derivative financial obligations to corporate clients and individuals.

Financial liabilities for funds raised are initially recognized at fair value. The best evidence of fair value at initial recognition is the transaction price. Profit or loss is initially recognized 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 amortized cost.

Interest expenses on borrowings are recognized on an accrual basis using the effective interest rate method (except for borrowings on request).

Note 4.25. Provisions for liabilities

A liability is an existing obligation that arises from past events and the settlement of which is expected to result in an outflow of resources embodying economic benefits.

Provisions for granted liabilities secure their fulfilment in the future, which indicates the probable losses due to an outflow of resources associated with the fulfilment of such financial liabilities.

Provisions are conceptually more uncertain than most other items in the statement of financial position. The Bank's management may determine only a range of possible outcomes and may therefore make an approximate estimate of the obligation, which is sufficiently reliable for the recognition of provisions. The amount recognized as a provision is the best estimate of the expenses required to settle present obligations. The estimates of results and financial effect are determined by the judgment of the Bank's management and supplemented by experience of similar transactions and, in certain cases, by reports from independent experts. Provided that the impact of time value of money is material, the provision amount is the present value of the expenses expected to be required to settle the obligation. In the assessment of a provision, gains from the expected disposal of assets are not taken into account, even if the expected disposal is closely associated to the event giving rise to the provision. No provision is recognized for future operating losses.

At each reporting date the Bank assesses liabilities and, provided that the Bank is confident it will have to repay such liabilities, the Bank creates a provision in the amount needed to fulfil the liability (net of consideration received, taking into account accumulated depreciation). If the outflow of resources related to the fulfilment of liabilities is unlikely, the provision (if any) is dissolved.

Where the Bank fulfils liabilities, the expected recoverable amount from the debtor or a third party is recognized by the Bank as an asset only when it is definitely stated that such recoverable amount will be received.

Note 4.26. Subordinated debt

Subordinated debt is an ordinary not secured by the Bank debt capital instrument, which according to the contract cannot be redeemed earlier than in five years, and in the event of the Bank's bankruptcy or liquidation it is returned to the investor after satisfaction of all other creditors. The amount of a subordinated debt included in the equity is annually reduced by 20% of its initial amount during the five last years of the contract.

Subordinated debt is initially recognized at fair value. The best evidence of fair value at initial recognition is the transaction price. Profit or loss is initially recognized 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.

Customers' funds borrowed on a subordinated debt basis are subsequently measured at an amortized cost.

Interest expenses on customer funds raised under a subordinated debt are recognized on an accrual basis using the effective interest rate method.

Note 4.27. 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 recognized in net income, except for the amounts relating directly to other comprehensive income and losses.

Deferred tax is calculated using the 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 utilized or a liability is settled, based on legal norms in force at the reporting date. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which deferred tax assets can be utilized.

During 2018 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 recognized.

Note 4.28. Share capital and share premium

Ordinary shares are reflected in capital structure. The Bank did not obtain any share premium. The Bank issued no options, warrants and other financial instruments that grant their holder a right to purchase ordinary shares.

Note 4.29. Preference shares

The Bank has not issued preference shares. The Bank has not entered into agreements on the issue of shares depending on certain conditions.

Note 4.30. Treasury shares

In the reporting and previous years, no treasury shares were purchased from the shareholders.

Note 4.31. Dividends

In the reporting and previous years, the Bank's dividends have not been accrued and distributed.

Note 4.32. Income and expense recognition

Income represents the increase in economic benefits during the reporting period in the form of inflows of funds, increasing assets or reducing liabilities, which enhances the equity and does not comprise contributions from the Bank's founders.

Expenses represent a decrease in economic benefits during the reporting period in the form of outflows of funds, utilization of assets in the form of disposal or depreciation of assets or origination of liabilities, which reduces the equity and does not constitute distribution among the Bank's founders.

The Bank applies the principle of accrual and matching in recognition of income and expenses in the Statement of Comprehensive Income, i.e. all income and expenses related to the accounting period are recognized in the same period regardless of when they were received and principle of comparison of income of the reporting period with expenses incurred to generate this income in order to determine the financial result of the reporting period. If the income from the provision of services cannot be estimated reliably, it is recognized and disclosed within recoverable expenses.

Interest income and expenses for financial instruments are accounted for with simultaneous amortization of a discount/premium using the effective interest rate. The amount of a discount/premium must be fully amortized at maturity/return of a financial instrument or before the next date of interest rate review, if it changes depending on fluctuations in market rates. If the amount of a discount/premium for a financial instrument with a floating rate is related to changes in the credit risk of a counterparty, it is amortized over the expected useful life of a financial instrument.

The Bank recognizes interest income from financial assets for which the impairment was identified to the carrying amount of an asset using the effective interest rate applied to discount the estimated expected cash flows when determining the impairment of financial assets.

The Bank calculates interest income and expenses for financial instruments for which it is impossible to determine the value of future cash flows and the timing of their occurrence using the nominal interest rate.

During the initial recognition of financial instruments, the Bank determines the gain or loss in the amount of the difference between the fair value of a financial asset or financial liability and contract value 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 contract value from transactions with shareholders is recognized in equity and is included in parts to retained earnings (losses) for the period of its detention or at the time of disposal of the instrument.

The Bank's fees and commissions for provided (received) services depending on evaluation purposes and accounting bases of associated financial instruments are divided into:

- fees and commissions that form an integral part of income (expenses) of a financial instrument. These fees and commissions are recognized as part of the historical cost of a financial instrument and affect the determination of discounts and premiums for this financial instrument;

- fees and commissions received (paid) during provision of services are recognized as income (expenses);

- fees and commissions received (paid) after performing certain actions are recognized as income (loss) after the completion of certain operations.

Note 4.33. Foreign currency revaluation

The Bank's functional and presentation currency is Ukrainian hryvnia.

Assets and liabilities denominated in foreign currencies are translated into hryvnia equivalent as follows:

- all monetary items denominated in foreign currencies are recognized at the official Ukrainian hryvnia exchange rate ruling on the reporting date;
- non-monetary items in foreign currencies that are measured at cost are recognized 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 recognized in the Statement of Comprehensive Income (Net gain/(loss) from foreign currency revaluation) in the period when they arise.

If the gain or loss in a non-monetary item is recognized in other comprehensive income, any foreign currency component of that gain or loss is recognized directly in other comprehensive income. Conversely, if the gain or loss in a non-monetary item is recognized in profit or loss, any foreign currency component of that gain or loss is recognized in profit or loss.

Note 4.34. Mutual 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 recognized in the balance sheet and intends to settle or sell an asset and implement a liability simultaneously.

In the reporting and previous years, the Bank did not provide mutual offset of assets and liabilities.

Note 4.35. Assets under trust

In the reporting and previous years, the Bank did not enter into trust agreements.

Note 4.36. 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, labor 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 unutilized 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 12/02/2010. Withholding of a single fee is carried out in accordance with the Law of Ukraine No. 2464-VI "About collection and accounting of the single fee on obligatory national social insurance" dated 07/08/2010.

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 formed 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 formed for the amount of single contribution charges for vacation payments.

Note 4.37. Business 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 recognized the following operating segments:

- services to corporate customers - entities of all forms of property (other than banks);
- services to individuals;
- transactions with other banks;

- investment banking - securities transactions.

The Bank recognizes the income, which is 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 income less segment expenses.

Note 4.38. Related parties 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 labor, civil, and other relations.

As of December 31, 2018, the number of persons related to the Bank made up to 181 persons, including 15 legal entities and 166 individuals. Information on management personnel belonging to persons related to the Bank is provided in the Management Report of JSC "BANK ALLIANCE". Information on related-party transactions is provided 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 declare null and void from the date of signing.

Note 4.39. 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;
- if the change would improve the reliability and/or expediency of information about the effects of transactions, other events and conditions on the financial position, financial

performance or cash flows.

Changes in accounting policies are applied retrospectively. Exclusion (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 recognized 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 impossible to determine the effect of errors on a specific period or its cumulative impact (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 9 was applied in the reporting period on a historical basis, no any adjustments revealed.

During 2018, there were no changes in accounting policies, accounting estimates and identifications of significant errors.

Note 4.40. 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 adopts judgements, estimates and assumptions affecting the application of accounting policies, amounts of assets and liabilities, income and expenses recognized in the financial statements and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates. Estimates and assumptions on which they are based are reviewed regularly. The results of review of accounting estimates are recognized 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 impact 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.*

The essential judgments required when applying the accounting requirements to estimate the expected credit losses include:

- determination of criteria for significant increase of credit risk;
- selection of appropriate models and assumptions to assess the expected credit losses;
- determination of the number and relative weight of the forecast scenarios for each type of product / market and relevant expected credit losses;
- determination of groups of similar financial assets to assess the expected credit losses.

Note 5. New and Revised Standards Issued but not yet Effective

The following standards have been adopted by the Bank since 1 January 2018:

IFRS 9 – Financial Instruments.

The Bank measures at fair value all financial assets currently accounted for at fair value.

As of January 1, 2018, the Bank made a transition to the application of IFRS 9. There are no differences between the first application of the provision creation under IFRS 9 and IAS 39 as of that date, taking into account the following.

The Bank has no assets on which the classification has changed (according to the results of the SPPI test, recognition of assets at the depreciated cost has been continued), the provision creation base has not changed.

On the date of initial application, the Bank used the following IFRS 9 recommendations concerning the initial application:

- The Bank uses valid and verifiable information that can be obtained without unreasonable expenses or efforts to determine credit risk on the date of initial recognition of financial instrument (or for liabilities for the loan granting and financial guarantee agreements on the date when the Bank accepted an irrevocable liability) and its comparison with the credit risk on the date of initial application of IFRS 9 (IFRS 9: 7.2.18);

- If, in order to determine whether there has been a significant increase in the credit risk after initial recognition on the date of initial application, the unreasonable expenses or efforts will be required from the Bank, then the Bank will recognize a provision for losses equal to the expected credit losses for the entire validity of the instrument, on each reporting date, until the recognition of such financial instrument will be terminated. However, if a financial instrument has a low credit risk on the reporting date, the Bank will assume that there has been no significant increase in credit risk since the initial recognition (IFRS 9: 7.2.20).

The structure of the Bank's financial instruments as of January 1, 2018 in terms of maturity is mainly represented by financial instruments with a maturity of up to one year. That is, the default probability indicator for most financial instruments is calculated for a period of less than one year.

Moreover, there is a positive effect of forecasting economic factors, which leads to the adjustment of default probability to lower values and creation of provision to a lesser extent. But, taking into account the fact that the country is in the state of ATO in the East, which may have a negative impact on the implementation of positive forecast dynamics of key economic indicators, the Bank applied the judgment on January 1, 2018 regarding the use of maximum default probabilities for creating the provision under IFRS 9, provided for by the regulations of the NBU, without adjusting to the forecasting economic indicators.

In view of the aforesaid, based on the analysis of assets and financial liabilities as of January 1, 2018, the Bank did not reflect the effect of applying IFRS 9 as of January 1, 2018.

IFRS 15 "Revenue from agreements with customers" came into effect on January 1, 2018.

IFRS 2 "Classification and assessment of share-based payment transactions" came into effect on January 1, 2018.

Standards that have been issued, but not yet become effective

The following standards and interpretations, as well as amendments to standards have been issued, but not yet become effective, as of 01.01.2019:

The clarification to IFRS 3 "Business combinations" and IFRS 11 "Joint activity" appears.

In particular, IFRS 3 now requires a revaluation of a business share under circumstances when a business entity obtains control over a business that is a joint operation. This requirement relates to the positioning of such agreement as a phased business combination. Instead, IFRS 11 clarifies the joint control: when an entity obtains joint control over a business that is a joint operation, the entity does not reevaluate the previously recognized share in that company.

IAS 12 "Income taxes" is subject to some changes. In particular, § 52B of this standard was deleted, but its basic idea was moved to § 52A. Thus, the tax consequences of income in the form of dividends are recognized at recognition of obligations to pay dividends. It should be noted that this statement applies to all tax consequences of dividends, and not only to situations when there are different tax rates for distributed and retained profit.

Changes are made to IAS 23 "Borrowing Costs", in terms of borrowing costs subject to capitalization, and relate directly to § 14. The changes clarify: if any specific loans remain outstanding after the asset is ready for its expected use or sale, the borrowing becomes a part of the funds borrowed by the entity as a whole when calculating the capitalization rate for total loans.

As for the other important updates in the IFRS, certain amendments to IFRS 9, IAS 28, IAS 19 will come into effect on January 1, 2019.

Amendments to IFRS 9 "Prepayment features with potentially negative compensation"

According to IFRS 9, a debt instrument may be evaluated at the depreciated cost or at the fair value through other comprehensive income, provided that the contractual cash flows are "exclusively payments towards the principal amount and interest on the outstanding part of the principal amount" (SPPI test) and the instrument is withheld within the relevant business model that enables such classification.

Amendments to IFRS 9 clarify that a financial asset undergoes the SPPI test, regardless of which event or circumstance leads to an early termination of the agreement, as well as regardless of which party pays or receives a reasonable compensation for early termination of the agreement.

These amendments are applied retrospectively and come into effect for annual periods beginning from January 1, 2019. They may be applied before this date. These amendments do not affect the Bank's financial statements.

Amendments to IFRS 10 and IAS 28 "Sales or contributions of assets in agreements between an investor and its associate/joint venture"

Amendments consider contradictions between IFRS 10 and IAS 28, in terms of accounting of the loss of control over a subsidiary that is sold to an associate or a joint venture, or is included in them. Amendments clarify that the profit or loss arising from the sale or transfer of assets representing a business, as defined in IFRS 3, in an agreement between an investor and its associate or joint venture, is recognized in full. However, the profit or loss arising from the sale or transfer of assets that do not constitute a business is recognized only within the participation share held by investors other than the organization in an associate or a joint venture. The IFRS Council postponed the date of entry into force of the amendments for an indefinite period, but the organization applying these amendments ahead of time should use them prospectively. The Bank will apply these amendments when they enter into force.

Amendments to IAS 19 "Amendments to the program, program reduction, or repayment of program obligations"

Amendments to IAS 19 consider accounting in cases when changes to the program, program reduction or repayment of program obligations occur during the reporting period. Amendments clarify that if changes to the program, program reduction or repayment of program obligations occur during the reporting period, the organization must:

determine the cost of services for the current period for the rest of period after changes to the program, program reduction or repayment of program obligations based on actuarial assumptions used to revalue the net liability (asset) of the program with a defined payment reflecting the rewards offered under the program, and program assets after this event;

determine the net interest amount for the rest of the period after changes to the program, program reduction or repayment of program obligations, using: the net liability (asset) of the program with a defined payment, reflecting the rewards offered under the program, and program assets after this event; and the discount rate used to revalue this net liability (asset) of the program with a defined payment.

The amendments also clarify that an organization should first determine the cost of services of past periods, or the profit or loss on repayment of liabilities under this program, without taking into account the effect of marginal value of the asset. This amount is recognized in profit or loss. Then the organization should determine the effect of marginal value of the assets after making changes to the program, its reduction or full repayment of the program obligations. Any change in this effect, except for amounts included in the net amount of interest, is recognized in other comprehensive income.

These amendments apply to changes in the program, its reduction or full repayment of the program obligations that occurred on or after the first annual reporting period date, commencing on or after January 1, 2019. They may be applied before this date. These amendments will apply only in relation to future changes to the Bank's program, its reduction or repayment of program obligations.

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

The amendments clarify that the organization applies IFRS 9 to the long-term investments in associates or joint ventures, to which the equity method of accounting is not applied, but which, in fact, form a part of net investments in an associate or a joint venture (long-term investments). This clarification is important since it means that the model of expected credit losses in IFRS 9 applies to such long-term investments.

The amendments also explain that, when applying IFRS 9, an organization does not take into account losses incurred by an associate or a joint venture that is the impairment loss on net investments recognized as adjustments to the net investments in an associate or a joint venture arising as a result of application of IAS 28 "Investments in associates and joint ventures".

These amendments are applied retrospectively and come into effect for annual periods beginning on or after January 1, 2019. They may be applied before this date. Since the Bank has no such long-term investments in an associate or a joint venture, the amendments will have no impact on its financial statements.

IFRS 17 "Insurance agreements"

In May 2017, the IFRS Council issued IFRS 17 "Insurance agreements", a new comprehensive financial reporting standard for insurance agreements that considers an issue of recognition, evaluation, presentation and disclosure of information. When IFRS 17 enters into force, it will replace IFRS 4 "Insurance agreements" issued in 2005. IFRS 17 applies to all types of insurance agreements (that is life insurance and insurance other than life insurance, direct insurance and reinsurance) regardless of the type of organization that issues them, as well as certain precautionary measures and

financial instruments with discretionary participation conditions. There are several exceptions to the field of application. The main objective of IFRS 17 is to provide an accounting model of the insurance agreements that is more efficient and consistent for insurers. Compared to IFRS 4 requirements, which are mainly based on previous local accounting policies, IFRS 17 provides for a comprehensive accounting model of the insurance agreements covering all relevant accounting aspects. IFRS 17 is based on the general model, supplemented by the following:

certain modifications to insurance agreements with conditions of direct participation (variable remuneration method);

a simplified approach (approach based on the bonus distribution), mainly for the short-term agreements.

IFRS 17 will come into effect for accounting periods beginning on or after January 1, 2021. At that, it will be necessary to disclose the comparative information. It may be applied before this date, provided that the entity also applies IFRS 9 and IFRS 15 at the date of first application. This standard is not applicable to the Bank.

Clarification of IFRIC 23 "Uncertainty over income tax treatments"

The clarification considers the procedure for accounting the income tax when there is an uncertainty about tax treatment that affects the application of IFRS 12. The clarification does not apply to taxes or fees not included in field of IAS 12 application, as well as does not contain specific requirements relating to interest and fines associated with the uncertain tax treatments. In particular, the clarification considers the following issues:

- whether the organization considers the uncertain tax treatments separately;
- assumptions made by the organization regarding tax treatments by the tax authorities;
- how the organization determines taxable profit (tax loss), tax base, unused tax losses, unused tax benefits and tax rates;
- how the organization considers changes in facts and circumstances.

The organization should decide whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. It is necessary to use an approach that will allow predicting the outcome of uncertainty more precisely. The clarification comes into effect for annual periods beginning on or after January 1, 2019.

The Bank will apply the clarification from the date of its entry into force. Since the Bank operates in a complex tax environment, application of the clarification may affect the Bank's financial statements.

IFRS 16 Leases

Being issued in January 2016 IFRS 16 shall become effective on 1 January 2019 and substantially carry forward IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC Interpretation 15 Operating Leases - Incentives and SIC Interpretation 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 establishes principles

for the recognition, measurement, presentation and disclosure of leases and requires that all lessees used a single lessee accounting model, similarly to the accounting procedure stipulated in IAS 17 for finance lease. The standard provides for two recognition exemptions – leases where the underlying asset has a low value (such as personal computers) and short-term leases (leases with a lease term of 12 months or less). At the inception of the lease the lessee shall recognize the liability for lease payments (leasing obligation) and asset representing the right to use the underlying asset during the lease term (i.e., assets in the form of right to use). Lessees will be required to recognize depreciation of lease assets separately from interest on lease liabilities in the income statement.

Lessees will also have to reassess lease obligations upon the occurrence of certain events (such as changes in lease terms, changes in future lease payments due to changes in indices or rates used to determine these payments). In most cases, the lessee will consider revaluation surplus of a lease obligation as the adjustment of an asset in the form of a right to use.

IFRS 16's approach to lessor accounting remained substantially unchanged from its predecessor, IAS 17. Lessors will continue to classify leases using the same principles of classification as in IAS 17, distinguishing two types of leases: operating and finance.

In addition, IFRS 16 requires lessors and lessees to disclose a larger volume of information than IAS 17 does.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted, but not before the date of adoption of IFRS 15. A lessee has the right to apply this standard using a retrospective approach or a modified retrospective approach. The transitional provisions provide for certain exemptions. The Bank is currently assessing the possible impact of application of IFRS 16 on the financial statements.

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

<i>UAH, ths.</i>	31.12.2018	31.12.2017
Cash on hand	123 225	47 177
Balances with the National Bank of Ukraine (excluding mandatory reserves)	31 298	11 883
Cash at correspondent accounts with banks	225 749	112 863
of Ukraine	225 724	112 863
Other countries	25	0
Total cash and cash equivalents, net of provisions	380 272	171 923
Provision for impairment of cash at correspondent accounts with Ukrainian banks	(12 270)	(4 168)
<i>Total cash and cash equivalents, excluding provisions</i>	<i>368 002</i>	<i>167 755</i>

As at the end of 2018 and 2017, Cash and cash equivalents comprised cash on hand and funds in correspondent accounts with other banks (including the correspondent account with the National Bank of Ukraine).

During 2018 and 2017, the Bank had no non-cash investment and financial transactions.

The data of Note 6 are 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>UAH, ths.</i>	31.12.2018	31.12.2017
Loans to legal entities	1 431 360	448 261
REPO transactions loans	-	-
Consumer loans to individuals	34 517	3 394
Provision for impairment of loans	(74 730)	(20 797)
Total loans, net of provisions	1 391 147	430 858

The data of Note 7 are disclosed in the Statement of Financial Position (Balance Sheet), the Statement of Cash Flows and in Note 20.

The final amount of "Loans and Advances to Customers" as of 01.01.2019 excludes the guarantee coverage under conversion agreement allocated to the financial company in the amount of UAH 8 307 thousand (provision - UAH -581 thousand).

Table 7.2. Analysis of changes in provisions for loan debts for 2018

<i>UAH, ths.</i>	Loans to legal entities	Loans to individuals	Total
Balance as of 31 December 2017	(20 212)	(585)	(20 797)
(Increase)/decrease of impairment provision during the period	(54 650)	(2 638)	(57 288)
Effect of translation in statements currency	3 355	-	3 355
Balance as of 31 December 2018	(71 507)	(3 223)	(74 730)

Table 7.3. Analysis of changes in provisions for loan debts for 2017

<i>UAH, ths.</i>	Loans to legal entities	Loans to individuals	Total
Balance as of 31 December 2016	(6 559)	(5)	(6 564)
(Increase)/decrease of impairment provision during the period	(13 549)	(580)	(14 129)
Effect of translation in statements currency	(104)	-	(104)
Balance as of 31 December 2017	(20 212)	(585)	(20 797)

Table 7.4. Loan structure by types of economic activity

Economic activity	(UAH ths.)			
	31.12.2018		31.12.2017	
	amount	%	amount	%
Wholesale trade, except for trade of motor vehicles and motorcycles	329 034	22,45	106 352	23,55
Electricity, gas, steam and conditioned air supply	235 511	16,07	-	-
Non-specialized wholesale trade	194 226	13,25	33 019	7,31
Construction of buildings, special construction works	166 268	11,34	47 717	10,57
Other	146 261	9,98	5 393	1,19
Wholesale and retail trade of motor vehicles and motorcycles; repairs	119 869	8,18	22 553	4,99
Extraction of other non-ferrous metal ores	110 501	7,54	70 222	15,55

Economic activity	31.12.2018		31.12.2017	
	amount	%	amount	%
Rendering financial services	43 313	2,95	-	-
Retail trade, except for trade of motor vehicles	40 580	2,77	42 030	9,31
Individuals	34 517	2,35	3 394	0,75
Collecting, processing and removal of wastes; reduction of materials	30 100	2,05	-	-
Rent and operation of owned and leased real estate	8 794	0,60	2 815	0,62
Warehousing and auxiliary transport activities	4 842	0,33	39 761	8,80
Manufacturing of rubber and plastic products	2 061	0,14	-	-
Activities of central administrations (head-offices), management consulting	-	-	57 611	12,76
Production of foods	-	-	-	-
Other types of lending activities	-	-	14 701	3,25
Production of meat products	-	-	6 087	1,35
<i>Total loans and advances to customers, net of provisions</i>	<i>1 465 877</i>	<i>100</i>	<i>451 655</i>	<i>100</i>

The Bank minimizes 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 2018

UAH, <i>ths.</i>	Loans to legal entities	Loans to individuals	Total
Unsecured loans	272 090	5 534	277 624
Loans secured by	1 159 270	28 983	1 188 253
cash funds	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
<i>Total loans and advances to customers, net of provisions</i>	<i>1 431 360</i>	<i>34 517</i>	<i>1 465 877</i>

Table 7.6. Information on loans by types of collateral for 2017

UAH, <i>ths.</i>	Loans to legal entities	Loans to individuals	Total
Unsecured loans	889	3 394	4 283
Loans secured by	447 372	-	447 372
real estate	197 924	-	197 924
other assets	249 448	-	249 448
<i>Total loans and advances to customers, net of provisions</i>	<i>448 261</i>	<i>3 394</i>	<i>451 655</i>

Table 7.7. Analysis of credit quality for 2018

<i>UAH, ths.</i>	Loans to legal entities	Loans to individuals	Total
Not overdue and not impaired	1 431 360	34 517	1 465 877
Large borrowers with credit history of more than 2 years	104 761	-	104 761
New large borrowers	544 251	-	544 251
Loan to small businesses	782 348	-	782 348
Total loan amount including provisions	1 431 360	34 517	1 465 877
Provisions for loan impairment	(71 507)	(3 223)	(74 730)
Total loans, net of provisions	1 359 853	31 294	1 391 147

Table 7.8. Analysis of credit quality for 2017

<i>UAH, ths.</i>	Loans to legal entities	Loans to individuals	Total
Impaired loans estimated on individual basis:	448 261	3 394	451 655
non-impaired loans	444 968	3 394	448 362
overdue up to 365 days	83	-	83
overdue over 366 (367) days	3 210	-	3 210
Total loan amount including provisions	448 261	3 394	451 655
Provisions for loan impairment	(20 212)	(585)	(20 797)
Total loans, net of provisions	428 049	2 809	430 858

Table 7.9. Effect of collateral value on credit quality as of 31 December 2018

<i>UAH, ths.</i>	Loans carrying amount	Expected cash flows from sale of collateral	Collateral effect
1	2	3	4 = 2 - 3
Loans to legal entities	1 431 360	110 932	1 320 428
Consumer loans to individuals	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 collateralized 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 implement collateral.

The Bank preliminary assesses 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 7.10. Effect of collateral value on credit quality as of 31 December 2017

<i>UAH, ths.</i>	Loans carrying amount	Expected cash flows from sale of collateral	Collateral effect
1	2	3	4 = 2 - 3
Loans to legal entities	448 261	241 047	207 214
Consumer loans to individuals	3 394	-	3 394
Total loans	451 655	241 047	210 608

Table 7.11. Loan impairment provisions subject to 3-staged impairment model as of 31 December 2018

<i>UAH, ths.</i>	1st STAGE of impairment model	2nd STAGE of impairment model	3rd STAGE of impairment model
Loans impairment provisions	-	74 730	-
including provisions for impairment of loans to legal entities	-	71 507	-
including provisions for impairment of loans to individuals	-	3 223	-

Note 8. Investments in securities

Table 8.1. Securities held at amortized cost value

<i>UAH, ths.</i>	31.12.2018	31.12.2017
Debt securities – corporate bonds	27 348	27 348
Deposits certificates issued by NBU	270 355	150 103
Provisions for impairment of securities	(27 348)	(27 348)
Total securities, net of provisions	270 355	150 103

Table 8.2. Securities held at fair value through profit or loss

<i>UAH, ths.</i>	31.12.2018	31.12.2017
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Domestic Government Loan Bonds – Ministry of Finance of Ukraine	27 440	-
Provisions for impairment of securities	-	-
<i>Total securities, net of provisions</i>	27 440	-

Table 8.3. Analysis of credit quality of securities

<i>UAH, ths.</i>	31.12.2018	31.12.2017
Impaired debt securities estimated on an individual basis	27 348	27 348
Provisions for impairment of securities	(27 348)	(27 348)
<i>Total impaired debt securities, net of provisions</i>	-	-

Table 8.4. Provisions for impairment of debt securities subject to 3-staged impairment model as of 31 December 2018

<i>UAH, ths.</i>	1st STAGE of impairment model	2nd STAGE of impairment model	3rd STAGE of impairment model
Provisions for debt securities	-	-	27 348
<i>Total</i>	-	-	27 348

During reporting year 2018 and previous year 2017, debt securities accounts (the Bank's portfolio of securities held at amortized cost value) 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 recognized an 100% impairment for these securities. With regard to LLC "NAVIUM" the securities impairment provision was created for the whole amount of UAH 27 348.

At the end of reporting year 2018 and previous year 2017, the Bank's securities portfolio held at amortized cost value 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 2018 the Bank carried out transactions with the currency Domestic Government Loan Bonds held at fair value through profit or loss. As of 31 December 2018 their book value was UAH 27 440. The Bank received interest payments on such securities.

Note 9. Derivative financial assets

Table 9.1. Derivative financial assets

<i>UAH, ths.</i>	31.12.2018	31.12.2017
Assets (positive revaluation amounts) under swap contracts in the Bank's trade portfolio	1 560	1 085
<i>Total financial assets held at fair value through profit or loss</i>	1 560	1 085

At the end of reporting year 2018 and previous year 2017, the Bank had not financial assets held at fair value through profit or loss and transferred without derecognition. The data of Note 9 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 20.

Note 10. Property, Plant and Equipment and Intangible Assets

(UAH, ths.)

Line	Item	Machinery and equipment	Vehicles	Tools, fixtures and fittings (furniture)	Other items of property, plant and equipment	Other non-current tangible assets	In-progress capital investments in property, plant and equipment and intangible assets	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10
1	Carrying amount at the beginning of the reporting period, as of 01.01.2018	5 559	2 846	205	712	211	19	3 311	12 863
1.1	initial (revaluated) cost	6 952	3 391	333	933	1 018	19	5 666	18 312
1.2	depreciation/ amortization at the beginning of the reporting period	(1 393)	(545)	(128)	(221)	(807)	-	(2 355)	(5 449)
2	Additions	5 474	2 700	220	775	3 353	11 913	1 993	26 428
3	Disposals	(3)					(11 816)	-	(11 819)
3.1	initial (revaluated) cost	(79)		(13)	(9)	(107)	(11 816)		(12 024)
3.2	depreciation/ amortization	76		13	9	107			205
4	Depreciation/amortization charges	(2 440)	(491)	(68)	(104)	(2 129)	-	(1 050)	(6 282)
5	Carrying amount at the end of the reporting period, COB 31.12.2018	8 590	5 055	357	1 383	1 435	116	4 254	21 190
5.1	initial (revaluated) cost	12 347	6 091	540	1 699	4 264	116	7 659	32 716
5.2	depreciation/ amortization at the end of the reporting period, COB 31.12.2018	(3 757)	(1 036)	(183)	(316)	(2 829)	-	(3 405)	(11 526)

As for the property, plant and equipment with the restricted rights on their possession, utilization and disposal, within the reporting period the Bank had on its books the following leased items:

- motor vehicle VW LNF T6 Kasten KR ND 2.0 TDI 140PS 6G – 2 units, under financial lease agreements No. 00014345, No. 00014469 dated 31.08.2017. PORSCHE LEASING LLC. As long as the contract is valid and effective, the Lessor retains the title to the leased property. After the contract expires and the last lease payment is made, the title to the leased property shall pass to the lessee. The Parties agree that the interest rate shall be variable and calculated based on the floating interest rate corresponding to the three-month rate under the Ukrainian Index for UAH Individual Deposit Rates.
- motor vehicle Volkswagen Transporter TDI 2,0 140PS 2018 YOM – 2 vehicles, under financial lease agreements No. FL052-07/18, No. FL053-07/18 dated 26.07.2018. Personalnyi Ukrainiyskyi Lizyng 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. Intangible assets with the restricted property rights are absent.

The initial value of fully depreciated property, plant and equipment amounted to UAH 795 thousand. During the reporting period property, plant equipment and intangible assets were not revalued by the Bank. The data of Note 10 are disclosed in the Statement of Financial Position (Balance Sheet), the Statement of Cash Flows and in Note 20.

Note 11. Other assets

Table 11.1. Other assets

<i>UAH, ths.</i>	31.12.2018	31.12.2017
Income from cash management services, accrued but not received	19	19
Fees for guarantees granted, accrued but not received	927	572
Accounts receivable on transactions with other banks	12	524
Amounts of positive revaluation under spot contracts at FX market	12 373	5
Funds placed with other banks as a security	3 495	9 045
Settlement of accounts within international transfer systems	855	922
Accounts receivable on transactions with bank customers	1 188	52
Banking metal at the bank outlet	691	428
Accounts receivable on business activity of the Bank	3 322	1 431
Accounts receivable on taxes and mandatory payments	9	-
Deferred expenses	2 334	1 452
Other assets	194	15
Provision for impairment of other financial assets	(1 675)	(417)
<i>Total other assets, net of provisions</i>	23 744	14 048

During the reporting and previous years, the Bank did not enter into finance lease contracts, where the Bank acted as a lessor.

Funds placed with other banks as a security shall include transaction relating to payment system settlements in the amount of UAH 3 495 thousand.

The data of Note 11 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 20.

Table 11.2. Analysis of changes in provision for impairment of other assets

<i>UAH, ths.</i>	Accrued income provisions	Accounts receivable on transactions with other banks	Funds placed with other banks as a security	Accounts receivable on transactions with bank customers	Debts on the Bank's business activity	Total
<i>Balance as of 31 December 2016</i>	(2)	(1)	-	-	(98)	(101)
(Increase)/decrease of provision	2	-	(21)	(52)	(245)	(316)
<i>Balance as of 31 December 2017</i>	-	(1)	(21)	(52)	(343)	(417)
(Increase)/decrease of provision	(25)	-	(162)	-	(1 071)	(1 258)
<i>Balance as of 31 December 2018</i>	(25)	(1)	(183)	(52)	(1 414)	(1 675)

Note 12. Due to banks

Table 12.1. Due to banks

<i>UAH, ths.</i>	31.12.2018	31.12.2017
Correspondent accounts	-	2
Loans received from other banks under repo transactions held at amortized cost value	-	-
Total amounts due to banks	-	2

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.

The data of Note 12 are disclosed in the Statement of Financial Position (Balance Sheet).

Note 13. Due to customers

Table 13.1. Due to customers

<i>UAH, ths.</i>	31.12.2018	31.12.2017
Legal entities:	978 827	357 042
current accounts	515 199	196 495
term deposits	463 628	160 547
Individuals:	686 411	103 454
current accounts	45 783	10 939
term deposits	640 628	92 515
Total amounts due to customers	1 665 238	460 496

The data of Note 13 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 20.

Table 13.2. Amounts due to customers by types of economic activity

Type of economic activity (UAH, ths.)	31.12.2018		31.12.2017	
	amount	%	amount	%
Individuals	686 411	41,22	103 454	22,47
Construction, construction works	235 295	14,13	7 869	1,71
Metallurgical production	209 689	12,59	-	-
Wholesale and retail sale, except for motor vehicles	108 268	6,50	-	-
Postal and courier business	108 156	6,49	-	-
Financial services, except for insurance and pension provision	78 006	4,68	65 080	14,13
Warehousing facilities and transportation activities	44 818	2,69	25 960	5,64
Production of machinery and equipment and other motor vehicle	34 554	2,08	-	-
Real estate operations	33 589	2,02	26 016	5,65
Air transport	22 693	1,36	-	-
Travel agencies	22 670	1,36	-	-
Publishing	10 936	0,66	3 662	0,80
Agriculture, hunting and related services	9 104	0,55	28 299	6,15
Insurance, reinsurance and non-governmental pension provision	8 942	0,54	-	-
Production of paper and paper products	6 002	0,36	8 680	1,88
Electricity, gas, steam and conditioned air supply	5 054	0,31	-	-

Type of economic activity (UAH, ths.)	31.12.2018		31.12.2017	
	amount	%	amount	%
Extraction of minerals and quarry development	4 963	0,30	-	-
Production of rubber and plastic goods	3 985	0,24	6 961	1,51
Advertising and market research	2 021	0,12	-	-
Wholesale and retail sale, repairs of motor vehicles	1 223	0,07	175 052	38,01
Other	28 859	1,73	9 463	2,05
Total due to customers	1 665 238	100	460 496	100

During the reporting year 2018 and previous year 2017, the Bank carried out transactions to raise clients' funds at market rates only.

As at the end of the previous year 2017, the amount of funds due to customers collateralized for credit operations and issued guarantee amounted to UAH 56 982 thousand. As a part of this item, as of the end of the reporting year 2018, the amount of funds due to customers collateralized for credit operations and issued guarantee amounted to UAH 181 954 thousand.

Note 14. Derivative financial liabilities

Table 14.1. Financial liabilities at fair value through profit or loss

UAH, ths.	31.12.2018	31.12.2017
Liabilities (negative revaluation result) for swap contracts held-for-trading	797	1 029
Total financial liabilities at fair value through profit or loss	797	1 029

The data of Note 14 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 20.

Note 15. Debt Securities Issued by the Bank

Table 15.1. Debt Securities Issued by the Bank

UAH, ths.	31.12.2018	31.12.2017
Zero-coupon interest-bearing deposit certificates with 365 days maturity	-	177
Total	-	177

As at the end of 2018 the Bank has no any debt securities.

During the previous year 2017, the Bank issued such debt securities as deposit certificates for the amount of USD 956 thousand. The securities so issued were interest-bearing coupon deposit certificates placed for the period from 181 to 365 days, with the interest payable upon redemption of the deposit certificates. The last deposit certificate has been redeemed by the Bank in March 2018.

As at the end of the reporting year 2018 there were no any assets provided as a collateral for securities issued by the Bank. During 2018 and previous year 2017, the Bank did not issue convertible debt instruments (those including liability and equity components).

The data of Note 15 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 20.

Note 16. Other borrowings

Table 16.1. Other borrowings

<i>UAH, ths.</i>	31.12.2018	31.12.2017
Financial lease liabilities	1 012	1 546
Total	1 012	1 546

Data from Table 16.1. are used to complete the Statement of Financial Position (Balance Sheet), item "Other borrowings", and Statement of Cash Flows, item "Receipt of other borrowings".

During the reporting period, the Bank had no outstanding obligations relating to the principal amount and interest accrued thereon. At the end of 2018, the Bank signed a financial leasing (lease) agreement.

Table 16.2. Information on minimum lease payments due under financial lease, and their current value

<i>UAH, ths.</i>	Up to 1 year	From 1 to 5 years	Total
Future financial payments	726	286	1 012
Current value of minimum lease payment as of the end of the reporting period	726	286	1 012

According to the contract, lease and other payments were recognized at fair value of the leased property. As long as the contract is valid and effective, the lessor retains the title to the leased property. After the contract expires and the last lease payment is made, the title to the leased property shall pass to the lessee. The Parties agree that the interest rate shall be variable and calculated based on a floating interest rate corresponding to the three-month rate under the Ukrainian Index for UAH Individual Deposit Rates.

Note 17. Provisions for Liabilities**Table 17.1.** Changes in provisions for lending

<i>UAH, ths.</i>	Provisions for lending liabilities	
	2018	2017
Opening balance	3 069	2 933
Formation and/or (reduction) of provision	11 112	136
Closing balance	14 181	3 069

Table 17.2. Provisions for impairment of issued guarantees subject to 3-staged impairment model as of 31 December 2018

<i>UAH, ths.</i>	1st STAGE of impairment model	2nd STAGE of impairment model	3rd STAGE of impairment model
Provisions for issued guarantees.	-	14 181	-
Total	-	14 181	-

The Bank applies the same risk management procedures for lending commitments as for the

recognized credit operations. The maximum potential credit risk for lending 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.

The data of Note 17 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 20.

Note 18. Other liabilities

Table 18.1. Other liabilities

<i>UAH, ths.</i>	31.12.2018	31.12.2017
Amounts of negative revaluation under spot contracts at FX market	3 424	212
Fees under issued guarantees	3 198	4 438
Accounts payable on trade with foreign currency	2 475	
Accounts payable on customers' transfers	400	614
Accounts payable on payments to the bank's employees	3 654	1 888
Payables to customers at closed accounts	21	33
Accounts payable on funds received as a security payment	197	163
Payments received in favor of customers	219	2
Deferred income	573	421
Payables for taxes and mandatory charges	1 171	222
Other accrued expenses	301	-
Other accounts payable	5 742	51
<i>Total other liabilities</i>	21 375	8 044

The data of Note 18 are disclosed in the Statement of Financial Position (Balance Sheet) and in Note 20.

Note 19. Share capital and issue profit/loss (share premium)

Table 19.1. Share capital and issue profit/loss (share premium)

<i>UAH, ths.</i>	Number of outstanding shares (thousand)	Ordinary shares	Total
<i>Balance as of the end of the reporting period (31.12.2016)</i>	12 978	129 779	129 779
Contributions for newly issued shares (interests, stocks)	3 022	70 221	70 221
<i>Balance as of the end of the reporting period (31.12.2017)</i>	16 000	200 000	200 000
Contributions for newly issued shares (interests, stocks)	-	60 000	60 000
<i>Balance as of the end of the reporting period (31.12.2018)</i>	16 000	260 000	260 000

As of 31 December 2018, the Bank's registered and fully paid share 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.

The Annual General Shareholders Meeting of BANK ALLIANCE Public Joint Stock Company (minutes No. 1/2018 dated 17 April 2018) has made a decision: "To increase the authorized capital of the BANK by UAH 60 000 000.00 up to UAH 260 000 000.00 by way of share par value increase

from UAH 12.50 (twelve Ukrainian hryvnias 50 kopecks) to UAH 16.25 (sixteen Ukrainian hryvnias 25 kopecks) through transferring certain share of profit for the year 2017 to the authorized capital".

The restated charter of JOINT STOCK COMPANY BANK ALLIANCE was approved by annual General Shareholders Meeting of BANK ALLIANCE Public Joint Stock Company (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 changed par value (UAH 16.25 each) was issued to the Bank by the National Commission for Securities and Stock Market on 03 July 2018.

During 2018, the Bank did not purchase, sell previously repurchased shares, cancelled shares. The Bank did not issue preference shares. The Bank did not enter into agreements on the issue of shares depending on conditions of options and sales contracts.

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

UAH, <i>ths.</i>	Notes	31.12.2018			31.12.2017		
		less than 12 months	more than 12 months	total	less than 12 months	more than 12 months	total
ASSETS							
Cash and cash equivalents	6	368 002	-	368 002	167 755	-	167 755
Loans and advances to customers	7	1 231 419	167 454	1 398 873	358 779	72 079	430 858
Investments in securities	8	270 355	27 440	297 795	150 103	-	150 103
Derivative financial assets	9	1 560	-	1 560	1 085	-	1 085
Current income tax receivables		450	-	450	-	-	-
Deferred tax asset		2 553	-	2 553	552	-	552
Property, plant and equipment and intangible assets	10	-	21 190	21 190	-	12 863	12 863
Other assets	11	23 744	-	23 744	14 048	-	14 048
Total assets		1 898 083	216 084	2 114 167	692 322	84 942	777 264
LIABILITIES							
Due to banks	12	-	-	-	2	-	2
Due to customers	13	1 464 299	200 939	1 665 238	458 596	1900	460 496
Derivative financial liabilities	14	797	-	797	1 029	-	1 029
Debt securities issued by the Bank	15	-	-	-	177	-	177
Other borrowings	16	1 012	-	1 012	-	1 546	1 546
Current income tax payable		10 520	-	10 520	13 057	-	13 057

<i>UAH, ths.</i>	Notes	31.12.2018			31.12.2017		
		less than 12 months	more than 12 months	total	less than 12 months	more than 12 months	total
Provisions for liabilities	17	13 574	607	14 181	3 062	7	3 069
Other liabilities	18	17 722	3 653	21 375	5 028	3 016	8 044
Total liabilities		1 507 924	205 199	1 713 123	480 951	6 469	487 420

The data of Note 20 are disclosed in the Statement of Financial Position (Balance Sheet).

Note 21. Interest income and expenses

Table 21.1. Interest income and expenses

<i>UAH, ths.</i>	for 2018	for 2017
INTEREST INCOME:		
Loans and advances to customers	227 664	53 750
Debt securities held at fair value through other comprehensive income	-	1 866
Due from other banks	6 542	3 293
Correspondent accounts with other banks	36	3
NBU deposit certificates held at amortized cost value	3 069	1 801
Other interest income	8	-
Total interest income	237 319	60 713
INTEREST EXPENSES:		
Term deposits of legal entities	(34 859)	(5 204)
Term deposits of individuals	(46 910)	(2 605)
Term deposits of other banks	(139)	(33)
Corporate current accounts	(16 932)	(2 239)
Current funds of individuals	(2 396)	(34)
Financial leasing (lease) liabilities	(1 198)	(111)
Other borrowings	(5 642)	-
NBU deposit certificates held at amortized cost value	(3)	(1 155)
Total interest expenses	(108 079)	(11 381)
Net interest income (expenses)	129 240	49 332

The data of Note 21 are disclosed in the Comprehensive Profit and Loss and Other Comprehensive Income Statement (Profit and Loss Statement) and Note 28.

Note 22. Commission income and expenses

Table 22.1. Commission income and expenses

<i>UAH, ths.</i>	2018	2017
COMMISSION INCOME:		
Cash and settlements operations	38 129	16 264
Credit services to customers	926	132
Currency market trading for customers	17 775	7 400

<i>UAH, ths.</i>	2018	2017
Guarantees issued	57 977	12 408
Transactions with securities for customers	720	665
Other	-	111
<i>Total commission income</i>	<i>115 527</i>	<i>36 980</i>
COMMISSION EXPENSES:		
Cash and settlements operations	(12 944)	(6 723)
Transactions with securities	(199)	(168)
Other	-	(1)
<i>Total commission expenses</i>	<i>(13 143)</i>	<i>(6 892)</i>
<i>Net commission income/expenses</i>	<i>102 384</i>	<i>30 088</i>

The data of Note 22 are disclosed in the Comprehensive Profit and Loss and Other Comprehensive Income Statement (Profit and Loss Statement) and Note 28.

Note 23. Other operating income

Table 23.1. Other operating income

<i>UAH, ths.</i>	2018	2017
Income from safe deposit box rental	696	225
Income from operating leasing (lease)	17	-
Income from entering data into State Register of Movable Property Encumbrances	91	58
Income from transactions under agency agreements	273	20
Sublease income	23	-
Income upon recognition of a new financial instrument under loans	-	3
Operating income from assignment of claims under loan agreements	-	1 007
Writing off of customer funds from inactive accounts to the bank income		29
Penalties and fines received by the Bank	12 563	31
Other	1 457	17
<i>Total other income</i>	<i>15 120</i>	<i>1 390</i>

Note 24. Administrative and other operating expenses

Table 24.1. Administrative and other operating expenses

<i>UAH, ths.</i>	2018	2017
Expenses for maintenance of property, plant and equipment and intangible assets, telecommunication and operational expenses	(15 713)	(10 407)
Operating lease expenses	(11 091)	(8 007)
Other expenses attributable to property, plant and equipment	(3)	(147)
Professional services	(1 926)	(1 815)
Marketing and advertising expenses	(3 112)	(72)
Insurance expenses	(76)	(44)
Payment of other taxes and duties, other than income tax	(3 876)	(1 149)
Referral fees	(21 339)	(5 797)

<i>UAH, ths.</i>	2018	2017
Expenses for payment cards transactions	(1 855)	(62)
Other	(5 907)	(4 145)
<i>Total administrative and other operating expenses</i>	(64 898)	(31 645)

The data of Note 23, 24 are disclosed in the Comprehensive Profit and Loss and Other Comprehensive Income Statement (Profit and Loss Statement) 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

Line	<i>UAH, ths.</i>	2018 (Year To Date)	2017 (Year To Date)
1.	Result of transactions with derivative financial instruments held at fair value through profit or loss, incl.	51 267	4 086
1.1.	Result of foreign currency swap contracts revaluation	2 529	-
1.2.	Result of foreign currency swap contracts sale	47 278	4 086
1.3.	Result of transactions with securities held at fair value through profit/loss	1 460	-
2.	<i>Total result of transactions with financial assets held at fair value through profit or loss</i>	51 267	4 086

The data of Note 25 are disclosed in the Comprehensive Profit and Loss and Other Comprehensive Income Statement (Profit and Loss Statement).

Note 26. Income tax expenses

Table 26.1. Income tax expenses

<i>UAH, ths.</i>	2018	2017
Current income tax	26 774	14 832
Change in deferred income tax	(2 000)*	(552)
Total income tax expenses	24 774	14 280

The data of Note 29 are disclosed in the Comprehensive Profit and Loss and Other Comprehensive Income Statement (Profit and Loss Statement).

The following changes to the deferred income tax occurred in 2018:

- the deferred income tax has increased by UAH 2 552 thousand due to creation of provisions for guarantees;
- the deferred income tax has decreased by UAH 552 thousand due to liquidation of provisions for guarantees carried forward from year 2017.

Table 26.2. Reconciliation of accounting profit (loss) and taxable profit (loss)

Line	<i>UAH, ths.</i>	2018	2017
1	Profit before tax	135 974	79 121
2	Theoretical tax deductions at applicable tax rate (18%)	24 475	14 242
ADJUSTMENTS TO THE REPORTED PROFIT (LOSS):			
3	Expenses not included in the amount of expenses aiming at taxable income calculation, but recognized in the accounting records	19 577	6 334
3.1.	Differences that arise at accrual of depreciation of non-current assets and increase financial result	4 770	3 118
3.2.	Differences that arise at formation of provisions and increase financial result	14 181	3 069
3.3.	Differences that arise from payment of membership fees and increase financial result	-	-
3.4	Differences that arise upon sale of property, plant and equipment and financial result is increased by the amount of residual value	3	147
3.5.	Differences that arise upon accrual of royalty and increase financial result.	623	-
4	Expenses included in the amount of expenses aiming at taxable income calculation, but not recognized in the accounting records (differences that arise at accrual of depreciation of non-current assets and reduce financial result)	(6 805)	(4 696)
4.1	Differences that arise at accrual of depreciation of non-current assets and reduce financial result	(3 736)	(1 764)
4.2	Differences that arise at formation of provisions and reduce financial result	(3 069)	(2 932)
4.3	Differences that arise at recognition of negative value of tax return for 2015 and reduce financial result	-	-
5	Income tax expenses	24 774	14 280
6	- at the expense of the deferred tax asset	(2 000)	

The Bank adopted a decision to recognize deferred tax assets in the amount of UAH 2 552 thousand in the Bank's balance sheet. Based on the results for the year, the Bank has differences arising upon making provisions for guarantee assets impairment and increasing the financial result before tax in the amount of UAH 14 181 thousand. As the matter of the Bank's experience of dealing with guarantees in 2018, the provision for guarantee asset impairment in 2017 for the total amount of UAH 3 069 was undone once the guarantees matured in 2018.

Differences arising upon accrual of intangible assets amortization and increasing the financial result in the amount of UAH 1 034 thousand are temporary differences (mainly related to improvement of leased premises). However, due to long term of amortization (144 months) and potential lease of other premises these difference are carried from temporary to permanent differences. The Bank made managerial decision that the Bank shall not recognize in its balance sheet the deferred tax assets for the amount of UAH 186 thousand as there was no certainty that the asset would be sold. Moreover, the Bank has permanent differences amounting to UAH 626 thousand, which are not subject to deferred tax assets accrual: (differences arising upon writing-off (sale) of property, plant and equipment and the financial result amounting to UAH 3 thousand increases by the amount of residual value, and differences arising upon accrual of royalty and increasing the financial result in the amount of UAH 623 thousand.

Income tax expenses in 2018 amounted to UAH 26 774 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 2 000 thousand and final income tax expenses amount to UAH 24 774 thousand.

In reporting year 2018 the Bank's profit taxation was carried out according to Section III of the Tax Code of Ukraine. Income tax rate for 2018 was 18%.

Table 26.3. Tax implications related to recognition of deferred tax assets and deferred tax liabilities for 2018

<i>UAH, ths.</i>	Balance at the beginning of the period	Recognized in profit/loss	Recognized in other comprehensive income	Recognized in equity	Balance at the end of the period
Tax effect of temporary differences that decrease (increase) taxes payable and tax losses carried forward	-	-	-	-	-
Net deferred tax asset	552	2 000	-	-	2 552
Recognized deferred tax liability	-	-	-	-	-

As at the end of 2017 the Bank has made a provision in the amount of UAH 3 069 thousand for impairment of guarantee assets with maturity of guarantees in 2018 and the Bank has recognized deferred tax assets in the amount of UAH 552 thousand in the Bank's balance sheet as at the end of 2017 as related to such provisions. At the same time certain provisions have been undone upon maturity of guarantees in 2018 and writing off of deferred tax assets in 2018 for the amount of UAH 552 thousand. As at the end of 2019 the Bank recognized deferred tax assets in the amount of UAH 2 523 thousand as related to made provision for guarantee assets impairment.

Table 26.4. Tax implications related to recognition of deferred tax assets and deferred tax liabilities for 2017

<i>UAH, ths.</i>	Balance at the beginning of the period	Recognized in profit/loss	Recognized in other comprehensive income	Recognized in equity	Balance at the end of the period
Tax effect of temporary differences that decrease (increase) taxes payable and tax losses carried forward	-	-	-	-	-
Net deferred tax asset	-	(552)	-	-	552
Recognized deferred tax liability	-	-	-	-	-

Note 27. Profit/(Loss) per Ordinary Share

Table 27.1. Net and adjusted profit/(loss) per one ordinary share

<i>UAH, ths.</i>	2018 (Year To Date)	2017 (Year To Date)
Profit/(loss) for the quarter (year to date)	111 200	64 290

Profit/(loss) attributable to the holders of ordinary shares of the Bank	111 200	64 290
Average annual number outstanding ordinary shares (ths.)	16 000	14 510
Net and adjusted profit/(loss) per ordinary share (UAH)	6,95	4,43

The data of Note 27 are disclosed in the Comprehensive Profit and Loss and Other Comprehensive Income Statement (Profit and Loss Statement).

Note 28. Operating segments

Table 28.1. Income, expenses and results of reporting segments for 2018

UAH, ths.	Reporting segments				Other segments and operations	Total
	services to corporate customers	services to individuals	interbank operations	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)
Net loss from financial assets impairment	(55 749)	(2 636)	(8 543)	-	-	(66 928)
Net profit/(loss) from transactions with financial instruments held at fair value through profit or loss	-	-	51 267	-	-	51 267
Net profit/(loss) from foreign currency transactions	-	282	37 005	-	-	37 287
Net profit/(loss) from revaluation of foreign currency	-	-	-	-	15 350	15 350
Commission expenses	-	(8 378)	(4 564)	(199)	(2)	(13 143)
Allocated to the 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 28.2. Income, expenses and results of reporting segments for 2017

<i>UAH, ths.</i>	Reporting segments				Other segments and operations	Total
	services to corporate customers	services to individuals	interbank operations	investment activity		
Income from external customers:						
Interest income	53 355	396	3 296	3 666	-	60 713
Commission income	24 227	2 556	10 197	-	-	36 980
Other income	1 162	228	-	-	-	1 390
Total segment income	78 744	3 180	13 493	3 666	-	99 083
Interest expenses	(7 553)	(2 640)	(33)	(1 155)	-	(11 381)
Allocated to the provision for impairment of loans and due from banks	(13 555)	(582)	(4 049)	-	-	(18 186)
Allocated to the provision for impairment of accounts receivable	(50)	-	-	-	(245)	(295)
Gains from transactions with financial instruments held at fair value through profit or loss	-	-	4 086	-	-	4 086
Gains from foreign currency transactions	-	(456)	85 292	-	-	84 836
Gains less losses from revaluation of foreign currency transactions	-	-	-	-	567	567
Commission expenses	(168)	-	(6 724)	-	-	(6 892)
Impairment of securities held at fair value through other comprehensive income	-	-	-	(1 866)	-	(1 866)
Allocated to the provision for liabilities	(137)	-	-	-	-	(137)
Administrative and other operating expenses	-	-	-	-	(71 245)	(71 245)
SEGMENT RESULT: Profit/(loss) before tax	57 281	(499)	92 065	646	(70 923)	78 570

Table 28.3. Assets and liabilities of reporting segments as of 31 December 2018

<i>UAH, ths.</i>	Reporting segments			Other segments and operations	Total
	services to corporate customers	services to individuals	interbank operations		
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

Table 28.4. Assets and liabilities of reporting segments as of 31 December 2017

<i>UAH, ths.</i>	Reporting segments			Other segments and operations	Total
	services to corporate customers	services to individuals	interbank operations		
SEGMENT ASSETS					
Segment assets	429 704	2 667	281 319	-	713 690
Unallocated assets	-	-	-	63 574	63 574
Total assets	429 704	2 667	281 319	63 574	777 264
SEGMENT LIABILITIES					
Segment liabilities	380 316	103 795	1 243	-	485 354
Unallocated liabilities	-	-	-	2 066	2 066
Total liabilities	380 316	103 795	1 243	2 066	487 420

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, while 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 managing (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 (such as the risk of default by individual customers and counterparties, as well as risks inherent to certain countries and industries).

As 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 active transactions and off-balance lending liabilities, the uncovered credit risk amounted, as of 1 January 2019, to UAH 37,2 mln. The amount of the uncovered credit risk reduces the bank's regulatory capital and is reflected in the regulatory capital structure as of 1 January 2019.

Market risk

Market risk is the actual or potential risk to income and equity arising from unfavorable 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 while optimizing 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.

Foreign 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 forecasted assets in a foreign currency exceed or fall behind the liabilities in the same currency. The 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 generates no capital loading and proceeds to the Bank.

Table 29.1. Foreign currency risk analysis

(UAH, ths.)

Currency	31.12.2018				31.12.2017			
	monetary assets	monetary liabilities	financial derivatives	net position	monetary assets	monetary liabilities	financial derivatives	net position
USD	422 379	404 149	(10 923)	7 307	123 770	184 717	58 995	(1 952)
EUR	72 219	67 121	(3 968)	1 130	26 034	12 849	(17 484)	(4 299)
GBP	1 244	5	-	1 239	120	-	-	120
RUB	1 020	103	-	917	1 347	302	-	1 045
CHF	92	-	-	92				
Gold	691	-	-	691	428	-	-	428
Total	497 645	471 378	(14 891)	11 376	151 699	197 868	41 511	(4 658)

Table 29.2. Changes in financial result and equity due to possible changes in exchange rates set as of the reporting date, provided that all other variables remain unchanged

(UAH, ths.)

Currency	As of 31.12.2018		As of 31.12.2017	
	impact on profit / (loss)	impact on equity	impact on profit / (loss)	impact on equity
USD strengthening by 5%	912	912	(3 047)	(3 047)
USD weakening by 5%	(868)	(868)	2 902	2 902
EUR strengthening by 5%	255	255	660	660
EUR weakening by 5%	(243)	(243)	(628)	(628)
GBP strengthening by 5%	62	62	6	6
GBP weakening by 5%	(59)	(59)	(6)	(6)
RUB strengthening by 5%	46	46	52	52
RUB weakening by 5%	(44)	(44)	(49)	(49)
CHF strengthening by 5%	5	5		
CHF weakening by 5%	(4)	(4)		

Gold strengthening by 5%	35	35	21	21
Gold weakening by 5%	(33)	(33)	(20)	(20)

Interest rate risk

Interest rate risk arises from the possibility of adverse changes in market interest rates that create a negative impact on interest income and equity.

Interest rate risk is measured by the extent of impact 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 recognized in profit or loss). Accordingly, a change in interest rates would have no impact on profit or loss.

Table 29.3 General analysis of interest rate risk

<i>UAH, ths.</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than a year	Total
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 as at the end of reporting period	-357 019	226 661	-158 359	175 458	-113 259
2017					
Total financial assets	186 798	178 200	152 918	76 289	594 205
Total financial liabilities	108 707	52 579	90 057	-	251 343
Net GAP on interest-bearing assets and liabilities as at the end of reporting period	78 091	125 621	62 861	76 289	342 862

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 optimization 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 (H4 instant liquidity ratio, H5 current liquidity ratio, H6 short-term liquidity 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 2018

<i>UAH, ths.</i>	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
Due to banks	-	-	-	-	-
Due to customers:	825 975	154 653	638 155	15 430	1 634 213
funds of 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
<i>Total potential future payments related to financial liabilities</i>	1 206 103	422 147	1 385 766	180 600	3 194 616

Due to customers are recognized as the amounts the Bank is liable to pay, without any discount or premium.

Table 29.5. Analysis of financial liabilities by maturities for 2017

<i>UAH, ths.</i>	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
Due to banks	2	-	-	-	2
Due to customers:	318 062	39 668	102 968		460 698
funds of individuals	54 675	14 668	34 301	-	103 644
other	263 387	25 000	68 667	-	357 054
Other financial liabilities	1 167	13 057	2 926	4 805	21 955

Other credit-related commitments	81 612	85 296	316 426	33 210	516 544
Currency before transfer under FX transactions	1 231 001	-	-	-	1 231 001
Total potential future payments related to financial liabilities	1 631 844	138 021	422 320	38 015	2 230 200

Table 29.6. Analysis of financial assets and liabilities by maturities based on expected maturities for 2018

<i>UAH, ths.</i>	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	371 290	-	-	-	-	371 290
Financial assets held at fair value through profit or loss	-		1 560		-	1 560
Securities (certificates of deposits issued by NBU, DGLB)	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	0	2 106 217
Liabilities						
Due to other banks	-	-	-	-	-	-
Due to customers	802 062	185 034	659 690	22 627		1 669 413
Financial liabilities held at fair value through profit or loss	-	255	542	-	-	797
Debt securities issued by the Bank	-	-	-	-	-	-
Other borrowings	2 912	2				2 914
Other financial liabilities	13 988	6 084	9 512	1 514		31 097
Total financial liabilities	818 962	191 119	669 202	24 140	0	1 703 424
Net liquidity GAP as of 31 December	298 433	(124)	(38 136)	142 620	0	402 793
Total liquidity GAP as of 31 December (COB)		298 309	260 173	402 793	402 793	

Table 29.7. Analysis of financial assets and liabilities by maturities based on expected maturities for 2017

<i>UAH, ths.</i>	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	167 755	-	-	-	-	167 755
Financial assets held at fair value through profit or loss	1 085	-	-	-	-	1 085
Securities (certificates of deposits issued by NBU)	150 103	-	-	-	-	150 103
Loans and advances to customers	80 433	10 080	262 513	77 832	-	430 858
Other financial assets	11 060	-	5	-	-	11 065
Total financial assets	410 436	10 080	262 518	77 832	-	760 866
Liabilities						
Due to other banks	2	-	-	-	-	2
Due to customers	317 861	39 668	102 967	-	-	460 496
Financial liabilities held at fair value through profit or loss	1 029	-	-	-	-	1 029
Debt securities issued by the Bank	-	177	-	-	-	177
Other borrowings	-	-	-	1 546	-	1 546
Other financial liabilities	917	-	3 466	1 130	-	5 513
Total financial liabilities	319 809	39 845	106 433	2 676	-	468 763
Net liquidity GAP as of 31 December	90 627	(29 765)	156 085	75 156	-	292 103
Total liquidity GAP as of 31 December (COB)		60 862	216 947	292 103	292 103	

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 minimize 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 analyzed 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 ths.)

Line	Item	31.12.2018	31.12.2017
1	Core capital	285 520	222 243
1.1	Actually paid authorized share capital	260 000	200 000
1.2	Disclosed provisions created or increased by retained earnings:	29 844	25 554
1.2.1	General provisions and reserve funds formed under the laws of Ukraine	28 715	24 426
1.2.1.1	including reserve funds	28 715	24 426
1.3	Reduction of core capital (intangible assets less amortization; capital investments in intangible assets; loss for previous and current years), including:	(4 324)	(3 311)
1.3.1	intangible assets less amortization	(4 324)	(3 311)
1.3.2	Uncovered historical loss	-	-
2	Additional capital	83 501	72 578
2.1	Provisions for standard due from other banks, standard due under loans to customers and standard due under transactions at off-balance sheet accounts (including revaluation of fixed assets)	-	-
2.2	Current year profit	83 501	72 578
2.2.1	Current year financial results	120 700	80 226
2.2.2	Financial results decrease amount	(37 199)	(7 648)
2.2.2.1	Uncovered credit risk amount	(37 199)	(7 252)
3	Redeployment		(133)
4	Total regulatory capital	369 021	294 688

The Bank's regulatory capital is an aggregate of core (tier 1) and additional (tier 2) capital.

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 (hereinafter – “the Instruction”) and Methodology for Calculation of Economic Standards of Regulation of Banks in Ukraine approved by Decree No. 803-пш 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 norms 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 12.97% with the threshold value of 10%. As of 31 December 2018, the Bank’s regulatory capital amounted to UAH 369 021 thousand.

Note 31. Contingent Liabilities of the Bank

1) legal proceedings

As of 01.01.2019 (COB) there is one judicial case as related to claim against the bank, namely legal action for recovery of UAH 802.4 thousand.

On 21 February 2019 the Commercial Court of Kyiv city has made the following resolution:

- the Beneficiary's claims should be satisfied in full;
- to recover from the Bank in favor of the Beneficiary monetary funds in the amount of UAH 802 383.67.

On 27 March 2019 in compliance with the court's decision and to the satisfaction of the Beneficiary's Claim under the Guarantee the Bank has paid to the Beneficiary funds in the amount UAH 802 383.67 with immediate recourse against the principal and surety.

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, 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 credit-related commitments

Line	Item	31.12.2018	31.12.2017
1	2	3	4
1	Credit-related commitments provided	694 230	143 285
2	Guarantees issued	1 411 571	516 544
3	Avals issued	4 947	-
4	Provision for credit-related commitments	(14 181)	(3 069)
5	Total credit-related commitments, net of provision	2 096 567	656 760

During the reporting and previous periods, the Bank provided credit-related commitments in Ukrainian national currency only.

Table 31.2. Credit-related commitments by currencies

UAH, <i>ths.</i>	31.12.2018	31.12.2017
UAH	1 995 269	657 813
USD	110 828	281
EUR	6 401	1 735
Total:	2 112 498	659 829

7) collateralized assets and assets with restrictions on their title, use and disposal

As at 31 December 2017 (end of day), the Bank had collateralized assets and assets with restricted use title with the following book value:

- guarantee coverage under conversion agreement allocated to the financial company in the amount of UAH 8 307 thousand;

- guarantee deposits under settlement of accounts with MasterCard international payment system and Prostir national system in total amount of UAH 3 495 thousand.

Note 32. Derivative Financial Instruments

Table 32.1. Fair value of derivative financial instruments recorded in the Bank's trading portfolio

UAH, <i>ths.</i>	31.12.2018		31.12.2017	
	positive fair value	negative fair value	positive fair value	negative fair value
Swap forward contracts	1 560	797	1 085	1 029
Net fair value	763	-	56	-

During 2018 and 2017, 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 of 31 December 2018

UAH, <i>ths.</i>	Major participants	Key management personnel	Other related parties
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	(shareholders of the Bank)		
Due to customers (contractual interest rate 0 - 7,75%)	14 770	8 796	3 834
Loans and advances to customers (contractual interest rate 21 - 22 %)	150	2 553	56 429
Provision for impairment of loans as of 31 December	22	397	11 666

Table 33.2. Balances of related party transactions as of 31 December 2017

<i>UAH, ths.</i>	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
Due to customers (contractual interest rate 0 - 7,75%)	89	-	65 856
Loans and advances to customers (contractual interest rate 21 - 22 %)	-	818	2 459
Provision for impairment of loans as of 31 December	-	167	154

Table 33.3. Income and expenses on related party transactions for 2018 (Year To Date)

<i>UAH, ths.</i>	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
Interest income	11	210	3 784
Interest expenses	1 488	36	294
Results of transactions with securities held in the Bank's trade portfolio	0	0	0
Fee and commissions income	34	111	580
Administrative and other operating expenses	-	15 440	1 054

Table 33.4. Income and expenses on related party transactions for 2017 (Year To Date)

<i>UAH, ths.</i>	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
Interest income	-	85	148
Interest expenses	302	7	4 045
Results of transactions with securities held in the Bank's trade portfolio	-	-	-
Fee and commissions income	32	13	36

<i>UAH, ths.</i>	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
Administrative and other operating expenses	-	13 691	54

Table 33.5. Total amount of loans issued to related parties and reimbursed by the related parties within 2018 (Year To Date)

<i>UAH, ths.</i>	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
Amount of loans issued to related parties within the period	1 336	2 552	37 790
Amount of loans reimbursed by related parties within the period	1 186	3 611	4 846

Table 33.6. Total amount of loans issued to related parties and reimbursed by the related parties within 2017 (Year To Date)

<i>UAH, ths.</i>	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
Amount of loans issued to related parties within the period	-	880	2 420
Amount of loans reimbursed by related parties within the period	-	121	-

Table 33.7. Executive management remuneration (UAH, ths)

Item	<i>UAH, ths.</i>	31.12.2018		31.12.2017	
		expenses	accrued liabilities	expenses	accrued liabilities
1	Current employee benefits	10 906	1 863	10 604	2 333
2	Layoff costs	360	-	122	-

Note 34. Subsequent Events

There have been no any material events in the Bank that would require adjustments to the financial statements within the period between the balance sheet date and the date of these financial statements approval for issue.

Chairperson of the Board

Y.M. Frolova

Chief Accountant

N.A. Bochkovska

