JSC KREDOBANK

International Financial Reporting Standards
Separate Financial Statements
and Independent Auditor’s Report

31 December 2020

CONTENTS

SEPARATE FINANCIAL STATEMENTS

In thousands of hryvnias	Note	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	5	4 201 484	2 923 310
Due from other banks	6	30 764	7 438
Loans and advances to customers	7	13 282 029	11 684 083
Investment securities	8	6 187 229	3 072 580
Current income tax prepayment		20	84
Deferred income tax asset	26	43 004	32 560
Investment property	9	14 054	28 506
Property, plant and equipment	10	1 007 493	1 070 912
Intangible assets	10	176 188	137 341
Other financial assets	11	153 702	70 042
Other non-financial assets	12	132 163	108 921
Total assets		**25 228 130**	**19 135 777**
Liabilities			
Due to other banks	13	2 839 280	1 612 017
Customer accounts	14	18 319 765	13 961 545
Due to other financial institutions	15	115 580	276 991
Debt securities	16	384 810	279 470
Current income tax liabilities		33 784	36 148
Other financial liabilities	17	246 528	240 083
Other non-financial liabilities	18	166 801	143 238
Total liabilities		**22 106 548**	**16 549 492**
Equity			
Share capital	19	2 248 969	2 248 969
Revaluation reserve for Property, plant and equipment		108 280	111 747
Revaluation reserve for investment securities at fair value through other comprehensive income		83 744	79 776
Retained earnings / (Accumulated deficit)		680 589	145 793
Total equity		**3 121 582**	**2 586 285**
Total liabilities and equity		**25 228 130**	**19 135 777**

Approved to issue and signed on behalf of the Management Board on April 6, 2021.

АКЦІОНЕРНЕ ТОВАРИСТВО КРЕДОБАНК
Kredobank
09807862
АТ «КРЕДОБАНК» м. Львів

Jerzy Jacek Szugajew
Chairman of the Management Board

Vasyl Lototsky
Chief Accountant

In thousands of hryvnias	Note	2020	2019
Interest income calculated using the effective interest method	21	2 265 830	2 159 617
Other interest income	21	157 862	119 661
Interest expense	21	(644 668)	(805 787)
Net interest income		**1 779 024**	**1 473 491**
Fee and commission income	22	634 972	615 575
Fee and commission expense	22	(161 924)	(151 129)
Gains less losses from trading in foreign currencies		79 892	(4 652)
Foreign exchange translation gains less losses		6 577	27 708
Gains less losses on derecognition of securities measured at fair value through other comprehensive income		3 774	3 198
Gains less losses on derecognition of financial assets measured at amortised cost		12 976	5 948
Credit loss expense on financial assets	23	(361 702)	(94 870)
Provision for other cost		(1 348)	-
Other operating income	24	50 283	46 448
Employee payments expenses	25	(624 078)	(531 815)
Depreciation costs	10	(316 434)	(250 279)
Administrative and other operating expenses	25	(454 449)	(482 679)
Profit before tax		**647 563**	**656 944**
Income tax expense for the year	26	(116 336)	(118 874)
Profit for the year		**531 227**	**538 070**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Investment securities at fair value through other comprehensive income			
- Net change in the fair value of investment securities at fair value through other comprehensive income	20	7 747	6 805
- Net change in the fair value of investment securities at fair value through other comprehensive income transferred to net profit and loss	20	(3 779)	(3 198)
Revaluation of Property, plant and equipment and equipment	20	102	6 329
Other comprehensive income for the year		**4 070**	**9 936**
Total comprehensive income for the year		**535 297**	**548 006**
Basic and diluted profit per share attributable to shareholders on the basis of The Consolidated Financial Statements (UAH per share)	27	0,0023	0,0026

Approved to issue and signed on behalf of the Management Board on April 6, 2021.

Jerzy Jacek Szugajew
Chairman of the Management Board

Vasyl Lototsky
Chief Accountant

In thousands of hryvnias	Note	Share capital	Revaluation reserve for investment securities at fair value through other comprehensive income	Revaluation reserve for Property, plant and equipment	Retained earnings / (Accumulated deficit)	Total equity
Balance at 1 January 2019		**2 248 969**	**76 169**	**108 275**	**(395 134)**	**2 038 279**
Profit for the year		-	-	-	538 070	538 070
Other comprehensive income	20	-	3 607	6 329	-	9 936
Total comprehensive income for 2019		**-**	**3 607**	**6 329**	**538 070**	**548 006**
Transfer of revaluation surplus on property to retained earnings upon disposal of property		-	-	(2 857)	2 857	-
Balance at 31 December 2019		**2 248 969**	**79 776**	**111 747**	**145 793**	**2 586 285**
Profit for the year		-	-	-	531 227	531 227
Other comprehensive income	20	-	3 968	102	-	4 070
Total comprehensive income for 2020		**-**	**3 968**	**102**	**531 227**	**535 297**
Transfer of revaluation surplus on property to retained earnings upon disposal of property		-	-	(3 569)	3 569	-
Balance at 31 December 2020		**2 248 969**	**83 744**	**108 280**	**680 589**	**3 121 582**

Approved to issue and signed on behalf of the Management Board on April 6, 2021

ПУБЛІЧНЕ ТОВАРИСТВО «КРЕДОБАНК»
KredoBank
09807862
АТ «КРЕДОБАНК» м.Львів

Jerzy Jacek Szugajew
Chairman of the Management Board

Vasyl Lototsky
Chief Accountant

In thousands of hryvnias	Note	2020	2019
Cash flows from operating activities			
Interest received		2 314 307	2 304 436
Interest paid		(696 267)	(790 389)
Fees and commissions received		630 875	609 893
Fees and commissions paid		(161 924)	(151 129)
Income received from trading in foreign currencies		79 892	(4 652)
Other operating income received		45 711	36 750
Employee costs paid		(614 794)	(518 268)
Administrative and other operating expenses paid		(434 264)	(462 632)
Income tax paid		(129 080)	(97 785)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**1 034 456**	**926 224**
Net (increase)/decrease in due from other banks		(24 563)	1 095
Net (increase)/decrease in loans and advances to customers		(1 248 182)	(2 582 984)
Net (increase)/decrease in other financial and non-financial assets		(104 657)	(5 849)
Net increase/(decrease) in due to other banks		964 470	(166 830)
Net increase/(decrease) in customer accounts		3 178 776	2 826 435
Net increase/(decrease) in other financial and non-financial liabilities		28 772	(73 751)
Net cash from/(used in) operating activities		**3 829 072**	**924 340**
Cash flows from investing activities			
Acquisition of investment securities		(6 341 418)	(5 976 114)
Proceeds from disposal and redemption of investment securities		3 705 843	6 279 347
Acquisition of property, plant and equipment	10	(123 311)	(210 272)
Proceeds from disposal of property, plant and equipment		14 735	8 115
Acquisition of intangible assets	10	(119 369)	(86 348)
Net cash from/(used in) investing activities		**(2 863 520)**	**14 728**
Cash flows from financing activities			
Proceeds from other financial institutions	15	-	116 390
Repayment of due to other financial institutions	15	(54 889)	-
Proceeds from the own debt securities placement	16	2 503	16 770
Redemption of issued own debt securities	16	(2 445)	(42 683)
Payment of lease liabilities		(73 098)	(51 073)
Net cash from/(used in) financing activities		**(127 929)**	**39 404**
Effect of exchange rate changes on cash and cash equivalents		**440 551**	**(212 508)**
Net increase/(decrease) in cash and cash equivalents		**1 278 174**	**765 964**
Cash and cash equivalents at the beginning of the year	5	2 923 310	2 157 346
Cash and cash equivalents at the end of the year	5	**4 201 484**	**2 923 310**

* The Separate Statement of Cash Flows was prepared using the direct method.

Approved to issue and signed on behalf of the Management Board on April 6, 2021.

Jerzy Jacek Szugajew
Chairman of the Management Board

Vasyl Lototsky
Chief Accountant

1 Introduction

These financial statements were prepared in accordance with the International Financial Reporting Standards for fiscal year 2020 for Joint Stock Company "Kredobank" (hereinafter – the "Bank") in addition to the Consolidated Financial Statements of the Bank in accordance with IFRS, for submission to the National Bank of Ukraine (NBU) in compliance with the requirements of paragraph 8.1 of Section III of the instructions on the procedure for preparing and publishing the financial statements of banks of Ukraine, approved by NBU Board Resolution No. 373 on November 10, 2011, with amendments and additions. These separate financial statements should be reviewed together with the consolidated financial statements, which can be obtained on the Bank's official website (www.kredobank.com.ua).

The Bank was incorporated and is domiciled in Ukraine. The Bank is a joint-stock company limited by shares and was set up in accordance with Ukrainian laws. The Bank was founded in 1990 as a joint stock company. Initially registered by the USSR State Bank the Bank was re-registered by the National Bank of Ukraine (the "NBU") on 14 October 1991 under the name of West-Ukrainian Commercial Bank. In 2002, the Bank was renamed as Kredyt Bank (Ukraina). In November 2005, the shareholders of the Bank made the decision to change the name to Kredobank. Under the decision of Extraordinary General Shareholders Meeting on 26 November 2009, the Bank changed its name to Public Joint Stock Company "Kredobank" in order to bring its activities into compliance with the requirements of the Law of Ukraine On Joint-Stock Companies.

As at 31 December 2020 and 31 December 2019, the Bank's immediate parent company was PKO Bank Polski S.A. (Poland). The Bank is a member of the PKO Bank Polski Group ("PKO BP Group"). The largest shareholder of the PKO BP Group is the Ministry of State Assets of Poland, that controls PKO Bank Polski S.A. as owns 29.43% in the share capital of PKO Bank Polski S.A. Share of other shareholders of PKO BP S.A. does not exceed 10% of voting shares. The Bank does not have transactions with the Ministry of State Assets of Poland. As at 31 December 2020 and 31 December 2019, PKO BP S.A. owns 100% of shares of the Bank.

Principal activity. The Bank's principal business activity includes commercial banking operations, corporate and retail banking operations within Ukraine.

The Bank operates under License #43 issued by the NBU on 11 October 2011 that provide the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses licenses for custodial services issued on 10 October 2013 and licenses for securities operations issued on 7 November 2012. The Bank participates in the State deposit insurance scheme (registration #051 dated 19 October 2012), which operates according to the Law of Ukraine "On Deposit Guarantee Fund" dated 23 February 2012 (as amended). The Deposit Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual in case bank liquidation procedure is started.

As at 31 December 2020, the Bank has 82 outlets (in 2019 – 86 outlets) in Ukraine.

KREDOBANK JSC operates in accordance with the strategy for 2021-2023 approved by the Bank's Supervisory Board. The main strategic goals of KREDOBANK JSC are to achieve a high level of return on capital, which will provide the potential to increase the scale of activities; increase the total number of customers to 1 million in all segments; increase the level of customer satisfaction and their activity; increase the share in servicing foreign trade turnover between Ukraine and Poland; maintain a moderate risk level, as well as increase the level of engagement and employee confidence. The mission of the Bank is to be a reliable financial partner for clients and an attractive employer for employees. Due to the specialization and concentration of resources, the Bank seeks to achieve and maintain long-term business stability, thereby ensuring the return on investment of its shareholders.

"Finance Company Idea Capital" Limited Liability Company acquires the right of claim on liabilities under loan agreements and collects the claimed debts for profit-making purposes.

1 Introduction (continued)

Registered address and place of business. The Bank's registered address and place of business is:

78 Saharova Str.
79026 Lviv
Ukraine

Presentation currency. These separate financial statements are presented in thousands of hryvnias ("UAH"), unless otherwise stated.

2 Operating environment of the Bank

The key new risk, which was realized in the first quarter and significantly increased in the following quarters of 2020, was the spread of the COVID-19 coronavirus in the world. Together with other factors, such situation led to a sharp decline in oil price and stock indices. Turbulence in global financial and commodity markets has led to increased devaluation pressure on the hryvnia and impairment in devaluation and inflation expectations. As a result, the Ukrainian Hryvnia exchange rate was decreased from 23.69 UAH / USD at the beginning of 2020 to 28.28 UAH / USD at the end of the fourth quarter, or by 19.0%.

Responding to the potentially serious threat of coronavirus to public health, Ukrainian government agencies have taken measures to contain the epidemic in Ukraine by imposing restrictions on the movement of people within Ukraine and between cities, suspending transport links with Ukraine and restricting entry to Ukraine. The government imposed a quarantine until April 24, 2020, which was later repeatedly extended and last extended until February 28, 2021.

The restrictive measures imposed due to the COVID-19 pandemic by most countries of the world and the Government of Ukraine have had and continue to have a long-term negative impact on economic activity. The spread of coronavirus has already led to a recession in the global economy and a significant slowdown in economic activity in Ukraine. According to the results of the first quarter, Ukraine's GDP decreased by -1.3% YoY, in the second quarter the decline accelerated to -11.4% YoY, and in the third quarter, Ukraine's GDP decreased by -3.5% YoY in the third quarter of 2020. (the latest published statistics) noted a decrease in investment by -24%, while private consumption resumed growth to +1%, as well as public consumption by +8% YoY. According to preliminary estimates of the NBU, the decline in the Ukrainian economy in 2020 as a whole amounted to about -4.4% YoY, which is better than previous estimates.

According to the latest macroeconomic forecast of the National Bank of Ukraine, the economy will resume growth in 2021 with GDP growth rates of 4.2%, while inflation accelerates to 7.0% yoy. however, in November-December 2020, the uncertainty associated with the further course of the COVID-19 pandemic and its impact on economic processes significantly increased, the probability of re-introducing strict quarantine restrictions increased. Sovereign risks have also increased – financial market participants are concerned about possible delays in receiving the next tranche from the IMF. Thus, today it is still difficult to accurately assess the nature of economic dynamics in 2021, but it is obvious that there was a significant decrease in business profitability (especially in areas where strict quarantine restrictions were introduced – hotel and restaurant business, tourism, non-food retail, cultural and entertainment establishments, etc.) and a slowdown in income growth. Enterprises in many sectors of the economy are forced to temporarily completely stop working or significantly reduce production volumes. Many employees have lost their jobs or their regular income has declined significantly.

The effect of these economic events and restrictive measures may have a negative impact on the activities of the banking sector of Ukraine and KREDOBANK JSC, its financial result. However, now the degree of such influence is still difficult to accurately assess. The degree of impact of the situation on Ukrainian banks will depend on overcoming the pandemic on a global and national scale, the timing and pace of vaccination, the likelihood of re-introducing restrictive measures, external financing risks, measures taken by Ukrainian authorities and the policy of the National Bank of Ukraine.

2 Operating environment of the Bank (continued)

Although the management staff believes that they are taking appropriate measures to maintain the stability of the Bank's activities, which are necessary in the current circumstances, the persistence of elements of instability in the business environment can have a negative impact on the results of the Bank's activities and financial condition, the nature and consequences of which cannot be determined at the moment. These separate financial statements reflect the current assessment of management personnel regarding the impact of operating conditions in Ukraine on the operating activities and financial condition of the Bank. Future operating conditions may differ from management personnel assessments.

3 Significant accounting policies

Basis of preparation

These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of property, plant and equipment and investment property, and by the investment securities at fair value through other comprehensive income. The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Going concern. Management prepared these separate financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, continuing financial support from the parent company, budgeted profitability of future operations and access to financial resources and analysed the impact of the current financial and economic situation on future operations of the Bank.

Financial instruments – key measurement terms.

Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Bank. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held by the Bank and placing orders to sell the position in a single transaction might affect the quoted price.

The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period (Note 32).

3 Significant accounting policies (continued)

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition

Financial instruments at fair value through profit or loss are initially recognised at fair value. Transactions costs that are attributable to the acquisition or issue of such financial assets are reflected as expenses at the date they are incurred.

All other financial instruments are initially recognised at fair value plus/minus transaction costs. Transaction costs and other payments that are directly attributable to the recognition of financial instruments are reflected as discount (premium).

The best indication of the fair value of a financial instrument at initial recognition is the transaction price-compensation paid or received for the corresponding financial instrument.

The transaction costs include fees paid to agents, consultants, brokers and dealers, regulatory bodies, stock exchanges, taxes etc.

The transaction costs and fee and commission income which are an integral part of the financial instrument yield are included in initial value of the financial instrument and are included in the effective interest rate. All transactions in the acquisition or sale of financial assets that provide for delivery during the period specified by law or market traditions ("ordinary" sale) are recognised at the date of settlement.

All other acquisition transactions are recognised when the Bank becomes a party to the contractual provisions of the instrument.

3 Significant accounting policies (continued)

Classification and subsequent measurement of financial instruments: principal classification categories. The Bank classifies financial assets in the following categories:

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

The Bank classifies financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

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

- interest income calculated using the effective interest method;
- expected credit losses and reversal of impairment losses; and
- foreign exchange gains and losses.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Capital instruments are classified in a fair value accounting model with revaluation through profit/loss. Capital instruments that are not intended for sale may be classified as valuation at fair value with the recognition of revaluation in other comprehensive income without subsequent reclassification. At the time derecognition of such instruments, the revaluation accumulated in the capital is not reclassified as profit/loss, but is transferred to another item of capital. All other equity instruments are accounted for at fair value, reflecting revaluation through profit / loss.

3 Significant accounting policies (continued)

All financial liabilities are measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss;
- financial liabilities that arise when the transfer of a financial asset does not comply with the terms of a withdrawal or when the principle of continued participation is applied;
- financial guarantee contracts, pledges, avals;
- loan commitments at a lower rate than the market;
- conditional indemnity recognized by the Bank as a purchaser in the business combination to which IFRS 3 «Business Combinations» applies. Such conditional consideration is subsequently measured at fair value through profit or loss.

Financial assets – classification and subsequent measurement: business model.

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The main types of business models, within which financial assets are held are the following

- business model for holding financial assets to collect their contractual cash flows (held to collect);
- business model for holding financial assets to collect their contractual cash flows as well as to sell them (held to collect and for sale);
- other business models including: trading, managing assets on the fair value basis and maximising cash flows through sale.

In the case of a business model "held to collect" sales are not a blocking factor for classification to this model. Information about sales activity is not considered by the Bank in isolation, but as part of a holistic assessment of how the Bank stated objective for managing the financial assets is achieved and how the cash flows are realised. Therefore, the Bank consider the frequency, volume and timing of sales in prior periods, the reasons for these sales. The following sales may be consistent with the "held to collect" business model:

- deterioration of credit quality to a level that is not acceptable to the Bank under the risk management policy;
- getting out of crisis.

3 Significant accounting policies (continued)

Also, the classification for the model “held to collect” is not contrary to sales made at the time of maturity of the asset under the terms of the contract, insignificant by volume or frequency sales.

The significance of sales is determined by comparing the volume of the sold portfolio to the total size of the portfolio attributed to this model at the beginning of the reporting period, and by comparing the result of assets sale to the revenue generated by such a portfolio. For the analysis of the volume of sales, aggregation is carried out for a period equal to the average maturity of the portfolio.

If sales volumes will substantially exceed those expected by the Bank at the time of evaluating business models, this will not lead to changes in business models for existing assets, but will have an impact on the definition of a business model, for new assets generated by the Bank.

For a business model, the goal of which is achieved by model for holding financial assets to collect their contractual cash flows as well as to sell them, sales volumes are not a significant criterion - even a significant volume and amount of them is allowed, however the purpose of sale is considered by the Bank.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics.
Cash flows are tested for their compliance with the basic terms of lending, namely, the test evaluates whether the contract for a financial asset provides for receiving cash flows on certain dates, which are exclusively payments of the principal amount and interest on the outstanding part of the principal amount.

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. When conducting the assessment, the Bank analyses:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank’s claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

3 Significant accounting policies (continued)

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Reclassification of financial assets. Reclassification of financial assets is carried out prospectively only in case of changing the business model within which they are held from the beginning of the first reporting period after the change. If the business model changes, then all financial assets affected by such a change are subject to reclassification from the first day of the next reporting period (year). All new assets that will be recognised from the date of change in the business model should be immediately classified according to the new business model in force at the time of initial recognition of such assets.

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

Measurement of expected credit losses (ECLs). ECLs are a probability-weighted estimate of credit losses and are measured as follows:

- *financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls* – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date*: the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive;
- *financial guarantee contracts:* the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The Bank measures expected credit losses and recognizes loss allowances at each reporting date.

The Bank measures loss allowances at an amount equal to lifetime ECL or 12-month ECL. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECLs reflects: (i) an unbiased and probability-weighted sum determined by estimating the range of possible outcomes, (ii) the time value of money and (iii) all reasonable information about past events, current conditions and forecasted future economic conditions, available at the reporting date without undue cost and efforts.

Financial instruments that are not subject to a significant increase in credit risk compared to the date of initial recognition are classified to the first stage of impairment by the Bank.

Financial instruments that show signs of a significant increase in credit risk compared to the date of initial recognition and are not in default are classified to the second stage of impairment.

3 Significant accounting policies (continued)

Financial assets in the state of default are classified by the Bank to the third stage of impairment. Financial assets that are credit-impaired on initial recognition are classified as purchased or originated financial assets. The Bank does not recognize loss allowances at the date of initial recognition of purchased or originated credit-impaired financial assets – gross carrying value is its fair value. Initially, expected credit losses are included in credit-adjusted effective interest rate. Any changes in expected credit losses are recognized in profit or loss even if such changes exceed the amount of the previously formed loss allowances for such a financial asset.

Loss allowances are always recognized for purchased or originated credit-impaired financial assets on a lifetime basis.

Financial assets that are credit-impaired are defined as financial assets for which there is objective evidence of a loss or there are one or more events that have a negative impact on the expected future cash flows of such a financial asset.

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising collateral (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank (for balances with other banks default is recognized if a financial asset is 30 days past due). Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding;
- the restructuring of the loan associated with financial difficulties of the borrower;
- initiation of litigation, liquidation or bankruptcy proceedings of the borrower.

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

- qualitative: e.g. breaches of covenants;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on data obtained from external sources;
- start of liquidation or bankruptcy procedure for the borrower.

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

The rate of recovery. The Bank sets a certain period necessary to restore the quality of financial assets. The terms of the quality recovery period are deemed to be fulfilled if, during a 6-months period from the date the Bank introduces measures to restore the ability of the counterparty to fulfil its obligations, there are no signs of impairment, compliance with obligations to the Bank is ensured.

Significant increase in credit risk. When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

3 Significant accounting policies (continued)

When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms. The Bank primarily identify whether a significant increase in credit risk has occurred for an exposure by analyzing indicators that are:

- the borrower is more than 30 days past due but less than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding;
- breaches of covenant, the identification of threatening features that are likely to affect the quality of debt service;
- based on data developed internally and obtained from external sources;
- the period of credit quality restoration has ended and there are no prerequisites for attributing them to impaired ones after restructuring (forbearance);
- the value of the LtV (loans to collateral ratio) exceeds 200% (for individual mortgages);
- for banks a significant increase in credit risk occurs if the borrowers' rating has declined by 3 notches.

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are derived from internally developed statistical models and other historical data used in models for calculating regulatory capital. They are adjusted to reflect forward-looking information.

PD estimates are estimates at a certain date, which are calculated based on statistical models and assessed using tools tailored to the various categories of counterparties and exposures. PD estimates are based on migration matrices, which are based on the type of credit product and payment periods.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties after the default date.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is the gross carrying amount at default.
For lending commitments and financial guarantees, the EAD considers the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which are estimated based on historical observations and forward-looking forecasts.

3 Significant accounting policies (continued)

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period.

For overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECLs over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period.

These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include:

- instrument type;
- client type;
- period of debt overdue;
- geographic location of the borrower;
- loan currency.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Forward-looking information. The Bank incorporates forward-looking information into its measurement of ECLs. This assessment is based on external information. External information may include economic data and forecasts published by governmental bodies, and selected private sector and academic forecasters, such as of Ministry of Economic Development and Trade of Ukraine, State Statistics Service of Ukraine, National Bank of Ukraine.

The Bank also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is forecasts of real GDP change, forecasts of unemployment and dynamics of the calculated wages, including per 1 employee.

3 Significant accounting policies (continued)

Presentation of allowance for ECL in the separate statement of financial position

Loss allowances for ECL are presented in the separate statement of financial position as follows:

- *financial assets* measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision as part of Other financial liabilities;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the separate statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Collateral. When calculating the amount of expected credit losses for the credit-impaired assets, the Bank accepts the value of a collateral that meets the established eligibility criteria established by the Bank and determined by the regulator as a means of credit quality improving.

Write-off of financial assets.
If the Bank does not have reasonable expectations for full or part of the recovery of a financial asset, the gross carrying amount of that financial asset is reduced. Such a reduction is considered as a (partial) derecognition of a financial asset*.* The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition.

The Bank derecognises financial assets when:

- the contractual rights to the cash flows from the financial asset expire;
- it transfers the financial asset and the transfer qualifies for derecognition;
- financial assets are written-off.

The Bank transfers a financial assets only if:

- transfers the contractual rights to receive the cash flows of the financial asset, or
- retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets all of the following conditions:
  - the Bank has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
  - the Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset to the eventual recipients for the obligation to pay them cash flows;
  - the Bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. Interest earned on such investments is passed to the eventual recipients.

3 Significant accounting policies (continued)

When the Bank transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

- if the Bank transfers substantially all the risks and rewards of ownership of the financial asset, the Bank derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer;
- if the Bank retains substantially all the risks and rewards of ownership of the financial asset, the Bank continues to recognise the financial asset;
- if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Bank determines whether it has retained control of the financial asset.

The control of the transferred asset is not available if the party to whom the asset is transferred has the real ability to sell it to an unrelated third party and may sell this sale unilaterally without the need to impose additional restrictions on such transfer.

If the control over a financial asset is not retained, the recognition of such an asset is terminated, otherwise, if the control over the financial asset is retained, its recognition continues to be recognized within the further continuing involvement.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not reclassified in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities – derecognition.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Significantly different are the conditions under which the net present value of the cash flows under the new terms discounted using the original effective interest rate (for a floating interest rate interest rate, the effective interest rate that was calculated at 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.

Any expense or remuneration is the income/expense from derecognition if the changes in the terms of a financial liability are reflected in the accounting as a repayment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid is recognised in profit or loss.

3 Significant accounting policies (continued)

If the exchange or amendment of debt obligations (modification) does not result in the cessation of recognition, any costs and remunerations from the exchange / modification adjust the carrying amount of the financial liability and are amortized over the term of the new liability (effective interest rate is not recalculated, but adjusted to reflect these costs/remunerations).

Modification of financial assets. Modified financial asset – an asset by which the contractual cash flows provided have been reviewed by agreement or modified.

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, that is whether the cash flows under initial financial asset differ significantly from cash flows from modified financial asset or the asset that has replaced initial financial asset. To determine the type of modification and its consequences, a quantitative and qualitative analysis of changes in terms of the contract, and the combined effects of qualitative and quantitative factors, is conducted. If the cash flows are significantly different, the rights to the contractual cash flows for the original financial asset are considered to have expired. In making this assessment, the Bank is guided by the derecognition of financial liabilities by analogy..

The Bank concludes that the modification of the conditions is significant, based on such qualitative factors:

- change the currency of the financial asset;
- change of the borrower, except for changes due to the death of the borrower;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion (for example, adding a conversion condition).

If the modification of the terms of the loan agreement was so significant that it leads to the recognition of a new asset and at the same time the asset fulfills the conditions of classification to default - the new asset is classified as initially impaired.

Changes in the value of cash flows from existing financial assets or financial liabilities are not considered to be modifications if they are provided by the original terms of the contract.

As a part of credit risk management the Bank reviews the terms of loans to customers with financial difficulties ("the practice of reviewing the terms of credit agreements") in order to maximize the return on the original contractual terms rather than to originate a new asset. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). As a result, the amount of the contracted cash flows remaining at the time of the modification is recognized as an initial financial asset is likely to be equivalent to the value of newly modified cash flows under the contract. The Bank performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

3 Significant accounting policies (continued)

For loans in which the borrower has an option to prepay the loan at par without significant penalty, the Bank treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Modification of financial liabilities. The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Compensation paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

The Bank performs a quantitative evaluation of whether the modification is substantial. For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument to take into account the influence of such commissions.

Cash and cash equivalents**.** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include unrestricted balances with the NBU, deposit certificates and all interbank placements with original maturities of less than three months. Funds restricted are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Due from other banks**.** Due from other banks are accounted for when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from banks are carried at amortised cost.

Investment securities**.** The 'investment securities' caption in the separate statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

Loans and advances to customers**.** 'Loans and advances to customers' caption in the separate statement of financial position includes:

- loans to customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- finance lease receivables.

3 Significant accounting policies (continued)

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at fair value when acquired (but not higher than carrying value of the settled overdue loans) and included in property, plant and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently accounted for in accordance with the accounting policies for these categories of assets.

Financial guarantees and loan commitments. The Bank has credit related commitments including loan commitments, letters of credit and financial guarantees. Financial guarantees – are non-cancellable guarantee to make payments in the case when a client fails to fulfil its obligations to third parties. Financial guarantees has the same risk as loans.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments, the Bank recognises a loss allowance.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

***Investment property*.** Investment property is property held by the Bank to earn rental income or for capital appreciation, or both. Investment property includes assets under construction for future use as investment property.

The same property can be divided into structurally separated parts used for different purposes: one part – to receive rental income or equity increase; the other part – for using in the Bank's activity or for administrative purposes.

Investment property is initially recognised at cost of acquisition, including transaction costs, and subsequently remeasured at fair value to reflect market conditions at the end of the reporting period.

Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The fair value of the Bank's investment property is determined based on reports of the internal appraiser who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. The basis used for the valuation was market value.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Property, plant and equipment.

Property, plant and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Since 2012, land and buildings are accounted for under the revaluation model. At the date of revaluation accumulated depreciation of buildings was eliminated against the gross carrying amount of the asset and the net amount was recalculated to the revalued amount of the asset.

3 Significant accounting policies (continued)

Buildings held by the Bank are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the separate statement of profit or loss and other comprehensive income, in which case the increase is recognised in the separate statement of profit or loss and other comprehensive income. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for buildings included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset and through annual amortisation of the revaluation reserve.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

Depreciation. Land and construction in progress are not depreciated. Depreciation of property, plant and equipment and right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives, years
Buildings	70
Furniture and fixtures	5-15
Motor vehicles	7
Computers and equipment	5-15
Leasehold improvements	over the term of the underlying lease

Intangible assets. The Bank's intangible assets have the definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of no more than 10 years.

Lease in which the Bank acts as a lessee.

When concluding a contract, the Bank determines whether the contract or a separate part of it is a lease agreement. A contract or a separate part of it is a lease agreement if it transfers the right to control the use of a certain asset for a certain period of time in exchange for compensation. The Bank reevaluates whether the contract or a separate part of it is a lease agreement only if the terms of the contract are revised. If the contract or a separate part of it is a lease agreement, the Bank considers each lease component as a lease agreement, separately from the non-lease components of the contract.

3 Significant accounting policies (continued)

The Bank defines the lease term as a non-canceled lease period, taking into account:

- periods covered by the lease extension option if the lessee is reasonably confident that he will take advantage of such an opportunity; and
- periods covered by the option for early termination of the lease, if the lessee is reasonably sure that he will not take advantage of such an opportunity.

The Bank reviews the lease term in the event of a change in the lease period that has not been canceled. The lease term starts from the start date of the lease, i.e. the date when the lessor makes the underlying asset available for use by the lessee.

Initial recognition*.* As of the start date of the lease, the Bank recognises the asset as a right of use and an obligation under the lease agreement. The right-of-use asset is valued at cost.

As of the start date of the lease, the Bank estimates the liabilities under the lease agreement in the amount of the present value of lease payments not yet paid on that date. Lease payments are discounted by applying the interest rate stipulated in the lease agreement. If such a rate cannot be easily determined, the Bank applies the discount rate of the National Bank of Ukraine.

Lease payments taken into account when assessing lease obligations for the right of use the underlying asset during the lease term include:

- fixed payments less any incentives to enter into a lease agreement to be received;
- variable lease payments based on an index or rate that was originally estimated using such an index or rate at the start date of the lease;
- amounts to be paid by the Bank under liquidation value guarantees;
- the exercise price of an asset purchase option, if the Bank is reasonably confident that it will take advantage of such an opportunity;
- penalties for termination of the lease, if the terms of the lease reflect the Bank's exercise of the option to terminate the lease early.

The Bank uses simplification and does not recognize assets under the right of use on the balance sheet in relation to:

- short-term lease agreements;
- lease agreements under which the underlying asset has a low value.

When applying this simplification, short-term lease agreements with a lease term of up to 365 days inclusive are considered. Leases that provide an option to acquire an underlying asset are not considered short-term. The Bank applies the threshold of UAH 150,000 when determining the underlying asset with a low value. Under leases to which the Bank applies exemptions, costs are recognized in the period to which they relate.

Subsequent measurement. After the start date of the lease, the Bank evaluates all assets under right of use, except those that meet the definition of investment property, at cost less accumulated depreciation, accumulated impairment, adjusted for the amount of revaluation of lease liabilities reflected against the cost of the asset under right of use.

Depreciation of a right-of-use asset is carried out from the start date of the lease until the end of the useful life of the underlying asset, if the lease transfers ownership of the underlying (leased) asset to the Bank at the end of the lease term, or if the cost of the right-of-use asset reflects the fact that the Bank will take advantage of the opportunity to purchase it. In other cases, the Bank amortises the right-of-use asset from the start date of the lease to an earlier of the following two dates: the end of the useful life of the right-of-use asset and the end of the lease term. Other requirements for depreciation and recognition of impairment of an asset by right-of-use are similar to those applied to own property, plant and equipment.

3 Significant accounting policies (continued)

Revaluation of lease liabilities. The Bank changes the valuation of lease liabilities by discounting the revised lease payments using the revised discount rate if any of the conditions are met:

- change in the lease term (due to a revision of the probability of executing an option to extend or terminate the lease ahead of schedule);
- change in the assessment of the possibility of acquiring the underlying asset;
- change in payments due to changes in the floating interest rate.

The Bank changes the valuation of lease liabilities by discounting revised lease payments using an unchanged discount rate if any of the conditions are met:

- change in the amounts expected to be paid under the liquidation value guarantee;
- changes in future lease payments as a result of changes in the index or rate used to determine such payments. The Bank reflects the amount of revaluation of the lease liability as an adjustment of the right-of-use asset (except in the case of a decrease in the carrying amount of the right-of-use asset to zero). If the carrying amount of the right-of-use asset has decreased to zero and the lease liability is further reduced, the Bank recognises the remaining amount as part of the profit or loss.

Modifications to the lease agreement. The Bank considers the modification of the lease agreement as a separate lease agreement, if the conditions are met:

- the modification expands the scope of the lease agreement by adding the right to use one or more underlying assets;
- contract compensation is increased by an amount corresponding to the price of an individual contract for an increased volume, with appropriate adjustments reflecting the circumstances of a particular contract.

For a modification of a lease agreement that is not considered as a separate lease agreement, as of the effective date of the modification, the Bank:

- distributes compensation specified in the modified lease agreement;
- determines the terms of the modified lease;
- revalues the lease liability by discounting the revised lease payments using the revised discount rate.

The revised discount rate is defined as the interest rate provided for in the lease agreement for the remaining lease term or as the additional borrowing rate of the lessee on the effective date of the lease modification, if the interest rate provided for in the lease cannot be easily determined.

For a modification of a lease agreement that is not considered as a separate lease agreement, as of the effective date of the modification, the Bank:

- reduces the carrying amount of the right-of-use asset by the amount of partial or complete termination of the lease for modification, which reduces the scope of the lease agreement; any profit or loss associated with partial or complete termination of the lease is recorded under "other administrative and operating costs" of the Income statement;
- reflects adjustments to the right-of-use asset for all other modifications to the lease agreement.

Leases in which the Bank acts as a lessor

The Bank, as a lessor, classifies each lease as a finance or operating lease. This classification is made as of the date of the lease agreement or the date of commitment by the parties to the agreed basic terms of the lease agreement, and is revised only if the lease agreement is modified. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Otherwise, the lease is classified as operating. The classification of a lease as financial or operating depends on the substance of the transaction and not on the form of the contract.

3 Significant accounting policies (continued)

The Bank leases its investment properties, including commercial real estate owned by it, as well as leased real estate. The Bank classified these leases as operating leases because it does not transfer virtually all of the risks and benefits of owning assets.

Some property leases contain extension options exercisable by the Bank. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Bank doesn't expect any penalties as the leases will either be extended or lease liabilities will be fulfilled in accordance with the terms of the contract.

Accounts receivable under finance leases are included in loans and advances to customers.

Due to other banks, customer accounts, due to other financial institutions and debt securities.
Due to other banks, customer accounts, due to other financial institutions and debt securities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

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

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

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

Deferred income tax is not recognized for retained earnings after acquisition or other changes in the reserves of subsidiaries whose dividend policy is controlled by the Bank if it is quite probable that the difference will not be repaid through dividends or otherwise in the future.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of each reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

3 Significant accounting policies (continued)

Accounts payable for operating activities and other accounts payable. Accounts payable for operating activities are recognised when the counterparty has fulfilled its obligations under the agreement and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Interest income and expense. The Bank recognises interest income and expense in profit or loss using the effective interest method during the period from the date of initial recognition to the date of derecognition or reclassification of financial instruments. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset; or the amortised cost of the financial liability.

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

Credit-adjusted effective interest rate – is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the amortised value of the financial asset which is purchased or originated credit-impaired asset. When calculating the credit-adjusted effective interest rate, the Bank estimates all contractual terms of the financial asset and expected credit losses.

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

Interest income is calculated by applying the effective interest rate applied to the gross carrying amount of the financial asset at amortised cost except:

- purchased or originated credit-impaired assets. For such assets interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset from the date of initial recognition; the calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves;
- purchased or originated credit-impaired assets. For such assets interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset from the date of initial recognition; the calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves;
- financial assets which are not purchased or originated credit-impaired assets, but subsequently have become credit-impaired. In this case, the Bank applies effective interest rate to the amortised cost of the asset in the subsequent reporting periods after the date of their recognition as credit-impaired. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

The effective interest rate is revised as a result of periodic reestimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

Interest income calculated using the effective interest method presented in the separate statement of profit or loss and other comprehensive income includes:

- interest income calculated using the effective interest method on financial assets measured at amortised cost;
- interest calculated using the effective interest method on debt instruments measured at FVOCI.

3 Significant accounting policies (continued)

Other interest income presented in the separate statement of profit and loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL and net investments in finance leases.

Interest expense presented in the separate statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

Fee and commission income and expense. Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Commission income on credit related commitments at market rates are integral part of effective interest rate, if it is probable that the Bank will enter into a specific loan agreement and will not plan to realize the loan within a short period of time after it is provided. If there is no high probability that it will be issued to the borrower within the framework of the loan commitment, then the commission fees for the loan are recognized evenly over the duration of the loan commitment.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

All other payments, commission and other income and expenses are generally accounted for using the accrual method depending on the degree of completeness of the particular transaction, which is defined as the proportion of the actual service provided in the total amount of services to be provided. Other commission income, including commission fee for servicing accounts, remuneration for investment management services, other commission fees, are recognized as the services are provided.

Commissions due to negotiation or participation in third-party transaction negotiations (for example, purchase of loans, shares or other securities, or acquisition or sale of companies) that the Bank earns upon completion of the transaction are recognised after the completion of the transaction.

Foreign currency translation. The functional currency of the Bank and its subsidiary is the currency of the economic environment in which the Bank and its subsidiary operate. The functional and presentation currency is the national currency of Ukraine, hryvnias.

Monetary assets and liabilities are translated into the functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the NBU are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The principal rates of exchange used for translating foreign currency balances were as follows:

	31 December 2020, UAH	**31 December 2019, UAH**
1 US Dollar (USD)	28,2746	23,6862
1 Euro (EUR)	34,7396	26,4220
1 zloty (PLN)	7,6348	6,1943
1 Russian Ruble (RUB)	0,3782	0,3816

Offsetting. Financial assets and liabilities are offset and the net amount reported in the separate statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off 1) must not be contingent on a future event and 2) must be legally enforceable in all of the following circumstances: (а) in the normal course of business, (б) the event of default and (в) the event of insolvency or bankruptcy.

3 Significant accounting policies (continued)

Staff costs. Wages, salaries, contributions to the Ukrainian state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to management being the Bank's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately in these separate financial statements based on the ultimate domicile of the counterparty. The ultimate domicile and the actual place of business of the counterparties generally coincide.

Presentation of separate statement of financial position in order of liquidity.

The Bank does not have a clearly identifiable operating cycle and therefore does not present current and noncurrent assets and liabilities separately in the separate statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. The following table provides information for each line item in the separate statement of financial position which combines contractual amounts to be recovered or settled.

	31 December 2020			**31 December 2019**		
	Amounts to be recovered or settled per contract			**Amounts to be recovered or settled per contract**		
In thousands of hryvnias	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**
Assets						
Cash and cash equivalents	4 201 484	-	4 201 484	2 923 310	-	2 923 310
Due from other banks	30 764	-	30 764	7 438	-	7 438
Loans and advances to customers	5 731 848	7 550 181	13 282 029	5 341 340	6 342 743	11 684 083
Investment securities	3 783 968	2 403 261	6 187 229	1 844 430	1 228 150	3 072 580
Current income tax prepayment	20	-	20	84	-	84
Deferred income tax asset	-	43 004	43 004	-	32 560	32 560
Investment property	-	14 054	14 054	-	28 506	28 506
Intangible assets	-	176 188	176 188	-	137 341	137 341
Property, leasehold improvements and equipment	-	1 007 493	1 007 493	-	1 070 912	1 070 912
Other financial assets	153 702	-	153 702	70 042	-	70 042
Other assets	132 163	-	132 163	108 871	50	108 921
Total assets	**14 033 949**	**11 194 181**	**25 228 130**	**10 295 515**	**8 840 262**	**19 135 777**
Liabilities						
Due to other banks	539 280	2 300 000	2 839 280	1 612 017	-	1 612 017
Customer accounts	17 913 504	406 261	18 319 765	13 827 072	134 473	13 961 545
Due to other financial institutions	115 580	-	115 580	60 762	216 229	276 991
Debt securities	384 810	-	384 810	29 592	249 878	279 470
Current income tax liabilities	33 784	-	33 784	36 148	-	36 148
Other financial liabilities	139 268	107 260	246 528	159 838	80 245	240 083
Other non-financial liabilities	166 801	-	166 801	143 238	-	143 238
Total liabilities	**19 293 027**	**2 813 521**	**22 106 548**	**15 868 667**	**680 825**	**16 549 492**

3 Significant accounting policies (continued)

New or Amended Standards and Interpretations The Bank first applied certain standards and amendments which are effective for annual accounting periods beginning on or after 1 January 2020. The Bank has not adopted in advance standards, interpretations or amendments that have been issued but is not yet effective.

Amendments to IFRS 3 – « Definition of a Business »

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the separate financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 - « Interest Rate Benchmark Reform »

The amendments to IFRS 7, IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the separate financial statements of the Bank as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 - « Definition of material »

The amendments provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the separate financial statements of, nor is there expected to be any future impact to the Bank.

«Conceptual Framework for Financial Reporting», issued On March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the separate financial statements of the Bank.

Amendments to IFRS 16 - « COVID-19 Related Rent Concessions »

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the separate financial statements of the Bank.

3 Significant accounting policies (continued)

New accounting provisions

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

IFRS 17 "Insurance Contracts"

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

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Bank.

Amendments to IFRS (IAS) 1- «Classification of Liabilities as Current or Non-current»

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current classification of liabilities.

Amendments to IFRS 3- «References to the Conceptual Framework»

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

3 Significant accounting policies (continued)

Amendments to IAS 16 - «Property, Plant and Equipment: Proceeds before Intended Use»

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Bank.

Amendments to IAS 37- «Onerous Contracts—Cost of Fulfilling a Contract»

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

Amendment to IFRS 1 « First-time Adoption of International Financial Reporting Standards» - a subsidiary that applies International Financial Reporting Standards for the first time

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

Amendment to IFRS 9 «Financial Instruments» - fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Bank.

3 Significant accounting policies (continued)

Amendment to IAS 41 Agriculture - Taxation in Fair Value Measurement As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Bank.

4 Critical accounting estimates, and judgements in applying accounting policies

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

- ***Financial assets classification:*** an assessment of business model in which assets are held and an assessment whether the contractual cash flows of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3 (Classification and further valuation of financial assets: business model and Classification and further valuation of financial assets: characteristics of cash flows).
- ***Expected credit losses (impairment) of financial instruments:*** an assessment whether there has been a significant increase in credit risk compared to the date of initial recognition, and including forward-looking information in the measurement of expected credit losses – Note 3 (Estimation of expected credit losses).
- ***Measures to provide customer support.*** The situation with the spread of the COVID-19 coronavirus, due to quarantine restrictions and a high level of uncertainty, had an insignificant impact on the solvency of the Bank's borrowers. According to the recommendations of the National Bank, in 2020, all segments of borrowers – individuals and legal entities affected by quarantine restrictions in Ukraine and the world- could use the "credit holidays" programs. Thus, borrowers could receive a delay in the payment of part of the main payment or interest upon a personal reasonable request.

  The "credit holidays " were mainly used by individual borrowers in the consumer lending segment. The share of debt owed to clients who have taken advantage of the relevant opportunities is insignificant in relation to the total loan portfolio of the Bank. The Bank does not note a significant deterioration in the quality of the loan portfolio due to quarantine measures, but at the same time understands that at the moment it is not possible to fully determine the consequences of the impact of the situation with COVID-19 on the future solvency and credit activity of customers. Banks continue to expect a deterioration in the quality of their loan portfolios, respectively, the Bank updated the PD and RR coefficients.

4 Critical accounting estimates, and judgements in applying accounting policies (continued)

- ***Buildings assessment.*** As noted in Note 3, buildings held by the Bank are subject to revaluation with sufficient regularity. The revaluation was carried out by the internal appraiser who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. The valuation was based on a comparative sales method. In making the valuation, certain judgments were used, in particular to determine such property, plant and equipment, in determining the value by the method of comparing sales prices.

  The Bank's property, plant and equipment were revaluated at market value as at 31 December 2019. The valuation was based on a comparative sales method and was carried out by the internal appraiser who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. For each real estate property several comparables were selected based on the following criteria: location, type, condition and size. Adjustments were applied for a price representing an offer rather than an actual transaction (bargain discount), location, size, floor and condition and other adjustments. Bargain discount applied by the internal appraiser was usually in the range from 10% to 15%. Other adjustments applied by the internal valuator were usually in the range from 10% to 15%. The evaluator used only a comparative method to evaluate all objects of property, plant and equipment.

  Changes in such assumptions may affect the fair value of the assets. If the price per square meter differs by 10%, the fair value of buildings will increase / decrease by UAH 30 696 thousand (in 2019 - by UAH 31 018 thousand).

- ***Definition of terms under leases.*** The Bank considers all available facts and circumstances that give rise to an economic incentive to exercise the extension options. The Bank determines the total lease term based on the option to extend the lease and terminate the longer lease term. Where practicable, the Bank seeks to include renewal options in new leases to provide operational flexibility. The Bank assesses at lease commencement date whether it is reasonably certain to exercise extension options. As a result, the lease term for most lease objects is 2-7 years.

5 Cash and cash equivalents

In thousands of hryvnias	**31 December 2020**	**31 December 2019**
Cash on hand	649 423	563 204
Cash balances on correspondent accounts with the NBU	324 022	621 498
Correspondent accounts with other banks	2 028 206	1 287 912
Deposit certificates issued by the NBU	1 200 298	450 831
Loss allowances for expected credit losses	(465)	(135)
Total cash and cash equivalents	**4 201 484**	**2 923 310**

As at 31 December 2020 and 2019 the Bank was in compliance with the mandatory reserve requirements.

As at 31 December 2020, the Bank's cash and cash equivalents for the purposes of the separate statement of cash flows amounted to UAH 4 201 484 thousand (as at 31 December 2019: UAH 2 923 310 thousand).

Interest rate analysis of cash and cash equivalents is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

The credit quality of cash and cash equivalents based on Moody's ratings is summarised as follows:

In thousands of hryvnias	**31 December 2020**	**31 December 2019**
Cash balances on correspondent accounts with the NBU	**324 022**	**621 498**
Deposit certificates issued by the NBU	**1 200 298**	**450 831**
Correspondent accounts with other banks:		
- Aa1 - Aa3 rated	424 770	929 743
- A1 - A3 rated	1 510 615	309 844
- Baa1 - Baa3 rated	30 166	16 841
- Ba1 - Ba3 rated	-	5 073
- Unrated	62 655	26 411
Loss allowances for expected credit losses	(465)	(135)
Total cash and cash equivalents, excluding cash funds	**3 552 061**	**2 360 106**

As at 31 December 2020, the Bank had a concentration of balances on current accounts with other credit institutions of UAH 1 824 564 thousand due from three largest banks with credit ratings of investment grade (as at 31 December 2019 – UAH 1 051 959 thousand).

The movements in expected credit losses are as follows:

In thousands of hryvnias	**Note**	**2020**	**2019**
Loss allowances for expected credit losses at 1 January		**135**	**162**
Remeasurement of loss allowance	23	284	(22)
Effect of exchange rate of foreign currency		46	(5)
Loss allowances for expected credit losses at 31 December		**465**	**135**

6 Due from other banks

In thousands of hryvnias	**31 December 2020**	**31 December 2019**
Guarantee deposits	30 829	4 517
Loans from banks	-	3 025
Loss allowances for expected credit losses	(65)	(104)
Total due from other banks	**30 764**	**7 438**

Guarantee deposits include assets placed mostly as guarantee deposits for card settlements and transfers, as well as a documentary transaction. Loans due from banks are short-term loans to other banks with initial term of payment over 90 days.

Amounts due from other banks are not collateralised. The credit quality of due from banks outstanding as at 31 December 2020 is below. This analysis is based on Moody's ratings.

In thousands of hryvnias	**Loans from banks**	**Guarantee deposits**	**Total**
Assets with 12-month expected credit losses - Stage 1			
- A1 - A3 rated	-	23 235	23 235
- Unrated	-	7 594	7 594
Loss allowances for 12-months expected credit losses	-	(65)	(65)
Total due from other banks	**-**	**30 764**	**30 764**

The credit quality of due from banks outstanding as at 31 December 2019 is as follows:

In thousands of hryvnias	Loans from banks	Guarantee deposits	Total
Assets with 12-month expected credit losses - Stage 1			
- Unrated	3 025	4 517	7 542
Loss allowances for 12-months expected credit losses	(66)	(38)	(104)
Total due from other banks	**2 959**	**4 479**	**7 438**

The movements in expected credit losses during 2020 are as follows:

In thousands of hryvnias	**Note**	**Loans from banks**	**Guarantee deposits**	**Total**
Loss allowances for 12-months expected credit losses at 1 January 2020 - Stage 1		**66**	**38**	**104**
Remeasurement of loss allowance	23	(41)	27	**(14)**
Financial assets that have been derecognised	23	(25)	-	**(25)**
Loss allowances for 12-months expected credit losses at 31 December 2020 - Stage 1		**-**	**65**	**65**

The movements in expected credit losses during 2019 are as follows:

In thousands of hryvnias	**Note**	**Loans from banks**	**Guarantee deposits**	**Total**
Loss allowances for 12-months expected credit losses at 1 January 2019 - Stage 1		**132**	**30**	**162**
Remeasurement of loss allowance	23	(618)	-	**(618)**
Financial assets that have been derecognised	23	(270)	-	**(270)**
Effect of exchange rate of foreign currency	23	822	8	**830**
Loss allowances for 12-months expected credit losses at 31 December 2019 - Stage 1		**66**	**38**	**104**

Refer to Note 32 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 29.

7 Loans and advances to customers

In thousands of hryvnias	**31 December 2020**	**31 December 2019**
Corporate loans	7 669 499	6 573 536
Loans to individuals - car loans	2 946 302	2 952 955
Loans to individuals - mortgage loans	1 846 526	1 262 629
Loans to individuals - other consumer loans	1 666 190	1 557 486
Loss allowances for expected credit losses	(846 488)	(662 523)
Total loans and advances to customers	**13 282 029**	**11 684 083**

Changes in loss allowances for expected credit losses during 2020 are as follows:

In thousands of hryvnias	**Note**	**Stage 1 12-month expected credit losses**	**Stage 2 Lifetime expected credit losses for not credit-impaired**	**Stage 3 Lifetime expected credit losses for credit-impaired**	**Purchased credit-impaired**	**Total**
Loss allowances for expected credit losses at 1 January 2020		**172 704**	**39 802**	**402 170**	**47 847**	**662 523**
New originated or purchased	23	125 431	56	523	-	**126 010**
Net remeasurement of loss allowance for expected credit losses	23	(67 675)	179 759	68 154	6 008	**186 246**
Write-offs		-	(30)	(175 852)	(84 059)	**(259 941)**
Adjustment for interest income from credit-impaired loans		(54)	(64)	58 840	5 973	**64 695**
Effect of exchange rate of foreign currency		6 873	334	34 812	-	**42 019**
Repayment of POCI assets in excess of initial loss recognised		(17 236)	(170 569)	187 757	24 984	**24 936**
Other movements, including transfers to Stages:		(28 740)	26 212	2 528	-	**-**
- transfer from Stage 1		10 686	(200 419)	189 733	-	**-**
- transfer from Stage 2		807	3 636	(4 443)	-	**-**
- transfer from Stage 3		**172 704**	**39 802**	**402 170**	**47 847**	**662 523**
Loss allowances for expected credit losses at 31 December 2020		**220 043**	**49 288**	**576 404**	**753**	**846 488**

* Remeasurement of loss allowance for expected credit losses includes the following: changes for loans issued during 2020, for which there was a change in the level of expected loan losses from the date of issue to the end of the year; changes in loans issued before 2020 that remained in the portfolio as at 31 December 2020; changes for loans derecognised during the period. The table above discloses the accumulated impact of changes in the level of expected credit losses, including if a significant increase/decrease in credit risk was recognized several times during the year, which resulted in the transfer between stages for several times.

7 Loans and advances to customers (continued)

As at 31 December 2020, loans issued in 2020 and outstanding as at 31 December 2020 amounted to UAH 7 238 698 thousand (51% of loans and advances to customers as at 31 December 2020), including corporate loans – UAH – 4 265 295 thousand (30% of loans and advances to customers as at 31 December 2020), out of which 70% of loans have initial maturity up to 2 years and due to short term nature the days of debt overdue is the most significant criterion for significant increase of credit risk for such loans. Credit quality of corporate loans and advances increases, therefore new loan grantings exceed loan repayments of outstanding exposures. As at 31 December 2020 UAH 4 019 015 thousand of loans outstanding were fully repaid (32%), including loans in Stage 1 – UAH 3 713 320 thousand (loss allowance as at 31 December 2020 amounted to UAH 52 286 thousand).
During 2020, the Bank made an assignment of claims to customers in the amount of UAH 5 802 thousand (during 2019 - UAH 200 073 thousand), net book value amounted to UAH 3 446 thousand (2019 - UAH 70 955 thousand).

During 2019 changes in loss allowances for expected credit losses and advances to customers are as follows:

In thousands of hryvnias	**Note**	**Stage 1 12-month expected credit losses**	**Stage 2 Lifetime expected credit losses for not credit-impaired**	**Stage 3 Lifetime expected credit losses for credit-impaired**	**Purchased credit-impaired**	**Total**
Loss allowances for expected credit losses at 1 January 2019		**169 392**	**31 819**	**356 128**	**17 766**	**575 105**
New originated or purchased	23	166 717	352	1 329	-	**168 398**
Net remeasurement of loss allowance for expected credit losses	23	(146 909)	142 002	(37 719)	3 557	**(39 069)**
Write-offs		(85)	(213)	(92 824)	(1 684)	**(94 806)**
Adjustment for interest income from credit-impaired loans		(104)	-	53 485	28 208	**81 589**
Effect of exchange rate of foreign currency		(3 013)	(300)	(25 381)	-	**(28 694)**
					-	**-**
Other movements, including transfers to Stages:		(13 294)	(133 858)	147 152	-	**-**
- transfer from Stage 1		(19 047)	18 314	733	-	**-**
- transfer from Stage 2		5 143	(154 259)	149 116	-	**-**
- transfer from Stage 3		610	2 087	(2 697)	-	**-**
Loss allowances for expected credit losses at 31 December 2019		**172 704**	**39 802**	**402 170**	**47 847**	**662 523**

* Remeasurement of loss allowance for expected credit losses includes the following: changes for loans issued during 2019, for which there was a change in the level of expected credit losses from the date of issue to the end of the year; changes in loans issued before 2019 that remained in the portfolio as at 31 December 2019; changes for loans derecognised during the period. The table above discloses the accumulated impact of changes in the level of expected credit losses, including if a significant increase/decrease in credit risk was recognized several times during the year, which resulted in the transfer between stages for several times.

7 Loans and advances to customers (continued)

As at 31 December 2019, loans issued in 2019 and outstanding as at 31 December 2019 amounted to UAH 6 930 624 thousand (56% of loans and advances to customers as at 31 December 2019), including corporate loans – UAH 3 794 173 thousand (31% of loans and advances to customers as at 31 December 2019), out of which 73% of loans have initial maturity up to 2 years and due to short term nature the days of debt overdue is the most significant criterion for significant increase of credit risk for such loans. Credit quality of corporate loans and advances increases, therefore new loan grantings exceed loan repayments of outstanding exposures. As at 31 December 2019 UAH 3 187 636 thousand of loans outstanding as at 1 January 2019 were fully repaid (31%), incl. loans in Stage 1 – UAH 3 127 925 thousand (the reserve for such loans on January 1, 2019 amounted to UAH 55 676 thousand).

The amount of loans that were written off during 2020, but remain the subject of enforcement activity, is UAH 120 300 thousand (in 2019 - UAH 16 449 thousand).

Economic sector risk concentration within the customer loan portfolio is as follows:

	31 December 2020		**31 December 2019**	
In thousands of hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	6 459 018	46	5 773 070	47
Agriculture and food processing	2 754 998	20	2 336 827	19
Trade	1 992 063	14	1 680 535	14
Manufacturing	1 688 213	12	1 506 057	12
Other services	612 341	4	546 690	4
Real estate and construction	274 403	2	211 943	2
Transportation	213 690	2	153 137	1
Mining	56 296	-	40 805	-
Health resorts	4 484	-	4 220	-
Hotels	2 644	-	1 358	-
Sports and recreation services	158	-	398	-
Financial services	-	-	212	-
Other	70 209	-	91 354	1
Total loans and advances to customers (before expected credit losses)	**14 128 517**	**100**	**12 346 606**	**100**

As at 31 December 2020, the total gross carrying value of top 10 borrowers of the Bank was UAH 1 091 719 thousand (31 December 2019: UAH 741 156 thousand), or 8% of the loan portfolio before expected credit losses (31 December 2019: 6% of the loan portfolio before impairment).

As at 31 December 2020, loans and advances to customers in the amount of UAH 291 737 thousand (31 December 2019: UAH 317 765 thousand) were secured by deposits in the amount of UAH 347 200 thousand (31 December 2019: UAH 368 141 thousand). Refer to Note 14 and Note 29.

7 Loans and advances to customers (continued)

Credit quality analysis of the loans outstanding as at 31 December 2020 is presented below:

In thousands of hryvnias	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses for not credit-impaired	Stage 3 Lifetime expected credit losses for credit-impaired	Purchased credit-impaired	Total
Corporate loans					
- not yet past due	7 239 301	12 936	86 435	-	**7 338 672**
- less than 30 days overdue	8 679	290	1 229	-	**10 198**
- 30 to 90 days overdue	1 967	29 575	73 788	-	**105 330**
- 91 to 180 days overdue	-	4	19 219	-	**19 223**
- 181 to 360 days overdue	-	6	100 322	-	**100 328**
- over 360 days overdue	-	-	95 748	-	**95 748**
Loss allowances for expected credit losses	(110 850)	(11 095)	(190 199)	-	**(312 144)**
Carrying value of the loans to legal entities	**7 139 097**	**31 716**	**186 542**	**-**	**7 357 355**
Loans to individuals - car loans					
- not yet past due	2 619 981	12 106	26 020	-	**2 658 107**
- less than 30 days overdue	73 826	3 776	7 136	-	**84 738**
- 30 to 90 days overdue	7 482	33 488	13 672	-	**54 642**
- 91 to 180 days overdue	-	-	50 375	-	**50 375**
- 181 to 360 days overdue	-	-	53 644	-	**53 644**
- over 360 days overdue	-	-	44 796	-	**44 796**
Loss allowances for expected credit losses	(36 152)	(13 742)	(100 618)	-	**(150 512)**
Carrying value of the car loans to individuals	**2 665 137**	**35 628**	**95 025**	**-**	**2 795 790**
Loans to individuals - mortgage loans					
- not yet past due	1 733 034	13 396	27 283	-	**1 773 713**
- less than 30 days overdue	-	-	-	-	**-**
- 30 to 90 days overdue	5 898	4 683	5 239	-	**15 820**
- 91 to 180 days overdue	-	770	13 701	-	**14 471**
- 181 to 360 days overdue	-	-	17 120	-	**17 120**
- over 360 days overdue	-	-	25 402	-	**25 402**
Loss allowances for expected credit losses	(22 582)	(2 494)	(39 508)	-	**(64 584)**
Carrying value of mortgage loans to individuals	**1 716 350**	**16 355**	**49 237**	**-**	**1 781 942**
Loans to individuals - other consumer loans					
- not yet past due	1 214 735	15 078	48 410	222	**1 278 445**
- less than 30 days overdue	70 903	4 461	9 831	2	**85 197**
- 30 to 90 days overdue	8 810	44 517	17 762	62	**71 151**
- 91 to 180 days overdue	-	193	39 223	44	**39 460**
- 181 to 360 days overdue	-	32	99 729	113	**99 874**
- over 360 days overdue	-	12	91 253	798	**92 063**
Loss allowances for expected credit losses	(50 459)	(21 957)	(246 079)	(753)	**(319 248)**
Carrying value of other consumer loans to individuals	**1 243 989**	**42 336**	**60 129**	**488**	**1 346 942**
Total loans and advances to customers	**12 764 573**	**126 035**	**390 933**	**488**	**13 282 029**

7 Loans and advances to customers (continued)

Credit quality analysis of the loans outstanding as at 31 December 2019 is presented below:

In thousands of hryvnias	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses for not credit-impaired	Stage 3 Lifetime expected credit losses for credit-impaired	Purchased credit-impaired	Total
Corporate loans					
- not yet past due	6 121 410	10 078	83 745	-	**6 215 233**
- less than 30 days overdue	73 255	6 221	5 879	-	**85 355**
- 30 to 90 days overdue	-	14 643	30 733	-	**45 376**
- 91 to 180 days overdue	-	150	73 059	-	**73 209**
- 181 to 360 days overdue	-	206	25 156	-	**25 362**
- over 360 days overdue	-	-	129 001	-	**129 001**
Loss allowances for expected credit losses	(46 563)	(4 472)	(191 479)	-	**(242 514)**
Carrying value of the loans to legal entities	**6 148 102**	**26 826**	**156 094**	**-**	**6 331 022**
Loans to individuals - car loans					
- not yet past due	2 728 160	753	13 540	-	**2 742 453**
- less than 30 days overdue	68 756	-	3 545	-	**72 301**
- 30 to 90 days overdue	1 065	29 741	5 929	-	**36 735**
- 91 to 180 days overdue	-	-	26 575	-	**26 575**
- 181 to 360 days overdue	-	-	28 973	-	**28 973**
- over 360 days overdue	-	-	45 918	-	**45 918**
Loss allowances for expected credit losses	(29 725)	(12 115)	(69 257)	-	**(111 097)**
Carrying value of the car loans to individuals	**2 768 256**	**18 379**	**55 223**	**-**	**2 841 858**
Loans to individuals - mortgage loans					
- not yet past due	1 149 803	17 711	21 221	-	**1 188 735**
- less than 30 days overdue	5 640	-	786	-	**6 426**
- 30 to 90 days overdue	-	8 661	5 497	-	**14 158**
- 91 to 180 days overdue	-	23	9 963	-	**9 986**
- 181 to 360 days overdue	-	-	17 153	-	**17 153**
- over 360 days overdue	-	-	26 171	-	**26 171**
Loss allowances for expected credit losses	(19 740)	(4 828)	(41 718)	-	**(66 286)**
Carrying value of mortgage loans to individuals	**1 135 703**	**21 567**	**39 073**	**-**	**1 196 343**
Loans to individuals - other consumer loans					
- not yet past due	1 323 956	504	7 495	*791*	**1 332 746**
- less than 30 days overdue	52 595	-	1 959	*50*	**54 604**
- 30 to 90 days overdue	421	26 234	3 744	*95*	**30 494**
- 91 to 180 days overdue	-	449	27 743	*227*	**28 419**
- 181 to 360 days overdue	-	72	48 339	341	**48 752**
- over 360 days overdue	-	4	14 368	48 099	**62 471**
Loss allowances for expected credit losses	(76 676)	(18 387)	(99 716)	(47 847)	**(242 626)**
Carrying value of other consumer loans to individuals	**1 300 296**	**8 876**	**3 932**	**1 756**	**1 314 860**
Total loans and advances to customers	**11 352 357**	**75 648**	**254 322**	**1 756**	**11 684 083**

7 Loans and advances to customers (continued)

The Bank classifies loans and advances to customers by credit quality based on the borrower's financial condition and ability to service the debt.

Information on collateral as at 31 December 2020 is summarised below:

In thousands of hryvnias	Corporate loans	Car loans	Mortgage loans	Consumer loans	Total
Unsecured loans	**804 102**	**204 105**	**4 621**	**1 663 647**	**2 676 475**
Loans collateralised by:					
- cash deposits	291 737	-	-	-	**291 737**
- residential real estate	184 982	442	1 739 158	333	**1 924 915**
- other real estate	2 661 356	-	68 578	-	**2 729 934**
- other assets	3 727 322	2 741 755	34 169	2 210	**6 505 456**
Total loans and advances to customers (before expected credit losses)	**7 669 499**	**2 946 302**	**1 846 526**	**1 666 190**	**14 128 517**

Information on collateral as at 31 December 2019 is summarised below:

In thousands of hryvnias	Corporate loans	Car loans	Mortgage loans	Consumer loans	Total
Unsecured loans	744 124	263 904	19 798	1 553 287	**2 581 113**
Loans collateralised by:					
- cash deposits	317 765	-	-	-	**317 765**
- residential real estate	134 394	-	1 161 378	344	**1 296 116**
- other real estate	2 241 696	-	57 364	-	**2 299 060**
- other assets	3 135 557	2 689 051	24 089	3 855	**5 852 552**
Total loans and advances to customers (before expected credit losses)	**6 573 536**	**2 952 955**	**1 262 629**	**1 557 486**	**12 346 606**

The information on the collateral in the table above includes financial lease receivables. Namely, as at 31 December 2020 in the amount of loans secured by other assets, included financial lease receivables from legal entities in the amount of UAH 1 061 985 thousand (as at 31 December 2019 - UAH 722 246 thousand) and UAH 14 143 thousand - individuals (car loans) (as at 31 December 2019 – UAH 9 353 thousand). In the amount of loans secured by deposits, included financial lease receivables from legal entities in the amount of UAH 2 900 thousand.

As at 31 December 2020 mortgage loans amounted to UAH 58 633 thousand are foreign currency mortgage loans and are subject to the specific requirements of the Ukrainian legislation on collateral (2019: UAH 59 460 thousand).

Other assets mainly include equipment, other movable property and property rights for future real estate. The disclosure above represents the lower of the carrying value of the loan or fair value of collateral taken as at 31 December, depending on what is the lowest amount; the remaining part is disclosed within the unsecured exposures. The carrying value of the loans was allocated based on liquidity of the assets taken as collateralised.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements exceed its carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements equal to their carrying value or are lower than their carrying value ("under-collateralised assets"). The analysis below covers only the individually impaired loans.

7 Loans and advances to customers (continued)

The effect of collateral on individually impaired loans as at 31 December 2020 is summarised below:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of hryvnias	**Carrying value of the assets**	**Fair value of collateral with discounts and expected disposal terms**	**Carrying value of the assets**	**Fair value of collateral with discounts and expected disposal terms**
Corporate loans	112 629	132 815	66 072	50 053
Mortgage loans	1 229	1 975	22 853	14 221
Consumer loans	-	-	-	-
Car loans	-	-	3 812	3 055
Total	**113 858**	**134 790**	**92 737**	**67 329**

The effect of collateral on individually impaired loans as at 31 December 2019 is summarised below:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of hryvnias	**Carrying value of the assets**	**Fair value of collateral with discounts and expected disposal terms**	**Carrying value of the assets**	**Fair value of collateral with discounts and expected disposal terms**
Corporate loans	105 044	147 998	44 987	30 648
Mortgage loans	656	1 538	20 736	12 413
Consumer loans	-	-	-	-
Car loans	2 165	3 242	788	581
Total	**107 865**	**152 778**	**66 511**	**43 642**

For other commercial loans without specifically identified impairment, the fair value of collateral was estimated at the inception of the loans and is adjusted for subsequent changes in value once a year in line with the significant market changes in value for real estate or for other pledged assets in accordance with the Bank's policies and procedures.

The fair value of collateral is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, discounted for the time required for its recovery and disposal. This amount includes possible costs of debt recovery through the foreclosure such as court expenses, disposal costs and other costs related to debt recovery through the foreclosure.

The fair value of real estate properties at the end of the reporting period is based on the actual expert opinion of the firm of independent appraisers engaged by the Bank on a contractual basis or by the internal appraiser who holds a relevant qualification certificate, which are not related (affiliates, related parties, associates) to the Bank according to the legislation.

The Bank's credit risk management policies and procedures are described in Note 29. The maximum credit risk exposure represents the carrying value of loans and advances at the relevant reporting date.

7 Loans and advances to customers (continued)

Collateral and other ways to improve the quality of loans and advances are described below.

The Bank accepts the following types of collateral:

- Loans to individuals – residential mortgage property and cars;
- Loans to legal entities and industrial companies – corporate properties such as property, plant and equipment, shares, accounts receivable and third party guarantees;
- Commercial real estate development – real property for which the financing has been received.

Although collateral might be an important factor to mitigate the credit risk, the Bank's policy provides for granting loans primarily based on the customer's creditworthiness rather than the proposed collateral value. Depending on the customer's condition and banking product, loans may be issued without taking collateral.

Finance lease receivables are included to loans. The table below summarizes reconciliation between gross investments in lease and present value of minimal lease payments as at 31 December 2020:

In thousands of hryvnias	**Gross investment in lease**	**Present value of minimum lease payments**	**Unrealized financial income**
Finance lease receivables			
- less than 1 year	736 535	636 930	99 605
- from 1 to 5 years	526 488	448 279	78 209
- over 5 years	174	171	3
Less loss allowances for expected credit losses	**(30 033)**	**(30 033)**	**-**
Total after deduction of loss allowances for expected credit losses	**1 233 164**	**1 055 347**	**177 817**

Included to loans are finance lease receivables. The table below summarizes reconciliation between gross investments in lease and present value of minimal lease payments as at 31 December 2019:

In thousands of hryvnias	**Gross investment in lease**	**Present value of minimum lease payments**	**Unrealized financial income**
Finance lease receivables			
- less than 1 year	457 951	380 849	77 102
- from 1 to 5 years	447 778	354 508	93 270
- over 5 years	1 282	849	433
Less loss allowances for expected credit losses	**(12 167)**	**(12 167)**	**-**
Total after deduction of loss allowances for expected credit losses	**894 844**	**724 039**	**170 805**

Refer to Note 32 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

7 Loans and advances to customers (continued)

Modified financial assets

The table below provides information on financial assets that were modified when the amount of the loss allowance was estimated at an amount equal to the amount of lifetime expected credit losses.

In thousands of hryvnias	**2020**	**2019**
Financial assets modified during the period		
Amortised cost before modification	69 382	100 297
Gains less losses from modification	(1 233)	(643)
Financial assets modified since initial recognition		
Gross carrying amount at 31 December of financial assets for which loss allowance has changed to 12-month measurement during the period	6 533	-

8 Investment securities

In thousands of hryvnias	**31 December 2020**	**31 December 2019**
Investment securities at fair value through other comprehensive income		
Ukrainian government bonds	5 897 526	2 716 749
Corporate shares	10	10
Total investment securities at fair value through other comprehensive income	5 897 536	2 716 759
Investment securities at amortized cost		
Ukrainian government bonds	290 847	362 224
Corporate bonds	-	23 261
Loss allowances for expected credit losses	(1 154)	(29 664)
Total investment securities at amortized cost	289 693	355 821
Total investment securities	**6 187 229**	**3 072 580**

As at 31 December 2020, sovereign credit rating of Ukraine assigned by Standard & Poor's is B (31 December 2019: B)

The Bank pledged government bonds with a total nominal value of UAH 108 463 thousand as collateral under loan obtained from the Entrepreneurship Development Fund, the fair value of bonds provided as collateral as at 31 December 2020 is UAH 128 951 thousand (as at 31 December 2019– UAH 113 695 thousand) (Note 15).

8 Investment securities (continued)

The movements in amounts of expected credit losses on investment securities during 2020 are as follows:

In thousands of hryvnias	Note	Investment securities at fair value through other comprehensive income	Investment securities at amortized cost	Total
Ukrainian government bonds				
Loss allowances for 12-months expected credit losses at 1 January 2020 - Stage 1		**32 107**	**6 403**	**38 510**
Repayment and sales of assets during the period	23	(12 637)	(570)	**(13 207)**
Increase from acquisition of assets during the period	23	98 695	-	**98 695**
Remeasurement of loss allowance	23	(36 705)	(5 742)	**(42 447)**
Effect of exchange rate of foreign currency		6 474	1 063	**7 537**
Loss allowances for 12-months expected credit losses at 31 December 2020 - Stage 1		**87 934**	**1 154**	**89 088**
Corporate bonds				
Loss allowances for expected credit losses for credit-impaired assets at 1 January 2020 (Stage 3)		-	23 261	**23 261**
Write-offs		-	(23 261)	**(23 261)**
Loss allowances for expected credit losses for credit-impaired assets at 31 December 2020 (Stage 3)		**-**	-	**-**
Total amount of credit loss allowance at 31 December 2020		**87 934**	**1 154**	**89 088**

* Remeasurement of loss allowance for expected credit losses includes the changes for investment securities acquired during 2020, for which there was a change in the level of expected credit losses from the date of acquisition to the end of the year, as well as in investment securities purchased until 2020 that remained in the portfolio at 31 December 2019.

During 2020 the Bank purchased UAH 6 341 418 thousand of investment securities that resulted in increase of allowance for expected credit losses by UAH 98 695 thousand. During 2020 the Bank sold and obtained repayment of investment securities for UAH 3 705 843 thousand, that together with changes in credit risk during the period for purchased, repaid and sold instruments resulted in release of allowance for expected credit losses by UAH 55 654 thousand.

8 Investment securities (continued)

The movements in amounts of expected credit losses during 2019 are as follows:

In thousands of hryvnias	Note	Investment securities at fair value through other comprehensive income	Investment securities at amortized cost	Total
Ukrainian government bonds				
Loss allowances for 12-months expected credit losses at 1 January 2019 - Stage 1		**52 208**	**23 074**	**75 282**
Repayment and sales of assets during the period	23	(22 433)	(2 864)	**(25 297)**
Increase from acquisition of assets during the period	23	78 143	7 228	**85 371**
Remeasurement of loss allowance	23	(70 377)	(18 156)	**(88 533)**
Effect of exchange rate of foreign currency		(5 434)	(2 879)	**(8 313)**
Loss allowances for 12-months expected credit losses at 31 December 2019 - Stage 1		**32 107**	**6 403**	**38 510**
Corporate bonds				
Loss allowances for expected credit losses for credit-impaired assets at 1 January 2019 (Stage 3)		-	23 261	**23 261**
Loss allowances for expected credit losses for credit-impaired assets at 31 December 2019 (Stage 3)		**-**	23 261	**23 261**
Total amount of credit loss allowance at 31 December 2019		**32 107**	**29 664**	**61 771**

* Remeasurement of loss allowance for expected credit losses includes the changes for investment securities acquired during 2019, for which there was a change in the level of expected credit losses from the date of acquisition to the end of the year, as well as in investment securities purchased until 2019 that remained in the portfolio at 31 December 2019.

9 Investment property

In thousands of hryvnias	Note	2020	2019
Investment properties at fair value at 1 January		**28 506**	**22 170**
Transfers from real estate occupied by the Bank	10	1 847	-
Transfers to real estate occupied by the Bank	10	(16 716)	-
Net change of fair value		**417**	**6 336**
Investment properties at fair value at 31 December		**14 054**	**28 506**

As at 31 December 2020 and 31 December 2019, investment properties include commercial buildigs held by the Bank to earn rental income, which were transferred from property, plant and equipment and leasehold improvements.

Information on income from operating lease is disclosed in Note 24.

As at 31 December 2020 and 31 December 2019, fair value of the Bank's investment properties was determined based on the reports of internal appraiser who holds the relevant professional qualification and has recent experience in valuation of property of the similar category and location. Valuation is based on market value of assets.

The fair values of investment properties are categorised into Level 3 of the fair value hierarchy as at 31 December 2020 and 2019 (Note 32).

10 Property, plant and equipment and intangible assets

The movement of property, plant and equipment and intangible assets as well as assets in the form of right-of-use is presented as follows:

In thousands of hryvnias	Property and leasehold improvements	Computer and equipment	Security systems, cars and other equipment	Right-of-use assets: Property and leasehold improvements	Right-of-use assets: Computer and equipment	Total
Cost or valuation						
At 1 January 2019	**378 891**	**565 809**	**364 649**	**103 981**	**315**	**1 413 645**
Additions	52 935	99 163	58 174	96 317	4 270	310 859
Disposals	(2 666)	(8 040)	(22 919)	(755)	-	(34 380)
Revaluation	(49 087)	-	-	-	-	(49 087)
Transfers	-	-	(30)	-	-	(30)
At 31 December 2019	**380 073**	**656 932**	**399 874**	**199 543**	**4 585**	**1 641 007**
Additions	25 849	49 386	48 076	65 169	-	188 480
Disposals	(11 393)	(8 379)	(15 673)	(55 380)	(4 585)	(95 410)
Transfers	14 869	-	(25)	-	-	14 844
At 31 December 2020	**409 398**	**697 939**	**432 252**	**209 332**	**-**	**1 748 921**
Accumulated depreciation						
At 1 January 2019	**62 462**	**225 064**	**150 710**	**-**	**-**	**438 236**
Depreciation charge	17 939	70 842	58 351	50 056	764	197 952
Disposals	(2 196)	(8 046)	(13 189)	(131)	-	(23 562)
Revaluation	(42 531)	-	-	-	-	(42 531)
At 31 December 2019	**35 674**	**287 860**	**195 872**	**49 925**	**764**	**570 095**
Depreciation charge	23 786	69 867	58 810	83 195	286	235 944
Disposals	(2 241)	(8 363)	(11 724)	(41 233)	(1 050)	(64 611)
At 31 December 2020	**57 219**	**349 364**	**242 958**	**91 887**	**-**	**741 428**
Carrying amount						
At 31 December 2019	**344 399**	**369 072**	**204 002**	**149 618**	**3 821**	**1 070 912**
At 31 December 2020y	**352 179**	**348 575**	**189 294**	**117 445**	**-**	**1 007 493**

The Bank presents right-of use assets that related to leased real estate and do not meet the definition of investment property in "Property, plant and equipment and intangible assets".

Changes in intangible assets are presented as follows:

In thousands of hryvnias	2020	2019
Cost or valuation		
At 1 January	**318 397**	**267 183**
Additions	119 369	86 348
Disposals	(48)	(35 134)
At 31 December	**437 718**	**318 397**
Accumulated depreciation		
At 1 January	**181 056**	**163 863**
Depreciation charge	80 474	52 327
Disposals	-	(35 134)
At 31 December	**261 530**	**181 056**
Carrying amount		
At 31 December	**176 188**	**137 341**

10 Property, plant and equipment and intangible assets (continued)

As at 31 December 2020, the cost of fully depreciated equipment that is still in use is UAH 201 642 thousand (31 December 2019: UAH 169 274 thousand), and the cost of fully amortized intangible assets that are still in use is UAH 92 700 thousand (31 December 2019: UAH 46 436 thousand).
As at 31 December 2020 and 31 December 2019, the Bank has no property, plant and equipment of which ownership, use and disposal are limited by laws of Ukraine. The Bank also has neither pledged property, equipment and intangible assets, nor property and equipment disposed from use for their further sale. However, there are some limitations in the title to software licenses used by the Bank.

The Bank's property, plant and equipment were not revaluated as at 31 December 2019 as its carrying value at the annual balance sheet date did not differ significantly from the fair value according to the appraisers' conclusions.

The valuation was based on a market approach and was carried out by the internal appraiser who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. For each real estate property several comparables were selected based on the following criteria: location, type, condition and size. Adjustments were applied for a price representing an offer rather than an actual transaction (bargain discount), location, size, floor and condition and other adjustments. Bargain discount applied by the internal appraiser was usually in the range from 10% to 15%. Other adjustments applied by the internal valuator were usually in the range from 10% to 15%. The valuator used only a market approach to valuate all objects of property, plant and equipment.

The fair value of the Bank's buildings are categorised into Level 3 of the fair value hierarchy.

Had the assets been recognised at cost less depreciation, the carrying value of the property, plant and equipment would have amount to UAH 198 853 thousand as at 31 December 2020 (31 December 2019: UAH 210 238 thousand).

Leases

Movements in lease liability in 2020 were as follows:

In thousands of hryvnias	**Note**	**2020**	**2019**
Balance at 1 January		**153 415**	**108 581**
Changes from financing cash flows:			
Payment of lease liabilities - principal		(73 098)	(51 073)
Total changes from financing cash flows		**(73 098)**	**(51 073)**
Effect of exchange rate of foreign currency		(1 314)	691
Other changes:			
Lease additions		37 408	94 370
Other changes:		7 517	(558)
Interest expense	21	21 391	22 406
Interest paid		(21 607)	(21 002)
Total liability-related other changes		**44 709**	**95 216**
Balance at 31 December	17	**123 712**	**153 415**

Rental income recognised by the Bank during 2020 was UAH 3 674 thousand (2019: UAH 4 562 thousand) (Note 24).

11 Other financial assets

In thousands of hryvnias	31 December 2020	31 December 2019
Receivables from operations with plastic cards	94 198	22 719
Receivables from operations with customers and banks and other	44 110	34 583
Fees and commissions to be received	17 983	13 886
Currency swap contracts	-	1 024
Loss allowances for expected credit losses	(2 589)	(2 170)
Total other financial assets	**153 702**	**70 042**

The analysis of change in the loss allowances for expected credit losses of other financial assets during 2020 is as follows:

In thousands of hryvnias	Note	Fees and commissions to be received (Stage 2,3)	Receivables from operations with customers and banks and other (Stage 3)	Total
Loss allowances for expected credit losses at 1 January 2020		**1 885**	**285**	**2 170**
Net remeasurement of loss allowance during the year	23	2 503	1 147	**3 650**
Amounts written off during the year as uncollectible		(2 249)	(1 010)	**(3 259)**
Effect of exchange rate of foreign currency		-	28	**28**
Loss allowances for expected credit losses at 31 December 2020		**2 139**	**450**	**2 589**

The analysis of change in the loss allowances for expected credit losses of other financial assets during 2019 is as follows:

In thousands of hryvnias	Note	Fees and commissions to be received (Stage 2,3)	Non-confirmed cash (Stage 3)	Receivables from operations with customers and banks and other (Stage 3)	Total
Loss allowances for expected credit losses at 1 January 2019		**1 916**	**3 404**	**356**	**5 676**
Net remeasurement of loss allowance during the year	23	211	(6)	17	222
Amounts written off during the year as uncollectible		(242)	(3 398)	(31)	(3 671)
Effect of exchange rate of foreign currency		-	-	(57)	(57)
Loss allowances for expected credit losses at 31 December 2019		**1 885**	**-**	**285**	**2 170**

The amount of loss allowances for expected credit losses on accrued income that are not impaired as at 31 December 2020 is UAH 66 thousand (at 31 December 2019 – UAH 104 thousand).

Receivables from operations with customers and banks in the amount of UAH 43 660 thousand as at 31 December 2020 (31 December 2019 - UAH 34 298 thousand) and receivables from operations with plastic cards in the amount of UAH 94 198 thousand (31 December 2019 – UAH 22 719 thousand) are represented by transit accounts for transfers and payment cards that are subject to the clearing on the next business day, and for which no expected credit losses assessment is performed.

11 Other financial assets (continued)

Analysis by credit quality of other financial assets at 31 December 2020 is as follows:

In thousands of hryvnias	Fees and commissions to be received	Receivables from operations with customers and banks and other	Receivables from operations with plastic cards	Total
Assets without estimation of expected credit losses (not overdue)	**-**	**43 660**	**94 198**	**137 858**
Past due but not impaired other financial assets with 12-month expected credit losses				
- not yet past due	7 666	-	-	**7 666**
- less than 30 days overdue	41	-	-	**41**
- 31 to 90 days overdue	2 448	-	-	**2 448**
Credit-impaired other financial assets (Stage 3)				
- not yet past due	-	450	-	**450**
- 91 to 180 days overdue	488	-	-	**488**
- 181 to 360 days overdue	1 200	-	-	**1 200**
- over 360 days overdue	6 140	-	-	**6 140**
Total credit-impaired other financial assets (gross)	**7 828**	**450**	**-**	**8 278**
Less loss allowances for expected credit losses	**(2 139)**	**(450)**	**-**	**(2 589)**
Total other financial assets	**15 844**	**43 660**	**94 198**	**153 702**

Analysis by credit quality of other financial assets at 31 December 2019 is as follows:

In thousands of **hryvnias**	Fees and commissions to be received	Receivables from operations with customers and banks and other	Receivables from operations with plastic cards	Non-confirmed cash	Total
Assets without estimation of expected credit losses (not overdue)	**-**	**34 298**	**22 719**	**1 024**	**58 041**
Past due but not impaired other financial assets with 12-month expected credit losses					
- not yet past due	6 352	-	-	-	6 352
- less than 30 days overdue	48	-	-	-	48
- 31 to 90 days overdue	757	-	-	-	757
Credit-impaired other financial assets (Stage 3)					
- not yet past due	-	285	-	-	285
- 91 to 180 days overdue	566	-	-	-	566
- 181 to 360 days overdue	1 215	-	-	-	1 215
- over 360 days overdue	4 948	-	-	-	4 948
Total credit-impaired other financial assets (gross)	**6 729**	**285**	**-**	**-**	**7 014**
Less loss allowances for expected credit losses	**(1 885)**	**(285)**	**-**	**-**	**(2 170)**
Total other financial assets	**12 001**	**34 298**	**22 719**	**1 024**	**70 042**

11 Other financial assets (continued)

The primary factors that the Bank considers in determining whether a receivable is impaired are its overdue status. As a result, the Bank presents above an ageing analysis of receivables that are individually determined to be impaired. Other receivables generally are not collaterised.

Information on related party balances is disclosed in Note 35.

12 Other non-financial assets

In thousands of hryvnias	**31 December 2020**	**31 December 2019**
Prepayments for goods and unfinished construction	33 577	31 550
Prepaid expenses	60 364	37 604
Inventory	15 138	19 948
Prepayment for services	10 938	16 662
Prepaid taxes other than income tax	9 684	1 499
Repossessed collateral and assets for sale	2 433	1 612
Receivables from settlements with employees and other	29	46
Total other non-financial assets	**132 163**	**108 921**

13 Due to other banks

In thousands of hryvnias	**31 December 2020**	**31 December 2019**
Correspondent accounts and overnight placements of other banks	535 233	1 132 354
Loans from the National Bank of Ukraine through refinancing	2 300 000	-
Term placements and loans from other banks	-	475 497
Funds in settlements for escrow operations	4 047	4 166
Total due to other banks	**2 839 280**	**1 612 017**

As at 31 December 2020 correspondent accounts and overnight deposits of other banks include UAH 91 210 thousand (31 December 2019: UAH 44 447 thousand) of balances on accounts of PKO BP S.A.

In 2020, the Bank received a refinancing loan from the National Bank of Ukraine in the amount of UAH 2 300 000 thousand. The Bank pledged a domestic government bond totaling UAH 2 456 740 thousand as collateral for the loan, the fair value of the bonds provided as collateral as at 31 December 2020 is UAH 2 526 462 thousand.

Refer to Note 32 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

14 Customer accounts

In thousands of hryvnias	31 December 2020	31 December 2019
Legal entities		
- Current/settlement accounts	8 132 064	5 209 472
- Term deposits	2 448 576	2 185 877
Individuals		
- Current/demand accounts	3 676 230	2 324 267
- Term deposits	4 062 895	4 241 929
Total customer accounts	**18 319 765**	**13 961 545**

Economic sector concentrations within customer accounts are as follows:

	2020		2019	
In thousands of hryvnias	Amount	%	Amount	%
Individuals	7 739 125	42	6 566 196	47
Other services	2 586 401	14	1 599 782	11
Manufacturing	2 330 332	13	1 346 979	10
Trade	1 575 078	9	1 140 416	8
Financial services	1 117 894	6	1 199 312	9
Real estate	963 436	5	674 778	5
Agriculture	636 841	4	310 601	2
Transport and communication	365 012	2	208 612	1
Other	1 005 646	5	914 869	7
Total customer accounts	**18 319 765**	**100**	**13 961 545**	**100**

As at 31 December 2020, the Bank had 214 customers (31 December 2019: 140 customers) with balances above UAH 10 000 thousand each. The aggregate balance on accounts of these customers was UAH 6 493 638 thousand (31 December 2019: UAH 4 043 458 thousand), or 35% (31 December 2019: 29%) of total customer accounts.

As at 31 December 2020, included in customer accounts are deposits of UAH 161 330 thousand (31 December 2019: UAH 33 853 thousand) held as collateral for guarantees issued. Refer to Note 31.

As at 31 December 2020, included in current accounts of individuals are prepayments at loan agreements amounting UAH 140 555 thousand that are not due (31 December 2019: UAH 64 769 thousand).

As at 31 December 2020, included in customer accounts are deposits amounted to UAH 347 200 thousand (31 December 2019: UAH 368 141 thousand) held as collateral for loans granted to customers amounted to UAH 291 737 thousand (31 December 2019: UAH 317 765 thousand). Refer to Note 7.

Refer to Note 32 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

15 Due to other financial institutions

In thousands of hryvnias	31 December 2020	31 December 2019
Entrepreneurship Development Fund	115 580	102 592
European Fund for Southeast Europe	-	174 399
Total other financial institutions	**115 580**	**276 991**

In October 2017, the Bank received a loan for a term of two years from the Entrepreneurship Development Fund in the amount of UAH 100 000 thousand at the rate of UIRD 3 months (UIRD - Ukrainian Index of Retail Deposit Rates) multiplied by a factor of 0.774. In October 2019 the loan was repaid.

15 Due to other financial institutions (continued)

In October 2019, the Bank received a loan for a term of two years from the Entrepreneurship Development Fund German in the amount of UAH 100 000 thousand at the rate of UIRD 3 months (UIRD - Ukrainian Index of Retail Deposit Rates) multiplied by a factor of 0.774, which is 6,45% as at 31 December 2020. According to the agreement, the funds are directed to lending to small and medium enterprises within the framework of the Small and Medium Enterprises Support Program in Ukraine.

The Bank pledged government bonds with a total nominal value of UAH 108 463 thousand as collateral under loan obtained, the fair value of bonds provided as collateral as at 31 December 2020 is UAH 128 951 thousand (as at 31 December 2019: UAH 113 695 thousand) (Note 8).

In July 2018, the European Fund for Southeast Europe S.A., SICAV-SIF placed a deposit in the Bank amounting to UAH 54 889 thousand at a rate of 14.5% per annum until July 2020. In July 2018 the Fund purchased Bank's debt securities in the amount of UAH 250 000 thousand (Note 16).

In December 2019, EFSE entered into an agreement to purchase the Bank's bonds in the amount of UAH 116 390 thousand. The bond purchase was finished in January 2020. As at 31 December 2019, funds directed by EFSE to purchase bonds are disclosed in due to other financial institutions.

In accordance with the concluded agreements, these funds are intended for current and investment loans of micro and small enterprises and entrepreneurs.

Accrued interest expenses during 2020 amounted to UAH 12 082 thousand (2019: UAH 19 766 thousand). Interest payments were UAH 16 214 thousand (2019: UAH 19 860 thousand). Principal payments amounted to UAH 54 889 thousand in 2020 (2019: UAH 4 900 thousand).

Change in amounts due to other financial institutions during 2020 and 2019 are presented as follows:

In thousands of hryvnias	**2020**	**2019**
Due to other financial institutions as at 1 January	**276 991**	**160 511**
Proceeds during the year	-	116 390
Repayment during the year	(54 889)	-
Interest accrued	12 082	19 369
Interest paid	(16 214)	(19 024)
Other changes	(102 390)	(255)
Due to other financial institutions as at 31 December	**115 580**	**276 991**

Refer to Note 32 for the disclosure of the fair value of due to other financial institutions.

16 Debt securities

In November 2017 the Bank performed placement of bonds of series «A» with a total nominal value of UAH 250 000 thousand.

In July 2018 the Bank performed placement of bonds of series «B» with a total nominal value of UAH 250 000 thousand. This series of bonds was fully acquired by the European Fund for South-Eastern Europe (SICAV-SIF).

As at the date of issue of these separate financial statements, bonds of series «A» were included in the stock exchange listing of PUBLIC JOINT-STOCK COMPANY "UKRAINIAN EXCHANGE". Bonds of both issues were afloat and were included in the stock exchange listing of PUBLIC JOINT STOCK COMPANY "STOCK EXCHANGE" PERSPECTYVA".

Since the beginning of 2020, the series A bonds have been redempted with a total number of 2 430 units, with a total value of UAH 2 445 thousand. The Bank can sell the redempted bonds at any time. In 2020, 116 740 bonds of series “A” with value in the amount UAH 118 966 thousand were placed (2019: 16 664 units with a total value of UAH 16 770 thousand).

As at 31 December 2020 the nominal value of Bank’s obligations on issued bonds was UAH 382 482 thousand (As at 31 December 2019: UAH 268 172 thousand).

During 2020 interest on issued bonds paid amounted to UAH 67 845 thousand (2019: UAH 44 848 thousand).

Refer to Note 32 for the disclosure of the fair value of debt securities.

17 Other financial liabilities

Other financial liabilities are presented as follows:

In thousands of hryvnias	**Note**	**31 December 2020**	**31 December 2019**
Lease liabilities	10	123 712	153 415
Other accrued liabilities		71 364	57 870
Provision for credit related commitments	31	29 123	15 131
Funds in settlements		21 728	13 204
Other		601	463
Total other financial liabilities		**246 528**	**240 083**

Provision for credit related commitments represents expected credit losses on financial guarantees and loan commitments. Information about movement of the provision for loan commitments is disclosed in Note 31.

Refer to Note 32 for disclosure of fair value of each class of other financial liabilities.

18 Other non-financial liabilities

Other non-financial liabilities are presented as follows:

In thousands of hryvnias	**31 December 2020**	**31 December 2019**
Accrued employee benefit costs	103 674	94 120
Accounts payable for the acquisition of assets	9 578	2 417
Deferred income	14 871	15 298
Amounts payable to Individuals’ Deposits Guarantee Fund	15 150	12 862
Taxes payable other than on income	15 411	10 521
Commitment provision	8 117	7 998
Other	-	22
Total other non-financial liabilities	**166 801**	**143 238**

Movements in the provision for other non-financial liabilities is disclosed in Note 31.

19 Share capital

In thousands of hryvnias, except for number of shares	Number of outstanding shares	Nominal amount	Total
At 1 January 2019	224 896 946 916	2 248 969	2 248 969
At 31 December 2019	224 896 946 916	2 248 969	2 248 969
At 31 December 2020	224 896 946 916	2 248 969	2 248 969

The share capital of the Bank amounts to UAH 2 248 969 thousand (2019: UAH 2 248 969 thousand).

As at 31 December 2020, the total number of issued shares, at which the reports on placement results were registered, comprised 224 896 946 916 ordinary shares with nominal value of UAH 0.01 per share. All ordinary shares have equal voting rights.

As at 31 December 2020 and 2019 all ordinary shares were fully paid and registered.

The Bank's shareholder structure is presented below:

Shareholder	2020	2019
PKO BP S.A.	100,00%	100,00%

20 Other comprehensive income recognized in equity

Analysis of other comprehensive income by equity component item is as follows:

In thousands of hryvnias	Revaluation reserve for investment securities at fair value through other comprehensive income	Revaluation reserve for property, plant and equipment	Total
Year ended 31 December 2019			
Investment securities at fair value through other comprehensive income:			
- Net change in the fair value of investment securities at fair value through other comprehensive income	6 805	-	6 805
- Net change in the fair value of investment securities at fair value through other comprehensive income transferred to net profit and loss	(3 198)	-	(3 198)
Revaluation of property, plant and equipment	-	6 329	6 329
Total other comprehensive income	**3 607**	**6 329**	**9 936**
Year ended 31 December 2020			
Investment securities at fair value through other comprehensive income:			
- Net change in the fair value of investment securities at fair value through other comprehensive income	7 747	-	7 747
- Net change in the fair value of investment securities at fair value through other comprehensive income transferred to net profit and loss	(3 779)	-	(3 779)
Revaluation of property, plant and equipment		102	102
Total other comprehensive income	**3 968**	**102**	**4 070**

21 Interest income and expense

In thousands of hryvnias	2020	2019
Interest income		
Loans and advances to individuals	1 276 264	1 096 375
Loans and advances to legal entities	847 109	927 575
Investment securities at fair value through other comprehensive income	253 893	194 141
Investment securities at amortized cost	23 113	42 401
Deposit certificates issued by the NBU	21 517	7 188
Due from other banks	1 796	11 598
Total interest income	**2 423 692**	**2 279 278**
Interest expense		
Customer accounts of individuals	290 743	385 142
Customer accounts of legal entities	216 406	296 684
Debt securities	56 663	46 155
Amounts due to the National Bank of Ukraine	50 855	6 952
Lease liabilities	21 391	22 406
Due to other banks	8 609	48 446
Other	1	2
Total interest expense	**644 668**	**805 787**
Net interest income	**1 779 024**	**1 473 491**

Interest income on impaired financial assets amounts to UAH 15 238 thousand for 2020 (2019: UAH 32 611 thousand).

Information on interest income and expense on transactions with related parties is disclosed in Note 35.

22 Fee and commission income and expense

In thousands of hryvnias	2020	2019
Fee and commission income		
Cash and settlement transactions	483 153	471 800
Purchase and sale of foreign currency	108 073	103 426
Agency fee from insurance companies	21 090	18 852
Guarantees issued and other documentary	7 851	9 699
Other	14 805	11 798
Total fee and commission income	**634 972**	**615 575**
Fee and commission expense		
Cash and settlement transactions	160 334	149 437
Transactions with securities	628	517
Received guarantees and other documentary	513	1 115
Loan transaction fees	407	-
Other	42	60
Total fee and commission expense	**161 924**	**151 129**
Net fee and commission income	**473 048**	**464 446**

Information on fee and commission income and expense on transactions with related parties is disclosed in Note 35.

23 Credit loss expense on financial assets

In thousands of hryvnias	Note	2020	2019
Cash and cash equivalents	5	284	(22)
Due from other banks	6	(39)	(58)
Loans and advances to customers	7	302 039	118 607
Investment securities at fair value through other comprehensive income	8	49 353	(14 667)
Investment securities at amortized cost	8	(6 312)	(13 792)
Other financial assets - fees and commission income	11	2 503	211
Other financial assets - non-confirmed cash	11	-	(6)
Other financial assets - transactions with customers	11	1 147	17
Financial guarantee contracts	31	(60)	832
Loan commitments	31	12 787	3 748
Credit loss expense on financial assets		**361 702**	**94 870**

In addition to the expected credit losses on initial recognition, derecognition and other remeasurements (refer to Note 7), loans and advances to customers for 2020 include repayments of loans written off in prior periods as uncollectible in the amount of UAH 10 217 thousand (2019 – UAH 10 723 thousand).

24 Other operating income

In thousands of hryvnias	2020	2019
Penalties and fine received	18 358	15 240
Support of operations from partner companies	9 866	8 962
Gain from disposal of property, plant and equipment	4 251	2 331
Gain from leases modification	3 879	-
Income from operating leases	3 674	4 562
Gain from leasing contracts	3 498	2 800
Reimbursement of legal expenses	2 512	410
Enrollment in income balances on which the statute of limitations has expired	1 519	3 975
Income from revaluation of investment property	321	6 938
Insurance compensations	118	162
Income from revaluation of property, plant and equipment	103	429
Other	2 184	639
Total other operating income	**50 283**	**46 448**

25 Administrative and other operating expenses

In thousands of hryvnias	2020	2019
Wages, bonuses and other employee costs	519 459	441 247
Social contributions accrued on employee benefits	104 619	90 568
Total employee payments expenses	**624 078**	**531 815**
Software maintenance	106 385	95 260
Repair and maintenance of property, plant and equipment	60 261	62 744
Contributions to Individuals' Deposit Guarantee Fund	58 931	50 208
Utilities	49 759	47 412
Communication	42 405	35 704
Security services	25 947	33 650
Professional services	18 597	21 423
Legal services	13 420	9 664
Advertising and marketing services	12 085	28 015
Taxes other than on income	8 005	6 638
Cybersecurity systems	7 391	-
Charity	5 192	2 407
Operating lease expense for property, plant and equipment	4 119	18 627
Business trips	3 042	10 359
Impairment and disposal of property, plant and equipment	2 706	4 440
Leases modification	895	-
Other	35 309	56 128
Total administrative and other operating expenses	**454 449**	**482 679**

No discretionary pensions or other post-employment benefits are provided by the Bank.

26 Income tax

(a) Components of income tax expense

Components of income tax expense are presented as follows:

In thousands of hryvnias	2020	2019
Current tax	126 780	120 938
Deferred tax	(10 444)	(2 064)
Income tax expense	**116 336**	**118 874**

(b) Reconciliation of tax expense and profit or loss multiplied by applicable tax rate

The Bank's applicable income tax rate for Bank's income is 18%. Reconciliation of expected and actual income tax expense is presented as follows.

In thousands of hryvnias	2020	2019
Profit before tax	**647 563**	**656 944**
The theoretical tax charge at the current tax rate (2020 - 18%, 2019 - 18%)	116 561	118 250
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Costs related to debt forgiveness and formation of provisions not included for tax purposes	3 540	738
- Other costs not included for tax purposes	55	2 506
Effect of accounting policies changes and other changes of temporary differences	(3 820)	(2 620)
Income tax expense for the year	**116 336**	**118 874**

(c) Deferred taxes by type of temporary differences

Differences between IFRS and statutory tax regulations in Ukraine give rise to temporary differences between carrying amounts of assets and liabilities used for financial reporting purposes and their tax bases, and on tax losses carried forward. Tax effect of movements in these temporary differences is presented as follows.

In thousands of hryvnias	1 January 2020	Credited/ (charged) to profit or loss for the year	31 December 2020
Tax effect of deductible/(taxable) temporary differences			
Property, plant and equipment	27 422	6 988	34 410
Commitment provision and other losses	5 138	3 456	8 594
Net deferred tax asset	**32 560**	**10 444**	**43 004**

26 Income tax (continued)

In thousands of hryvnias	1 January 2019	Credited/ (charged) to profit or loss for the year	31 December 2019
Tax effect of deductible/(taxable) temporary differences			
Property, plant and equipment	23 964	3 458	27 422
Commitment provision and other losses	6 532	(1 394)	5 138
Net deferred tax asset	**30 496**	**2 064**	**32 560**

The recognized deferred tax asset is the amount of income tax that may be credited against future income taxes and is recognized in the separate statement of financial position. Deferred income tax assets are recognized only to the extent that it is probable that the tax credit will be used. Estimation of future taxable profits and the amount of tax credit that can be used in the future is based on the medium-term business plan that prepares management and the results of its extrapolation for future periods.

27 Basic and diluted profit per share

The Bank prepared its consolidated financial statements and separate financial statements as at and for the year ended 31 December 2020 and 31 December 2019 in accordance with IFRS 10 “Consolidated financial statements” and IAS 27 “Separate financial statements”. Basic profit per share is calculated and disclosed based on the IFRS consolidated financial statements. During the reporting period, the Bank had no dilutive financial instruments. Therefore, basic profit per share is equal to diluted profit per share.

Profit per share is calculated as follows:

In thousands of hryvnias	2020	2019
Profit/(loss) for the year attributable to ordinary shareholders	525 863	595 797
Weighted average number of ordinary shares in issue (thousands)	224 896 947	224 896 947
Basic and diluted profit per share attributable to shareholders of the Group (UAH per share)	**0,0023**	**0,0026**

28 Segment analysis

Operating segments are components engaged in business operations that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is a person or a Bank of persons who allocate resources and measure the Bank's performance. The CODM functions are performed by Management Board.

(a) Reportable segments

The Bank has the following three key reportable segments:

- Retail banking – banking services to individuals including current and saving accounts, deposits, investments, credit and debit cards, consumer and mortgage loans, currency transactions, money transfers.
- Corporate banking – direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities.
- Treasury and investment banking – financial instruments trading, capital market transactions, operations with foreign currencies and banknotes.

(b) Factors used to identify reportable segments

The Bank's segments represent strategic business units targeting different customers. They are managed separately since each business unit requires different marketing strategies and service levels.

(c) Measurement of operating segment profit or loss, assets and liabilities

Management Board reviews financial information prepared in accordance with the NBU requirements and IFRS.

The following approaches are applied to segment analysis:

(i) resources are reallocated among segments using internal interest rates set by Treasury Department. These internal interest rates are determined by reference to market interest rate benchmarks, contractual maturities of loans, and historical information on actual repayment of customer account balances;

(ii) income tax, and certain other items are not allocated to segments.

For operating decision making purposes, segment performance is measured based on profit before tax.

Reports include information on intersegment transfer (internal) results of reportable segments. Transfer result is calculated as the difference between transfer revenue and transfer expense per each segment based on transfer prices set by major currency and maturity. For corporate and retail segments, transfer revenue is calculated as estimated revenue from sales of attracted resources to Treasury and Investment Banking segment at acquisition transfer prices; transfer expenses are calculated as estimated expenses on purchase of resources from Treasury and Investment Banking segment at transfer prices on placements.

Transfer prices and transfer revenue/expenses are calculated in accordance with "Methodology for determining and applying transfer prices within "KREDOBANK" approved by Resolution of Management Board No. 292 dated 11 March 2019).

28 Segment analysis (continued)

(d) Reportable segment profit or loss, assets and liabilities

Reportable segments for the year ended 31 December 2020 are presented as follows:

In thousands of hryvnias	**Retail banking**	**Corporate banking**	**Treasury and Investment banking**	**Unallocated**	**Total**
Reportable segment assets	5 929 266	7 408 423	10 427 534	1 462 907	**25 228 130**
Reportable segment liabilities	7 747 351	10 678 691	3 286 104	394 402	**22 106 548**
Capital expenditure	-	-	-	242 680	**242 680**

Capital expenditures represent additions to non-current assets other than financial instruments and deferred tax assets.

In thousands of hryvnias	**Retail banking**	**Corporate banking**	**Treasury and Investment banking**	**Unallocated**	**Eliminations**	**Total**
2020						
External revenues:						
- Interest income	1 276 264	847 109	300 319	-	-	**2 423 692**
- Fee and commission income	280 859	326 356	1 475	26 282	-	**634 972**
- Other operating income	25 038	3 004	15	22 226	-	**50 283**
Gains less losses from trading in foreign currencies	10 797	-	69 095	-	-	**79 892**
Foreign exchange translation gains less losses	-	-	6 577	-	-	**6 577**
Gains less losses on derecognition of securities measured at fair value through other comprehensive income	-	-	3 774	-	-	**3 774**
Revenues from other segments					-	
- Interest income	504 581	511 038	1 412 335		(2 427 954)	**-**
Total revenues	**2 097 539**	**1 687 507**	**1 793 590**	**48 508**	**(2 427 954)**	**3 199 190**
Interest expense	(1 092 873)	(826 611)	(1 131 747)	(21 391)	2 427 954	**(644 668)**
Credit loss expense on financial assets	(203 170)	(99 405)	(43 286)	(15 841)	-	**(361 702)**
Provision for other cost	-	-		(1 348)	-	**(1 348)**
Gains less losses on derecognition of financial assets measured at amortised cost	7 122	3 049	-	2 805	-	**12 976**
Fee and commission expense	(110 334)	(12 223)	(35 687)	(3 680)	-	**(161 924)**
Personnel expenses, depreciation costs, administrative and other operating expenses	(665 820)	(599 947)	(126 587)	(2 607)	-	**(1 394 961)**
Segment result	**32 464**	**152 370**	**456 283**	**6 446**	**-**	**647 563**
Income tax expense for the year						(116 336)
Profit for the year						**531 227**

28 Segment analysis (continued)

Reportable segments for the year ended 31 December 2019 are presented as follows:

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Total
Reportable segment assets	5 358 176	6 369 451	6 014 548	1 393 602	**19 135 777**
Reportable segment liabilities	6 648 042	7 458 996	2 061 874	380 580	**16 549 492**
Capital expenditure	**-**	**-**	**-**	296 620	**296 620**

Capital expenditures represent additions to non-current assets other than financial instruments and deferred tax assets.

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Eliminations	Total
2019						
External revenues:						
- Interest income	1 096 375	927 575	255 328	-	-	**2 279 278**
- Fee and commission income	274 161	319 314	1 502	20 598	-	**615 575**
- Other operating income	18 333	4 143	-	23 972	-	**46 448**
Gains less losses from trading in foreign currencies	11 451	-	(16 103)	-	-	**(4 652)**
Foreign exchange translation gains less losses	-	-	27 708	-	-	**27 708**
Gains less losses on derecognition of securities measured at fair value through other comprehensive income	-	-	3 198	-	-	**3 198**
Revenues from other segments						
- Interest income	695 975	711 249	1 508 211	-	(2 915 435)	**-**
Total revenues	**2 096 295**	**1 962 281**	**1 779 844**	**44 570**	**(2 915 435)**	**2 967 555**
Interest expense	(1 173 414**)**	(1 016 622**)**	(1 508 780)	(22 **406)**	2 915 435	**(805 787)**
Credit loss expense on financial assets	(108 042)	(10 568)	28 539	(4 799)	-	**(94 870)**
Gains less losses on derecognition of financial assets measured at amortised cost	1 517	4 067	-	364	-	**5 948**
Fee and commission expense	(108 880)	(12 114)	(30 135)	-	-	**(151 129)**
Personnel expenses, depreciation costs, administrative and other operating expenses	(669 059)	(508 897)	(87 293)	476	-	**(1 264 773)**
Segment result	**38 417**	**418 147**	**182 175**	**18 205**	**-**	**656 944**
Income tax expense for the year						(118 874)
Profit for the year						**538 070**

28 Segment analysis (continued)

(e) Analysis of revenues by product and service

Analysis of Bank's revenues by product and service is disclosed in Note 21 (interest income) and Note 22 (fee and commission income).

(f) Geographical information

Ukraine represents the only geographical segment, as majority of revenues and assets are attributable to Ukraine. The Bank has no significant revenues from outside Ukraine and all its non-current assets other than financial instruments are attributable to Ukraine. Refer to Note 29 for geographical analysis of Bank's assets and liabilities.

(g) Major customers

The Bank has no customers representing more than 10% of total revenue of the Bank.

29 Financial risk management

Risk management relates to financial risks, operational risks, and legal risks. Financial risks comprise market risk (including currency risk, interest rate risk, and other price risk), credit risk, and liquidity risk. The purpose of financial risk management is to establish risk limits and ensure adherence to such limits. The operational and legal risk management is intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank is exposed to credit risk, which is the risk that a party to a financial instrument fails to meet its contractual obligations resulting in a financial loss to the other party. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the separate statement of financial position. For guarantees and credit related commitments, the maximum exposure to credit risk is the total amount of commitments (see Note 31). Credit risk is managed by making strategic decisions on acceptable credit risk, approving credit limits, updating principles and processes for credit risk assessment, implementing and improvement of risk assessment tools that allow maintaining risk within acceptable parameters, developing information tools that computerize credit risk assessment process and ensure quality and integrity of data used in the process, planning of operations and preparing recommendations, obtaining collateral, and by other tools intended to mitigate credit risk as described in Note 7.

The Bank structures its exposures to credit risk by establishing limits per borrower or group of borrowers. Management approves credit risk limits on a regular basis. Such risks are regularly monitored and reviewed at least on a yearly basis.

29 Financial risk management (continued)

The Bank established the following corporate bodies responsible for approving credit limits per individual borrowers:

- Management Board reviews and approves credit applications up to USD 5.0 million and, in case of loan restructuring, up to USD 6.25 million;

- Supervisory Board reviews and approves credit applications above USD 5.0 million and, in case of loan restructuring, above USD 6.25 million;

- Credit Committee reviews and approves credit applications up to UAH 90 million, Small Credit Committee – up to UAH 15 million, and Credit Restructuring Committee – up to USD 5 million. Credit Committee and Small Credit Committee generally meet two times per week. Credit Restructuring Committee generally meet once a week;

- Deputies of the Chairman of Management Board and directors of the Head Office departments have individual powers to approve new credit decisions with the limits below UAH 1.5 million;

- Directors of independent branches have individual powers to approve new credit decisions with the limits below UAH 0.1 million.

Loan applications prepared by account managers are forwarded to relevant department that performs credit analysis and makes a decision or passes them on to the relevant credit committee for approval of credit limit within the scope of authority. Exposure to credit risk is also managed by obtaining collateral and corporate and personal guarantees.

The basis of the analysis and assessment of the creditworthiness of clients - legal entities is the determination and establishment of an internal rating, which is carried out to determine the probability of default by the client and recognition of default status within 1 (one) year. Determining and establishing the internal rating of clients is not only a tool for reviewing individual loan proposals and supporting the credit decision-making process, but also a basis for providing a more detailed analysis of the quality of the Bank's loan portfolio.

The Bank's rating scale includes 24 rating categories, indicated in capital letters (from A1 to H3), depending on the risk of default by the client, and the probability of default for each rating category (in%).

The Credit Risk Department monitors the implementation of rating models, its timely review and updating.

The Bank reviews ageing of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 6, 7, 8 and 11.

The Bank organises an effective process of managing distressed assets in compliance with the following principles:

1) economic feasibility - the Bank's measures for managing distressed assets are economically and, if possible, statistically sound, and the Bank's calculations based on its own experience indicate that their implementation will ensure that the Bank receives economic benefits higher than the costs incurred during management distressed assets;

2) priority - the Bank, when deciding on the option of debt settlement of the debtor / counterparty, measures aimed at the sale of recovered property, gives preference to the option / measures that provide the highest net present value of expected cash flows from the asset;

3) timeliness - identification of assets with signs of potential problems at an early stage and taking timely and adequate measures aimed at reducing the amount of losses of the Bank from distressed assets;

29 Financial risk management (continued)

4) structure - a clear division of functions, responsibilities and powers in the management of distressed assets between the structural units involved and employees of the Bank, establishing a proper relationship between them, determining those responsible for proper interaction between the Bank's divisions at all organizational levels models of three lines of protection;

5) adequacy - compliance of the process of problem assets management organized by the Bank with the level, volume, structure of problem assets in the Bank, dynamics of their changes, ensuring priority of the Bank's financial, time and human resources on assets with the highest value / exposure and risk of credit risk ;

6) comprehensiveness and complexity - the process of problem assets management is a complex system of interconnected processes that cover the full life cycle of PA and integrated with the corporate governance system and risk management system of the Bank;

7) efficiency - ensuring a reduction in the level (as a percentage of the corresponding amount of assets) and the amount of problem assets (in absolute terms) with the achievement of optimal balance between time and debt repayment on such assets / proceeds from sale / assignment of claims on such assets to the Distressed Assets Management Strategy;

8) monitoring - constant control over the achievement of goals and objectives set by the Distressed Assets Management Strategy and the Operational Plan for Implementation of the Distressed Assets Management Strategy, efficiency of actions of the Bank's divisions and employees, efficiency of the Bank's debt settlement and sale of foreclosed assets.

The Bank organises the process of problem assets management, which covers all organizational levels of the Bank, defines a clear division of functions, responsibilities and powers among all its entities, as well as their responsibilities in accordance with such distribution, ensures the order of their interaction and reporting.

The Bank's collective management bodies are informed of the monthly report on the analysis of the quality of the loan portfolio with a detailed analysis of the level of credit risk in the loan portfolio as a whole and in the areas of lending.

In addition, the Bank adheres to a system of internal concentration limits, which consists of targeted long-term strategies of the Bank in terms of the structure of individual segments of the loan portfolio and concentration limits set for individual sectors of the economy.

In order to prevent exceeding the concentration limits, these limits are subject to monitoring (control). The concentration limits are monitored monthly and quarterly by the Credit Risk Department. The results of the monitoring are subject to presentation as part of the management risk reporting to the Management Board of the Bank and the Supervisory Board.

In accordance with the requirements of IFRS 9, the Bank applies a model of expected losses, which provides for the timely reflection of the deterioration or improvement of the credit quality of financial instruments, taking into account available information and forecasts for the future. The amount of expected impairment recognised through the formation of an allowance for impairment depends on the amount of impairment (credit quality deterioration) from the date of initial recognition of the financial instrument.

The process of estimating the amount of expected losses under IFRS 9 consists of the following steps:

1) analysis of the level of credit risk for the presence of a significant increase in credit risk or the occurrence of a default event from the date of initial recognition and attribution to the appropriate stage of impairment;

2) calculation of the amount of expected credit losses (estimated allowance for impairment).

The assessment of the amount of expected losses (calculation of the estimated reserve) is performed monthly, as of the first day of each month following the reporting month, as well as on the date of derecognition.

29 Financial risk management (continued)

In order to assess the amount of expected losses the bank uses 2 approaches:

1) assessment of the amount of expected losses on an individual basis – for individually significant active banking operations (in the amount of UAH 2,000 thousand or the equivalent in foreign currency according to the NBU exchange rate at the reporting date), for which default was recognized;

2) assessment of the amount of expected losses on a group basis – for individually insignificant active banking operations and individually significant active operations for which the fact of default is not detected.

For the purposes of assessing expected credit losses, financial instruments, in accordance with the requirements of IAS 9, are classified into one of three stages of impairment, based on how significantly the level of credit risk for the financial instrument has changed as of the reporting date compared to the date of its initial recognition.

The levels of parameters of individual and group assessment of depreciation PD, LGD, CCF, are evaluated at least once a year, and in case of significant changes in economic conditions, the level of defaults and other crisis phenomena in the economy as a whole and in areas of economic activity, changes in the Bank's credit policy or regulatory documents on credit risk management of the Bank, the parameters are evaluated as of the date of assessment of impairment of credit operations.

Credit risk of off-balance sheet financial instruments is defined as the possibility of losses due to non-performance of contractual obligations by the other party to the financial instrument. The Bank applies the same credit policy to contingent liabilities as it does to balance sheet financial instruments: approval procedures, risk control, and monitoring procedures are established.

To prevent critical losses due to credit risk, the Bank constantly monitors compliance with the regulatory values of credit risk established by the NBU.

As at December 31, 2020, the maximum amount of credit risk per counterparty (N7), which is defined as the ratio of the amount of all claims of the bank to the counterparty or group of related counterparties and all financial obligations provided by the bank in relation to the counterparty or group of related counterparties to the regulatory capital of the bank, was 7.42%, with a regulatory value of no more than 25% (the value of the standard as of December 31, 2019 was 4.89%).

As at December 31, 2020, the large credit risk ratio (N8), which is defined as the ratio of the sum of all large credit risks in relation to counterparties, groups of related counterparties, all persons associated with the bank to the regulatory capital of the bank, was 0.00%, with a standard value of no more than 800% (the standard value as of December 31, 2019 was 0.00%).

29 Financial risk management (continued)

Market risk. The Bank is exposed to market risks arising from open positions in: (a) currency, (b) interest rate and (c) equity instruments, all of which are largely dependent on general and specific market developments. Management Board sets acceptable risk limits and monitors adherence to the limits on a daily basis. However, this approach does not prevent losses outside the limits in the event of significant market developments.

Currency risk. Management sets currency risk limits and overall acceptable risk exposure for overnight and intra-day positions, with periodical control performed. The Bank is exposed to currency risks arising from open foreign currency positions. These positions are calculated as the differences between assets and liabilities in the same currency as at the reporting date. The Bank evaluates and monitors levels of long and short foreign currency open positions using hryvnia as a base currency. Open position limits are set at the level required by the NBU and calculated as open currency position of regulatory capital of the Bank. Compliance with these limits is monitored on a daily basis. Respective reports are submitted to Asset, Liability and Tariff Management Committee (ALTCO) on a weekly basis.

The Bank's currency risk exposure as at the reporting date is presented as follows:

	At 31 December 2020				**At 31 December 2019**			
In thousands of hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
US Dollars	5 384 725	5 362 231	(2 528)	19 966	4 253 120	4 299 072	71 059	25 107
EUR	2 889 189	2 885 900	-	3 289	2 142 004	2 139 298	-	2 706
British pounds	22 931	20 519	(2 345)	67	17 988	18 403	-	(415)
Russian roubles	13 153	9 735	(3 472)	(54)	7 580	7 598	-	(18)
Other	225 005	229 909	8 322	3 418	165 376	164 782	-	594

The above analysis only includes monetary assets and liabilities. Management believes that investments in equity instruments and non-monetary assets will not give rise to significant currency risk.

The following table presents sensitivity analysis of profit or loss and equity to reasonably possible changes in exchange rates as at the reporting date applied to Bank's functional currency, with all other variables remaining constant:

	At 31 December 2020		**At 31 December 2019**	
In thousands of hryvnias	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US dollar strengthening by 10% (2019: strengthening by 10%)	1 637	1 637	2 059	2 059
US dollar weakening by 10% (2019: weakening by 10%)	(1 637)	(1 637)	(2 059)	(2 059)
Euro strengthening by 10% (2019: strengthening by 10%)	270	270	222	222
Euro weakening by 10% (2019: weakening by 10%)	(270)	(270)	(222)	(222)
Russian rouble strengthening by 10% (2019: strengthening by 10%)	(4)	(4)	(1)	(1)
Russian rouble weakening by 10% (2019: weakening by 10%)	4	4	1	1
Other currencies strengthening by 10% (2019: strengthening by 10%)	286	286	15	15
Other currencies weakening by 10% (2019: weakening by 10%)	(286)	(286)	(15)	(15)

The exposure was calculated only for monetary items denominated in currencies other than Bank's.

29 Financial risk management (continued)

Interest rate risk. The Bank is exposed to interest rate risk arising from the effects of fluctuations in the prevailing market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, however it may decrease or cause losses in case of unexpected fluctuations.

The table below presents the potential impact on the Bank's profit for a 12-month period in case of an increase or decrease in interest rates on financial instruments denominated in major currencies:

		At 31 December 2020		At 31 December 2019	
	Type of financial instrument rate	**Rate change (b. p.)**	**Impact on profit or loss (thousands of hryvnias)**	**Rate change (b. p.)**	**Impact on profit or loss (thousands of hryvnias)**
UAH	- variable rate	+200/-200	+117 116 / -117 116	+200/-200	+121 334 / -121 334
	- constant rate	+200/-200	-26 208/ +26 208	+200/-200	-53 670 / +53 670
USD	- variable rate	+200/-200	+4 876 / -4 876	+200/-200	+4 401 / -4 401
	- constant rate	+200/-200	+127 / -127	+200/-200	-2 693 / +2 693
EUR	- variable rate	+200/-200	+9 151 / -9 151	+200/-200	+2 551 / -2 551
	- constant rate	+200/-200	+26 515 / -26 515	+200/-200	+5 008 / -5 008

The table below presents the potential impact on the Bank's other comprehensive income for investment securities at FVOCI:

	At 31 December 2020		At 31 December 2019	
	Rate change (b. p.)	**Impact on other comprehensive income (thousands of hryvnias)**	**Rate change (b. p.)**	**Impact on other comprehensive income (thousands of hryvnias)**
UAH	+100/-100	-35 203 / +34 276	+100/-100	-846 / +846
USD	+100/-100	-21 397 / +21 073	+100/-100	-16 542 / +16 542
EUR	+100/-100	-	+100/-100	-1 263 / +1 263

29 Financial risk management (continued)

The Bank monitors interest rates on financial instruments. The table below summarises effective interest rates on interest bearing financial instruments as at the relevant reporting date:

	2020				2019			
% per annum	**UAH**	**US Dollars**	**EUR**	**Other**	**UAH**	**US Dollars**	**EUR**	**Other**
Assets								
Cash and cash equivalents								
- Interest bearing correspondent accounts with other banks	0%	0%	-1%	0%	0%	1%	-1%	0%
- Deposit certificates issued by the NBU	6%	-	-	-	13%	-	-	-
Due from other banks	0%	0%	-	-	14%	0%	-	-
Loans and advances to customers								
- at fixed rate	22%	6%	5%	7%	31%*	6%	5%	9%
- at variable rate	16%	6%	6%	-	19%	7%	5%	-
Investment securities at fair value through other comprehensive income	13%	4%	-	-	16%	6%	4%	-
Investment securities at amortized cost	-	8%	-	-	-	7%	-	-
Liabilities								
Due to other banks								
- at fixed rate	0%	0%	0%	0%	0%	0%	0%	0%
- at variable rate	6%	-	0%	-	-	-	0%	-
Due to other financial institutions								
- at fixed rate	-	-	-	-	15%	-	-	-
- at variable rate	6%	-	-	-	13%	6%	-	-
Customer accounts								
- current and settlement accounts	0%	0%	0%	0%	2%	0%	0%	0%
- Term deposits	7%	1%	0%	-	15%	1%	0%	-
Debt securities	12%	-	-	-	17%	-	-	-

"-" in the table above means that the Bank has no assets or liabilities denominated in the corresponding currency. Information presented in the table relates to fixed rates, unless stated otherwise.

* Increase of interest rate is connected with increase of lending of cash loans with average interest rate 40.3 %.

Other price risk. The Bank is exposed to early repayment risk due to providing fixed rate loans, including mortgages, which allow a borrower to early repay its loan. The Bank's current year profit and equity as at the reporting date would not be significantly influenced by changes in early repayment rates, since such loans are carried at amortised cost, and loan amount at early repayment is equal or close to amortised cost of loans and advances to customers.

29 Financial risk management (continued)

Geographical risk concentration. Geographical analysis of Bank's assets and liabilities at 31 December 2020 is presented as follows:

In thousands of hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	2 217 353	1 970 774	13 357	**4 201 484**
Due from other banks	7 530	23 234	-	**30 764**
Loans and advances to customers	13 281 317	574	138	**13 282 029**
Investment securities	6 187 229	-	-	**6 187 229**
Other financial assets	153 581	105	16	**153 702**
Total financial assets	**21 847 010**	**1 994 687**	**13 511**	**23 855 208**
Non-financial assets	**1 359 511**	**13 411**	**-**	**1 372 922**
Total assets	**23 206 521**	**2 008 098**	**13 511**	**25 228 130**
Liabilities				
Due to other banks	2 744 023	95 257	-	**2 839 280**
Customer accounts	18 056 490	199 759	63 516	**18 319 765**
Due to other financial institutions	115 580	-	-	**115 580**
Debt securities	18 463	366 347	-	**384 810**
Other financial liabilities	214 874	31 654	-	**246 528**
Total financial liabilities	**21 149 430**	**693 017**	**63 516**	**21 905 963**
Non-financial liabilities	**200 367**	**211**	**7**	**200 585**
Total liabilities	**21 349 797**	**693 228**	**63 523**	**22 106 548**
Net position	**1 856 724**	**1 314 870**	**(50 012)**	**3 121 582**

Assets and liabilities have been classified based on counterparty's resident country. Cash on hand, property, leasehold improvements, and equipment have been classified based on the country of their physical presence.

Liabilities due to other banks, concentrated in OECD countries, include UAH 91 210 thousand of liabilities due to the parent bank (2019: UAH 519 944 thousand) (Note 35).

Geographical analysis of Bank's assets and liabilities at 31 December 2019 is presented as follow:

In thousands of hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	1 654 959	1 261 427	6 924	**2 923 310**
Due from other banks	7 438	-	-	**7 438**
Loans and advances to customers	11 682 265	784	1 034	**11 684 083**
Investment securities	3 072 580	-	-	**3 072 580**
Other financial assets	69 976	39	27	**70 042**
Total financial assets	**16 487 218**	**1 262 250**	**7 985**	**17 757 453**
Non-financial assets	**1 376 439**	**1 885**	**-**	**1 378 324**
Total assets	**17 863 657**	**1 264 135**	**7 985**	**19 135 777**
Liabilities				
Due to other banks	1 087 908	524 109	-	**1 612 017**
Customer accounts	13 805 444	121 113	34 988	**13 961 545**
Due to other financial institutions	102 592	174 399	-	**276 991**
Debt securities	18 472	260 998	-	**279 470**
Other financial liabilities	214 471	25 611	1	**240 083**
Total financial liabilities	**15 228 887**	**1 106 230**	**34 989**	**16 370 106**
Non-financial liabilities	**179 159**	**205**	**22**	**179 386**
Total liabilities	**15 408 046**	**1 106 435**	**35 011**	**16 549 492**
Net position	**2 455 611**	**157 700**	**(27 026)**	**2 586 285**

29 Financial risk management (continued)

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain sufficient cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to banks, corporate and retail customer deposits, and debt securities. The Bank invests the funds in portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring compliance of balance sheet liquidity ratios with regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the NBU requirements. These ratios include:

- Short-term liquidity ratio (N6) calculated as liquid assets to liabilities with one year or less maturity ratio. As at 31 December 2020, the ratio was 72%, with the required ratio being not less than 60% (31 December 2019: 70%, with the required ratio being not less than 60%).

- Liquidity Coverage Ratio (LCR) in all currencies. As at 31 December 2020, LCR in all currencies was 142%, with the required ratio being not less than 100% (31 December 2019: 111% with the required ratio being not less than 80%).

- Liquidity Coverage Ratio (LCR) in foreign currencies. As at 31 December 2020, LCR in foreign currencies was 112% with the required ratio being not less than 100% (31 December 2019: 105% at the minimum value 100%).

The Treasury Department receives information on liquidity profile of financial assets and liabilities. The Treasury Department ensures availability of adequate portfolio of short-term liquid assets, largely made up of liquid securities, deposits with banks, and other inter-bank facilities, to maintain sufficient liquidity.

The tables below show Bank's liabilities by remaining contractual maturity. The amounts disclosed represent contractual undiscounted cash flows, including total credit related commitments and commitments to extend financial guarantees. Such undiscounted cash flows differ from the amounts reported in the separate statement of financial position, since the amounts in the separate statement of financial position are based on discounted cash flows. If the amount payable is not fixed, the amount disclosed is determined by reference to terms and conditions as at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate as at the reporting date.

29 Financial risk management (continued)

The analysis of undiscounted cash flows for financial liabilities as at 31 December 2020 is presented as follows:

In thousands of hryvnias	Demand and less than 1 month	1-12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to other banks	551 001	126 387	2 805 907	-	**3 483 295**
Customer accounts	13 712 824	4 324 995	393 741	28 043	**18 459 603**
Loans from international and other institutions	2 161	104 311	-	-	**106 472**
Debt securities	5 459	409 365	-	-	**414 824**
Financial lease liabilities	220	16 233	70 554	36 706	**123 713**
Other financial liabilities	122 816	-	-	-	**122 816**
Credit related commitments	3 905 948	-	**-**	**-**	**3 905 948**
Spot and forward contracts					
- inflows	(14 155)	-	-	-	**(14 155)**
- outflows	14 178	-	-	-	**14 178**
Total potential future payments for financial obligations	**18 300 452**	**4 981 291**	**3 270 202**	**64 749**	**26 616 694**

Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amount of relevant liabilities and commitments disclosed in the above maturity analysis, as the Bank does not generally expect the third party to draw funds under such agreements.

The analysis of undiscounted cash flows for financial liabilities as at 31 December 2019 is presented as follows:

In thousands of hryvnias	Demand and less than 1 month	1-12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to other banks	1 137 027	475 831	-	-	**1 612 858**
Customer accounts	9 510 762	4 503 253	119 940	27 801	**14 161 756**
Loans from international and other institutions	6 048	97 052	245 193	-	**348 293**
Debt securities	15 025	60 323	271 759	-	**347 107**
Financial lease liabilities	4 694	78 827	100 036	18 794	**202 351**
Other financial liabilities	86 668	-	-	-	**86 668**
Credit related commitments	2 321 400	-	-	-	**2 321 400**
Spot and forward contracts					
- inflows	(71 059)	-	-	-	**(71 059)**
- outflows	70 035	-	-	-	**70 035**
Total potential future payments for financial obligations	**13 080 600**	**5 215 286**	**736 928**	**46 595**	**19 079 409**

Customer accounts are classified based on remaining contractual maturities in the above analysis. However, in accordance with the Civil Code of Ukraine, for deposit agreements concluded prior to 6 June 2015, individuals have the right to withdraw their deposits prior to maturity, with their right to accrued interest forfeited. Some corporate deposit contracts envisage a possibility of early withdrawn. Certain deposit contracts with individuals concluded after 6 June 2015 also envisage early withdrawals.

As at 31 December 2020 and 2019 undiscounted cash flows for deposits with early withdrawal option in distribution by maturity buckets are as follows:

In thousands of hryvnias	Demand and less than 1 month	1-12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2020	667 209	1 750 365	112 063	25 066	2 554 703
At 31 December 2019	627 754	2 240 798	68 656	23 621	2 960 829

29 Financial risk management (continued)

The Bank monitors the following contractual maturities as at 31 December 2020 and 31 December 2019:

In thousands of hryvnias	**Demand and less than 1 month**	**1-12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December 2020					
Financial assets	5 325 862	8 575 904	8 536 103	1 417 339	23 855 208
Financial liabilities	(14 354 592)	(4 737 850)	(2 752 037)	(61 484)	(21 905 963)
Net liquidity gap based on expected maturities	**(9 028 730)**	**3 838 054**	**5 784 066**	**1 355 855**	**1 949 245**
Spot and forward contracts					
- inflows	14 155	-	-	-	14 155
- outflows	(14 178)	-	-	-	(14 178)
At 31 December 2019					
Financial assets	4 285 067	5 901 493	6 510 456	1 060 437	17 757 453
Financial liabilities	(10 704 636)	(4 984 645)	(650 315)	(30 510)	(16 370 106)
Net liquidity gap based on expected maturities	**(6 419 569)**	**916 848**	**5 860 141**	**1 029 927**	**1 387 347**
Spot and forward contracts					
- inflows	71 059	-	-	-	71 059
- outflows	(70 035)	-	-	-	(70 035)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is critical to management. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its response to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by a number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of financing for the Bank.

The Bank has open credit line with its Parent company PKO Bank Polski SA for USD 30 and 47 million. Bank may regularly use this credit line for the replenishment of working capital and maintenance of the operational liquidity.

30 Capital management

The Bank’s objectives when managing capital are (i) to comply with the capital requirements set by the by the National Bank of Ukraine , (ii) to safeguard the Bank’s ability to continue as a going concern. In the opinion of management, the total amount of capital managed by the Bank is equal to the amount of capital represented in the separate statement of financial position. The amount of capital managed by the Bank as at 31 December 2020 is UAH 3 121 582 thousand (as at 31 December 2019 - UAH 2 586 285 thousand). Compliance with capital adequacy of the Bank, the National Bank of Ukraine carried out each decade. Other objectives of capital management are evaluated annually.

Ukrainian legislation requires that banks form a reserve to cover unforeseen losses on all asset items and offbalance sheet liabilities. The reserve must represent 25% of bank's regulatory capital but not less than 25% of bank’s registered share capital. The reserve is formed through charges from net profit for the reporting year retained by the Bank after taxes and retained earnings for previous years.

30 Capital management (continued)

Charges to the reserve must be no less than 5% of bank's profit until the reserve reaches 25% of bank's regulatory capital.

Should a bank's operations pose a threat to interests of depositors and other bank's creditors, the National Bank of Ukraine has the right to require increase in the reserve and annual charges thereto. If, as a result of bank's operations, regulatory capital is reduced to an amount lower than share capital, annual charges to the reserve must be 10% of bank's net profit until the reserve reaches 35% of bank's share capital.

The reserve may only be used to cover the bank's losses for the reporting year in accordance with the decision of the bank's board (Supervisory board) and in accordance with the procedure established by the general meeting of its shareholders. Furthermore, effective Ukrainian legislation envisages no restrictions on distribution of the reserve among bank's shareholders upon bank's liquidation after satisfaction of all creditors' claims.

As at 31 December 2020 the Bank's reserve fund amounts to UAH 185 181 thousand (31 December 2019: UAH 131 374 thousand).

Under the current capital requirements set by the National Bank of Ukraine, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. The table below presents regulatory capital based on the Bank's reports prepared under the NBU requirements, which comprises the following components:

In thousands of hryvnias	**2020**	**2019**
Primary capital	2 176 847	1 716 494
Additional capital	108 009	244 687
Diversion	(10)	(10)
Total regulatory capital	**2 284 846**	**1 961 171**

As at 31 December 2020 and 31 December 2019, the Bank complied with the requirements regarding the minimum regulatory capital adequacy ratio (H2), which should be at least 10%. The value of the H2 normative as at 31 December 2020 is 16% (31 December 2019: 15%).

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

According to Decision No. 438-rsh (438-рш) of the Management Board of the National Bank of Ukraine dated June 27, 2019 KREDOBANK JSC was included in the updated list of 14 systemically important banks. The status of a systemically important bank implies the fulfilment by the Bank of additional requirements to ensure a margin of safety (increased standards of instant liquidity and maximum credit risk per counterparty, as well as the need to further form a buffer of systemic importance of 1% of capital in addition to the capital adequacy ratio).

31 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims. The total amount of provision for litigation is UAH 8 117 thousand as at 31 December 2020 (31 December 2019: UAH 7 998 thousand).

Changes in provisions for potential liabilities are:

In thousands of hryvnias	Note	2020	2019
Commitment provision at 1 January	18	**7 998**	**21 857**
Provision added during the year		1 348	-
Amounts utilized during the year		(1 654)	(12 291)
Effect of exchange rate of foreign currency		425	(1 568)
Commitment provision at 31 December	18	**8 117**	**7 998**

Tax legislation. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the Ministry of Finance and other state authorities are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These facts create tax risks substantially more significant than typically found in countries with more developed systems. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these separate financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Management believes that it has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank’s compliance with existing legislation and assess fines and penalties. No provision for potential tax assessment has been made in these separate financial statements.

Capital expenditure commitments.

At 31 December 2020, the Bank had contractual capital expenditure commitments in respect of property, plant and equipment totaling UAH 5 966 thousand (31 December 2019: UAH 3 731 thousand) and in respect of intangible assets in the amount of UAH 1 337 thousand (31 December 2019: UAH 4 270 thousand).

The Bank has already allocated the necessary resources in respect of these commitments. The Bank’s management believes that future net income and funding will be sufficient to cover these and any similar commitments.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

31 Contingencies and commitments (continued)

At 31 December 2020, all commitments to extend credits are revocable and amount to UAH 3 528 462 thousand (31 December 2019: UAH 2 061 192 thousand).

Credit related commitments were as follows:

	At 31 December 2020			
In thousands of hryvnias	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantee contracts and letters of credit	**377 488**	**-**	**-**	**377 488**
Loss allowances for expected credit losses	888	-	-	**888**
Carrying value (provision)	888	-	-	**888**

	At 31 December 2019			
In thousands of hryvnias	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
***Financial* guarantee contracts and letters of credit**	**260 208**	**-**	**-**	**260 208**
Loss allowances for expected credit losses	917	-	-	**917**
Carrying value (provision)	917	-	-	**917**

As at 31 December 2020, commitments under guarantees and letters of credit were secured with deposits in the amount of UAH 161 330 thousand (as at 31 December 2019 - UAH 33 853 thousand) (Note 14).

The total outstanding contractual commitments to extend credit, import letters of credit, and guarantees do not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Changes in expected credit losses estimates under credit-related loan commitments are presented as follows:

In thousands of hryvnias	**Note**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2020		**14 781**	**72**	**278**	**15 131**
Transfer to Stage 1		126	(125)	(1)	-
Transfer to Stage 2		(326)	327	(1)	-
Transfer to Stage 3		(4)	(109)	113	-
Net remeasurement of loss allowance	23	(10 577)	149	1 396	(9 032)
New loan commitments and financial guarantees issued	23	28 672	-	60	28 732
Loan commitments and financial guarantee contracts that have been derecognised	23	(6 530)	(25)	(418)	(6 973)
Foreign exchange and other movements		1 239	8	17	1 264
Balance at 31 December 2020		**27 381**	**297**	**1 444**	**29 122**

In thousands of hryvnias	**Note**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2019		**9 695**	**19**	**1 310**	**11 024**
Transfer to Stage 1		(42)	31	11	-
Transfer to Stage 2		52	(78)	26	-
Transfer to Stage 3		2	-	(2)	-
Net remeasurement of loss allowance	23	943	(138)	(266)	539
New loan commitments and financial guarantees issued	23	11 286	312	89	11 687
Loan commitments and financial guarantee contracts that have been derecognised	23	(6 685)	(74)	(887)	(7 646)
Foreign exchange and other movements		(470)	-	(3)	(473)
Balance at 31 December 2019		**14 781**	**72**	**278**	**15 131**

32 Fair value disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that IFRS require or permit in the separate statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follow:

	2020				2019			
In thousands of hryvnias	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value								
Financial assets								
Investment securities at fair value through other comprehensive income								
- Ukrainian government bonds	5 897 526	-	-	**5 897 526**	-	2 716 749	-	**2 716 749**
- Corporate shares	-	-	10	**10**	-	-	10	**10**
Non-financial assets								
- Property	-	-	312 457	**312 457**	-	-	310 548	**310 548**
- Investment properties	-	-	14 054	**14 054**	-	-	28 506	**28 506**
Total assets recurring fair value measurements	5 **897 526**	**-**	**326 521**	**6 224 047**	**-**	**2 716 749**	**339 064**	**3 055 813**

The table below shows the valuation methods and inputs that were used in the fair value measurement for Level 2 measurement as at 31 December 2019:

In thousands of hryvnias	**31 December 2019**	**Valuation technique**	**Inputs used**
Assets at fair value			
Financial assets			
Investment securities at fair value through other comprehensive income			
- Ukrainian government bonds	2 716 749	Market approach	Prices of quoted bonds on the market for similar bonds
Total recurring fair value measurements at level 2	**2 716 749**		

32 Fair value disclosures (continued)

b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	2020				2019			
In thousands of hryvnias	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
Assets								
Due from other banks	**-**	**30 764**	**-**	**30 764**	**-**	**7 438**	**-**	**7 438**
Loans and advances to customers	**-**	**-**	**13 214 791**	**13 282 029**	**-**	**-**	**11 717 704**	**11 684 083**
- Corporate loans	-	-	7 198 889	7 357 355	-	-	6 265 806	6 331 022
- Loans to individuals - consumer loans	-	-	1 453 863	1 346 942	-	-	1 424 756	1 314 860
- Loans to individuals – mortgage loans	-	-	1 779 106	1 781 942	-	-	1 195 341	1 196 343
- Loans to individuals - car loans	-	-	2 782 933	2 795 790	-	-	2 831 801	2 841 858
Investment securities at amortized cost	**293 819**	**-**	**-**	**289 693**	**-**	**344 908**	**-**	**355 821**
Other financial assets	-	**153 702**	**-**	**153 702**	**-**	**70 042**	**-**	**70 042**
Total	**293 819**	**184 466**	**13 214 791**	**13 756 188**	**-**	**422 388**	**11 717 704**	**12 117 384**

Fair values analysed by level in the fair value hierarchy and carrying amount of liabilities not measured at fair value are as follows:

	2020				2019			
In thousands of hryvnias	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
Liabilities								
Due to other banks	**-**	**2 764 234**	**-**	**2 839 280**	**-**	**1 612 276**	**-**	**1 612 017**
- Correspondent accounts of other banks	-	539 280	-	539 280	-	1 136 520	-	1 136 520
- Term placements and loans of other banks	-	2 224 954	-	2 300 000	-	475 756	-	475 497
Customer accounts	**-**	**18 489 077**	**-**	**18 319 765**	**-**	**13 934 474**	**-**	**13 961 545**
- Current/settlement accounts of legal entities	-	8 132 064	-	8 132 064	-	5 209 436	-	5 209 472
- Term deposits of legal entities	-	2 439 436	-	2 448 576	-	2 179 218	-	2 185 877
- Current/demand accounts of individuals	-	3 676 230	-	3 676 230	-	2 324 267	-	2 324 267
- Term deposits of individuals	-	4 241 347	-	4 062 895	-	4 221 553	-	4 241 929
Due to other financial institutions	-	**115 580**	**-**	**115 580**	**-**	**268 778**	**-**	**276 991**
Other financial liabilities	**-**	**246 528**	**-**	**246 528**	**-**	**240 083**	**-**	**240 083**
Debt securities	**-**	**401 667**	**-**	**384 810**	**-**	**269 493**	**-**	**279 470**
Total	**-**	**22 017 086**	**-**	**21 905 963**	**-**	**16 325 104**	**-**	**16 370 106**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current weighted average interest rate for existing instruments with similar remaining maturity.

For assets, the Bank used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Bank's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Bank.

33 Presentation of financial instruments by measurement categories

The procedure for classifying financial instruments is described in Note 3.

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2020:

In thousands of hryvnias	Financial instruments measured at amortised cost	Financial instruments at fair value through other comprehensive income	Finance lease receivables	Total
Assets				
Cash and cash equivalents	4 201 484	-	-	**4 201 484**
Due from other banks				**-**
- Guarantee deposits	30 764	-	-	**30 764**
-Loans to other banks	-	-	-	**-**
Loans and advances to customers				**-**
- Corporate loans	6 316 025	-	1 041 330	**7 357 355**
- Loans to individuals - car loans	2 781 773	-	14 017	**2 795 790**
- Loans to individuals - other consumer loans	1 346 942	-	-	**1 346 942**
- Loans to individuals – mortgage loans	1 781 942	-	-	**1 781 942**
Investment securities	289 693	5 897 536	-	**6 187 229**
Other financial assets	153 702	-	-	**153** 702
Total financial assets	**16 902 325**	**5 897 536**	**1 055 347**	**23 855 208**

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2019:

In thousands of hryvnias	Financial instruments measured at amortised cost	Financial instruments at fair value through other comprehensive income	Finance lease receivables	Total
Assets				
Cash and cash equivalents	2 923 310	-	-	**2 923 310**
Due from other banks				
- Guarantee deposits	4 479	-	-	**4 479**
-Loans to other banks	2 959	-	-	**2 959**
Loans and advances to customers				
- Corporate loans	5 616 182	-	714 840	**6 331 022**
- Loans to individuals - car loans	2 832 659	-	9 199	**2 841 858**
- Loans to individuals - other consumer loans	1 314 860	-	-	**1 314 860**
- Loans to individuals – mortgage loans	1 196 343	-	-	**1 196 343**
Investment securities	355 821	2 716 759	-	**3 072 580**
Other financial assets	70 042	-	-	**70 042**
Total financial assets	**14 316 655**	**2 716 759**	**724 039**	**17 757 453**

As at 31 December 2020 and 31 December 2019, all of the Bank's financial liabilities were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

34 Derivatives

Derivatives have either potentially favorable conditions (and are assets) or potentially unfavorable conditions (and liabilities) as a result of fluctuations in market interest rates, exchange rates, or other variables relative to the terms of those instruments. The total fair value of derivative financial assets and liabilities may change significantly over time.
As at 31 December 2019 the fair value of receivables or payables under the currency swap agreements entered into by the Bank by currencies is shown in the table below. The table includes contracts with the settlement date after the corresponding reporting date; the amounts under these agreements are shown expanded - before offsetting items (and payments). These agreements are short-term.

In thousands of hryvnias	**Contracts with positive fair value**	**Contracts with negative fair value**
Currency swap contracts, fair value at the reporting date		
- accounts receivable in USD (-)	71 059	-
- accounts payable in UAH (+)	**70 035**	**-**
Total	**1 024**	**-**

As at 31 December 2020 the Bank did not entered into interest rate swap agreements. The fair value of derivatives is reflected in other financial assets (Note 11).

35 Related party transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As at 31 December 2020, the outstanding balances with related parties were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Subsidiary**	**Key management personnel**
Correspondent accounts with other banks (interest rate: 0%)	123 787	-	-	-
Guarantee deposits	13 994	-	-	-
Gross amount of loans and advances to customers	-	-	-	1 226
Loss allowances for expected credit losses	-	-	-	(27)
Other assets	4 152	-	-	2
Correspondent accounts and overnight placements of other banks (interest rate: 0%)	91 210	-	-	-
Customer accounts (interest rates for deposits: 0,5-11,5%, for current accounts: 0-4%)	-	29 402	8 912	25 367
Other liabilities	67	504	-	12 060

The income and expense items on transactions with related parties for 2020 were as:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Subsidiary**	**Key management personnel**
Interest income	-	-		94
Interest expense	(10 512)	(3 485)	(447)	(2 397)
Other income	-	-	-	1
Loss allowances for expected credit losses	-	-	-	(10)
Fee and commission income	1	147	10	137
Fee and commission expense	(598)	-	-	(2)
Other expenses	(877)	(1 081)	-	-

35 Related party transactions (continued)

As at 31 December 2020, other rights and obligations with related parties were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Subsidiary**	**Key management personnel**
Loan commitments received	2 184 779	-		-
Other commitments granted	17 976	-		1 010
Other rights received	14 178	-		-
Guarantees and collateral received	3 821	-		2 342

Loan commitments received relate to the undrawn borrowing facilities received from the Parent Bank PKO Bank Polski S.A. denominated in USD.

Total amounts of loans granted to related parties and repaid by them in 2020 are presented below:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Subsidiary**	**Key management personnel**
Amounts lent to related parties during the year	-	-		2 236
Amounts repaid by related parties during the period	-	-		(1 268)

As at 31 December 2019, the outstanding balances with related parties were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Subsidiary**	**Key management personnel**
Correspondent accounts with other banks (interest rate: 0%)	99 813	-	-	-
Gross amount of loans and advances to customers	-	-	-	244
Loss allowances for expected credit losses	-	-	-	(17)
Other assets	743	-	-	-
Correspondent accounts and overnight placements of other banks (interest rate: 0%)	44 447	-	-	-
Term placements and loans from other banks (contractual interest rate: 0,15%)	475 497	-	-	-
Customer accounts (interest rates for deposits: 1,3-18%, for current accounts: 0-8%)	-	61 949	9 086	16 103
Other liabilities	3 762	-	-	22 060

The income and expense items on transactions with related parties for 2019 were as:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Subsidiary**	**Key management personnel**
Interest income	-	-	-	68
Interest expense	692	(8 801)	(881)	(815)
Other income	-	29	-	8
Loss allowances for expected credit losses	-	-	-	(1)
Fee and commission income	-	133	59	149
Fee and commission expense	(2 938)	-	-	1
Other expenses	(557)	(639)	-	-

As at 31 December 2019, other rights and obligations with related parties were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Subsidiary**	**Key management personnel**
Loan commitments received	716 780	-	-	-
Other commitments granted	-	-	-	925
Other rights received	-	-	-	-
Collateral received	-	-		1 675

35 Related party transactions (continued)

Loan commitments received relate to the undrawn borrowing facilities received from the Parent Bank PKO Bank Polski S.A. denominated in USD.

Total amounts of loans granted to related parties and repaid by them in 2019 are presented below:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Amounts lent to related parties during the year	-	-	883
Amounts repaid by related parties during the period	-	-	(1 222)

Key management personnel amounts are presented below:

	2020		**2019**	
In thousands of hryvnias	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	35 569	1 290	25 585	2 176
- Annual bonus	-	-	11 726	19 800
- Termination bonus	-	-	-	-
Social insurance contributions	1 632	115	1 204	80
Other long-term employee benefits:				
- Annual bonus	-	10 651	-	-
Total	**37 201**	**12 056**	**38 515**	**22 056**

Short-term benefits fall due wholly within twelve months after the end of the period in which management rendered related services. Other long-term payments include payments that are not expected to be fully settled within twelve months of the end of the period in which management provided the relevant services.

36 Subsequent events

In 2021, the Supervisory Board of the Bank concluded to terminate the participation of Kredobank JSC in the financial company Idea Capital Limited Liability Company by alienating 100% of the participation in the share capital of the financial company Idea Capital Limited Liability Company in favor of another company that is also part of the PKO BP Group. As of the reporting date, the solution has not yet been implemented.

AC Crowe Ukraine
1a Zadorozhnyi Ln., Kyiv
Tel. +38 044 391 3003
office@crowe-ac.com.ua
www.crowe.com.ua

FREE TRANSLATION FROM THE UKRAINIAN ORIGINAL

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of JSC «KREDOBANK»

Report on the Audit of the Separate Financial Statements

Opinion

We have conducted audit of separate financial statements of JSC «KREDOBANK» (the Bank), which comprise The separate statement of financial position as at December 31, 2020, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including the summary of significant accounting policies.

In our opinion, the accompanying separate financial statements, presents fairly, in all material respects, the financial position of the Bank as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with the Law of Ukraine On Accounting and Financial Reporting in Ukraine and International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).

Our responsibilities under those standards are further described in the 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 Code of Ethics for Professional Accountants including International Independence Standards (IESBA Code) and ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other matters

The separate financial statements of the Bank for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those statements on April 14, 2020.

Key Audit Matters

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.

Provision for loan impairment

The estimation of the provision for loan impairment is a key area of professional judgment of the Bank's management. Identifying of impairment and determination of amount of expected reimbursement include some assumptions and analysis of different factors, including the financial position of borrower, expected future cash flow and fair value of collaterals.

The use of various assumptions may be result of various estimates of the provision for loan impairment. Taking into account the materiality of customer credit balances and a certain level of subjectivity of judgments, we have determined the valuation of the provision for impairment as the key issue of the audit.

Our audit procedures included assessment of methodology used by the Bank to determine the signs of depreciation and calculating the provision for impairment, testing input data and assumption analysis. For provisions for loan impairment with detected individual signs of impairment, we have audited assumptions underlying the basis for detecting impairment and its quantitative assessment, including the analysis of financial indicators of borrowers, forecasts for future cash flows and collateral assessment. For provisions of loan impairment, calculated on collective basis, which have not been demonstrate individual signs of impairment, we analyzed Bank's models and audited relevance and accuracy input data used in this models.

Other information

Management is responsible for the other information. The other information comprises the Management Report. The other information which we expected to receive after the date of this Auditor`s report is Annual Information on the Issuer of Securities.

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

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

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

When we read the Annual Information on the Issuer of Securities, and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and The NSSMC.

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

Management is responsible for preparation and fair presentation of these financial statements in accordance with the Law of Ukraine On Accounting and International Financial Reporting Standards 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.

Preparing the financial statements, management is responsible for assessment Bank's ability to continue as a going concern, disclosure, if applicable, issues regarding going concern and apply going concern as a basis for accounting, except, if the management plans to liquidate the Bank or discontinue the activity or have not any other real alternatives for it.

Supervisory Board is responsible for overseeing the process of financial reporting of the Bank.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to release the auditor's report in which we express our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee than an audit conducted 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 internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
  - We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
  - We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
  - From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period 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 the requirements of other laws and regulations

Law of Ukraine "On Audit of Financial Statements and Auditing Activities"

In accordance with the Law of Ukraine "On Auditing Financial Statements and Auditing Activities", auditors must provide additional information and assurances.

Basic information about the audit firm

Full name	AC «Crowe Ukraine»
Location	03040, Kyiv, 1A Zadorozhnyi Ln.
Information on inclusion in the Register of audit firms and auditors	Registration number in the Register of Auditors and Audit Entities 3681
	An auditing entity that has the right to conduct a statutory audit of financial statements
	An auditing entity that has the right to conduct a statutory audit of the financial statements of public interest entities
Name of the body that appointed the auditing entity to conduct the statutory audit	Supervisory Board of the Bank
Date of appointment of the audit entity	30.09.2020 (Minute of the meeting of the Supervisory Board №127/2020)
Duration of the audit task	1 year

The audit report is consistent with the supplementary report for the audit committee.

We did not provide services prohibited by law.

The key audit partner and audit entity are independent of the Bank in conducting the audit.

We did not provide services other than statutory audit services and services disclosed in the management report or financial statements.

ISAs require the auditor to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The term "sufficient certainty" allows for some risk of significant monetary inconsistencies that may remain undetected; it is also assumed that the auditor cannot provide an absolute guarantee of the accuracy and completeness of the financial statements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The terms of the ISAs require that the audit be planned in such a way as to ensure that errors and inconsistencies that could materially affect the financial statements are sufficiently probable. However, because the auditor will not audit all transactions performed by the entity during the year, the audit may not provide complete assurance that errors and inconsistencies, including fraud, will be identified.

Law of Ukraine "On Securities and Stock Market”

According to the Law of Ukraine "On Securities and Stock Market", the issuer is obliged to involve an auditor, who must express his opinion on the information, as well as verify the information on the components of the Management Report.

In our opinion, the Report adequately reflects the information on:

- The description of the main characteristics of the issuer’s internal control and risk management systems;
- A list of persons who directly or indirectly own a significant block of shares of the issuer;
- The restrictions of the rights of participation and voting of shareholders at the general meeting of the issuer;
- The procedure of appointing and dismissing of executives of the issuer;
- The powers of the issuer’s executives.

Other sections of the Report have been audited by us and do not contradict the audited financial statements and our knowledge of the Bank obtained during the audit.

Law of Ukraine "On Banks and Banking"

In accordance with the Law of Ukraine "On Banks and Banking" and the requirements of the National Bank of Ukraine, set out in the Regulations on the procedure for submitting an audit report by the bank to the National Bank of Ukraine, the auditor must provide information (assessment) on:

- correspondence (reliability of reflection) of data on the distribution of assets and liabilities of the bank by maturity in the file with indicators of statistical reporting A7X "Data on the structure of assets and liabilities by maturity", compiled by the bank for submission to the National Bank, as of 1 January of the year following the reporting year;
- the bank's compliance with the requirements established by the NBU regulations on internal control;
- the bank's compliance with the requirements established by the NBU regulations on internal audit;
- the bank's compliance with the requirements established by the regulations of the NBU on determining the amount of credit risk for active banking operations;
- the bank's compliance with the requirements established by the NBU regulations on the recognition of persons related to the bank and transactions with them;
- the bank's compliance with the requirements established by the NBU regulations on the capital adequacy of the bank, which should be determined taking into account the quality of the bank's assets,
- the bank's compliance with the requirements established by the NBU regulations on transactions with persons related to the bank;
- the bank's compliance with the requirements established by the NBU regulations on accounting.

Responsibility of management staff

Management staff is responsible for:

- preparation of statistical reports on the structure of assets and liabilities by maturity, prepared by the Bank for submission to the NBU;
- development, implementation and support of the accounting system in accordance with the requirements of the Law of Ukraine "On Banks and Banking" and the provisions of the NBU;
- development, implementation and support of the internal control system in accordance with the requirements of the Law of Ukraine "On Banks and Banking" and the provisions of the NBU;
- functioning of the internal audit service in accordance with the requirements of the Law of Ukraine "On Banks and Banking" and the provisions of the NBU;

- calculation and formation of reserves for active banking operations;
- development, implementation and support of procedures for recognition of transactions related to the Bank and transactions with them;
- ensuring compliance with the NBU's capital requirements.

Procedures and results obtained

Distribution of the bank's assets and liabilities by maturity

Assessment of compliance (reliability) of the distribution of assets and liabilities of the Bank by maturity in the form of statistical reporting on the structure of assets and liabilities by maturity, prepared by the bank for submission to the NBU, conducted by random testing of balances on accounts for their distribution maturities.

We have not identified any facts that would indicate a mismatch between the distribution of assets and liabilities of the bank by maturity in the form of statistical reporting A7X "Data on the structure of assets and liabilities by maturity" as of 01.01.2021.

Internal control

The Bank's compliance with internal control requirements was assessed by analyzing the Bank's internal regulations, the results of control tests and other procedures performed during the audit of financial statements related to internal control.

We did not find any facts that would indicate the non-compliance of the Bank's internal control system with the requirements of the NBU.

Internal audit

The assessment of the Bank's compliance with internal audit requirements was performed by analyzing the Bank's internal regulatory framework and reviewing the work of the internal audit service in the reporting period.

We have not identified any facts that would indicate non-compliance of the Bank's internal audit with the requirements of the NBU.

Determining the amount of credit risk

The assessment of determining the amount of credit risk on active banking operations was performed by selective testing of the Bank's financial assets during the audit of financial statements.

We did not find any significant deviations during the Bank's determination of the amount of credit risk on active banking operations as of 31.12.2020.

Bank's related parties and transactions with them

The assessment of recognition of related parties and transactions with them was performed by analyzing the internal regulatory framework of the Bank, selective assessment of the Bank's counterparties for the relationship carried out during the audit of financial statements, selective assessment of transactions with related parties, analysis of compliance standards.

We have not identified any evidence of improper recognition of related parties and transactions with the Bank, or violation of regulations on related party transactions.

Bank capital adequacy

The assessment of the Bank's capital adequacy was performed by checking the Bank's compliance with the regulatory requirements established by the legislation and the requirements of the NBU.

As of December 31, 2020, the authorized capital of the Bank amounted to UAH 2,248,969 thousand. (Note 19), which corresponds to the amount established by the Instruction on the procedure for regulating the activities of banks in Ukraine, approved by the NBU Resolution №368.

As of December 31, 2020, the regulatory capital of the Bank amounted to UAH 2,284,846 thousand. (Note 30), which corresponds to the amount established by the Instruction on the procedure for regulating the activities of banks in Ukraine, approved by the NBU Resolution №368.

During 2020, the Bank complied with all standards established by the Instruction on the procedure for regulating the activities of banks in Ukraine.

Accounting

The assessment of accounting was performed by analyzing the internal regulatory framework of the Bank, the results of procedures performed during the audit of financial statements relating to accounting.

We have not identified any facts that would indicate non-compliance of the Bank's accounting system with the requirements of the NBU and IFRS.

Restrictions on use and distribution

This report is intended for information and use by the Bank's management and the National Bank of Ukraine and may not be used by any other party. When reviewing this report, it is necessary to take into account the limited nature of the procedures for assessing issues related to the Bank's activities, organization of the accounting system and internal control. In addition, it should be borne in mind that our criteria for assessing issues related to the Bank's activities, organization of the accounting system and internal control may differ from the criteria used by the National Bank of Ukraine.

The partner in the audit engagement that results in this independent auditor's report is Vitaliy Havrysh.

Partner Vitaliy Havrysh.

Registered Auditor #100594

Kyiv, Ukraine

April 6, 2021