

**KREDOBANK Group**

**International Financial Reporting Standards Consolidated  
Financial Statements and Independent Auditors' Report**

**31 December 2020**

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**KREDOBANK GROUP**  
**Consolidated Statement of Financial Position**

<i>In thousands of hryvnias</i>	Note	31 December 2020	31 December 2019
<b>Assets</b>			
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	13 292 297	11 694 946
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	132 944	109 703
<b>Total assets</b>		<b>25 239 179</b>	<b>19 147 422</b>
<b>Liabilities</b>			
Due to other banks	13	2 839 280	1 612 017
Customer accounts	14	18 310 853	13 952 459
Due to other financial institutions	15	328 139	484 956
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
<b>Total liabilities</b>		<b>22 310 195</b>	<b>16 748 371</b>
<b>Equity</b>			
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)		487 991	(41 441)
<b>Total equity</b>		<b>2 928 984</b>	<b>2 399 051</b>
<b>Total liabilities and equity</b>		<b>25 239 179</b>	<b>19 147 422</b>

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

**KREDOBANK GROUP****Consolidated Statement of Profit or Loss and Other Comprehensive Income**

<i>In thousands of hryvnias</i>	Note	2020	2019
Interest income calculated using the effective interest method	21	2 267 743	2 164 988
Other interest income	21	157 862	119 661
Interest expense	21	(644 221)	(815 739)
<b>Net interest income</b>		<b>1 781 384</b>	<b>1 468 910</b>
Fee and commission income	22	634 962	615 516
Fee and commission expense	22	(161 924)	(151 129)
Gains less losses from trading in foreign currencies		79 892	(4 561)
Foreign exchange translation gains less losses		1 982	64 286
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	(363 453)	(65 604)
Provision for other cost		(1 348)	-
Other operating income	24	50 345	46 448
Employee payments expenses	25	(625 215)	(533 182)
Depreciation costs	10	(316 434)	(250 279)
Administrative and other operating expenses	25	(454 742)	(484 880)
<b>Profit before tax</b>		<b>642 199</b>	<b>714 671</b>
Income tax expense for the year	26	(116 336)	(118 874)
<b>Profit for the year</b>		<b>525 863</b>	<b>595 797</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
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	20	102	6 329
<b>Other comprehensive income for the year</b>		<b>4 070</b>	<b>9 936</b>
<b>Total comprehensive income for the year</b>		<b>529 933</b>	<b>605 733</b>
Basic and diluted profit per share attributable to shareholders of the Group (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

**KREDOBANK GROUP**
**Consolidated Statement of Changes in Equity**

	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
<i>In thousands of hryvnias</i>						
<b>Balance at 1 January 2019</b>		<b>2 248 969</b>	<b>76 169</b>	<b>108 275</b>	<b>(640 095)</b>	<b>1 793 318</b>
Profit for the year		-	-	-	595 797	595 797
Other comprehensive income	20	-	3 607	6 329	-	9 936
<b>Total comprehensive income for 2019</b>		<b>-</b>	<b>3 607</b>	<b>6 329</b>	<b>595 797</b>	<b>605 733</b>
Transfer of revaluation surplus on property to retained earnings upon disposal property		-	-	(2 857)	2 857	-
<b>Balance at 31 December 2019</b>		<b>2 248 969</b>	<b>79 776</b>	<b>111 747</b>	<b>(41 441)</b>	<b>2 399 051</b>
Profit for the year		-	-	-	525 863	525 863
Other comprehensive income	20	-	3 968	102	-	4 070
<b>Total comprehensive income for 2020</b>		<b>-</b>	<b>3 968</b>	<b>102</b>	<b>525 863</b>	<b>529 933</b>
Transfer of revaluation surplus on property to retained earnings upon disposal of property		-	-	(3 569)	3 569	-
<b>Balance at 31 December 2020</b>		<b>2 248 969</b>	<b>83 744</b>	<b>108 280</b>	<b>487 991</b>	<b>2 928 984</b>

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

**KREDOBANK GROUP**  
**Consolidated Statement of Cash Flows \***

<i>In thousands of hryvnias</i>	Note	2020	2019
<b>Cash flows from operating activities</b>			
Interest received		2 314 504	2 305 216
Interest paid		(695 820)	(800 522)
Fees and commissions received		630 865	609 834
Fees and commissions paid		(161 924)	(151 129)
Income received from trading in foreign currencies		79 892	(4 561)
Other operating income received		45 787	36 816
Employee costs paid		(615 936)	(519 661)
Administrative and other operating expenses paid		(434 566)	(464 131)
Income tax paid		(129 080)	(97 785)
<b>Cash flows from/(used in) operating activities before changes in operating assets and liabilities</b>		<b>1 033 722</b>	<b>914 077</b>
Net (increase)/decrease in due from other banks		(24 563)	1 095
Net (increase)/decrease in loans and advances to customers		(1 247 622)	(2 537 300)
Net (increase)/decrease in other financial and non-financial assets		(104 657)	(5 849)
Net increase/(decrease) in due to other banks		964 470	(182 423)
Net increase/(decrease) in customer accounts		3 178 950	2 819 391
Net increase/(decrease) in other financial and non-financial liabilities		28 772	(79 751)
<b>Net cash from/(used in) operating activities</b>		<b>3 829 072</b>	<b>929 240</b>
<b>Cash flows from investing activities</b>			
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)
<b>Net cash from/(used in) investing activities</b>		<b>(2 863 520)</b>	<b>14 728</b>
<b>Cash flows from financing activities</b>			
Proceeds from other financial institutions	15	-	116 390
Repayment of due to other financial institutions	15	(54 889)	(4 900)
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)
<b>Net cash from/(used in) financing activities</b>		<b>(127 929)</b>	<b>34 504</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>440 551</b>	<b>(212 508)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1 278 174</b>	<b>765 964</b>
Cash and cash equivalents at the beginning of the year	5	2 923 310	2 157 346
<b>Cash and cash equivalents at the end of the year</b>	<b>5</b>	<b>4 201 484</b>	<b>2 923 310</b>

\* The Consolidated 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks for the year ended 31 December 2020 for Joint-Stock Company “Kredobank” (the “Bank”) and its subsidiary – “Finance Company Idea Capital” Limited Liability Company (together hereinafter referred to as the “Group”). As at 31 December 2020 and 31 December 2019 the Bank fully owns “Finance Company Idea Capital” Limited Liability Company.

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 (Ukraine). 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 Group’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 consolidated financial statements are presented in thousands of hryvnias ("UAH"), unless otherwise stated.

**2 Operating environment of the Group**

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 Group (continued)**

Although the management staff believes that they are taking appropriate measures to maintain the stability of the Group'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 Group's activities and financial condition, the nature and consequences of which cannot be determined at the moment. These consolidated 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 Group. Future operating conditions may differ from management personnel assessments.

**3 Significant accounting policies****Basis of preparation**

These consolidated 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 premises 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 consolidated 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 consolidated financial statements on a going concern basis. In making this judgement management considered the Group'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 Group.

**Business combinations.** Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss..

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

**Consolidated financial statements.** Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**3 Significant accounting policies (continued)**

Goodwill is measured as the excess of the amount in paragraph (a) over the amount in paragraph (b), namely: (a) the aggregate amount: the consideration transferred, measured at fair value as at the acquisition date; the amount of any non-controlling interest in the acquiree, measured at fair value; fair value at the date of acquisition of equity interest previously held by the buyer (the Bank) in the object of acquisition (subsidiary), in the case of phased merger of companies; (b) the balance of the amounts as at the acquisition date of the identified assets acquired and contingent liabilities assumed that are measured at fair value.

In the case the amount specified in paragraph (b) exceeds the amount specified in paragraph (a) profit from a profitable purchase shall be recognized in full at the date of acquisition. Before recognising profit from a profitable purchase, the Bank reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

Compensation paid for the acquiree is measured at the fair value of the assets transferred, equity instruments issued, liabilities incurred or incurred, including the fair value of the assets or liabilities arising from contingent consideration agreements, but not including costs related to acquisition, such as payment for consulting services, legal services, valuation services and similar professional services. The transaction costs incurred in issuing equity instruments are deducted from the amount of equity; transaction costs incurred in connection with the issue of debt securities are deducted from their carrying amount, and all other transaction costs associated with the acquisition are charged to costs.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Bank and all its subsidiaries apply a single accounting policy in accordance with the Group's policy.

**Disposals of subsidiaries, associates or joint ventures.** When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

**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 Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held by the Group 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.

**3 Significant accounting policies (continued)**

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).

*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. Transaction 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 recognized 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 Group becomes a party to the contractual provisions of the instrument.

**3 Significant accounting policies (continued)**

**Financial assets classification: principal classification categories.** The Group 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 Group 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 Group 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 of 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 Group 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 Group 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 Group'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 Group'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 Group in isolation, but as part of a holistic assessment of how the Group stated objective for managing the financial assets is achieved and how the cash flows are realised. Therefore, the Group 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 Group 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 Group 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 Group.

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 Group.

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 Group 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 Group analyses:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group’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 Group 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 Group if the commitment is drawn down and the cash flows that the Group expects to receive;*
- *financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.*

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

The Group 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 Group.

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 Group to the third stage of impairment. Financial assets that are credit-impaired on initial recognition are classified as purchased or originated financial assets. The Group 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 Group on terms that the Group 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 Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group 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 Group (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 Group 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 Group; 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 Group 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 Group introduces measures to restore the ability of the counterparty to fulfil its obligations, there are no signs of impairment, compliance with obligations to the Group 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 Group 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 Group'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 Group 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 Group. 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 Group 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 Group 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 Group 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 Group 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 Group considers a longer period.

For overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECLs over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group'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 Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group 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 Group 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 Group 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 Group also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group 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 consolidated statement of financial position**

Loss allowances for ECL are presented in the consolidated 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 Group cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Group 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 consolidated 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 Group accepts the value of a collateral that meets the established eligibility criteria established by the Group and determined by the regulator as a means of credit quality improving.

**Write-off of financial assets.**

If the Group 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 Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

**Financial assets – derecognition.**

The Group 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 Group 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 Group has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
  - the Group 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 Group 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 Group 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 Group transfers substantially all the risks and rewards of ownership of the financial asset, the Group derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer;
- if the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset;
- if the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group 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 Group is recognised as a separate asset or liability.

In transactions in which the Group 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 Group 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.

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).

**3 Significant accounting policies (continued)**

**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 Group 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 Group 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 Group is guided by the derecognition of financial liabilities by analogy.

The Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 instruments.** The Group 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 Group 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 Group 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 consolidated 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 consolidated 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 Group 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 premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group'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 Group 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 Group 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 Group has issued no loan commitments that are measured at FVTPL.

For other loan commitments, the Group 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 Group 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 Group'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 Group'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.

**Premises, leasehold improvements and equipment.**

Premises, leasehold improvements 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 Group 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 consolidated statement of profit or loss and other comprehensive income, in which case the increase is recognised in the consolidated 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 amortization of the revaluation reserve.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises 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 premises, leasehold improvements 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 premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	<u>Useful lives, years</u>
Premises	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 Group'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 Group 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 Group acts as a lessee.**

When concluding a contract, the Group 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 Group 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 Group considers each lease component as a lease agreement, separately from the non-lease components of the contract.



**3 Significant accounting policies (continued)**

The Group 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 Group 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 Group 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 Group 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 Group 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 Group under liquidation value guarantees;
- the exercise price of an asset purchase option, if the Group 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 Group's exercise of the option to terminate the lease early.

The Group 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 Group applies the threshold of UAH 150,000 when determining the underlying asset with a low value. Under leases to which the Group applies exemptions, costs are recognized in the period to which they relate.

**Subsequent measurement.** After the start date of the lease, the Group 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 Group at the end of the lease term, or if the cost of the right-of-use asset reflects the fact that the Group will take advantage of the opportunity to purchase it. In other cases, the Group 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 Group 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 Group 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 Group 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 Group recognizes the remaining amount as part of the profit or loss.

**Modifications to the lease agreement.** The Group 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 Group:

- 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 Group:

- 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 Group acts as a lessor**

The Group, 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 Group leases its investment properties, including commercial real estate owned by it, as well as leased real estate. The Group 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 Group. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group 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 Group 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 consolidated 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 Group if it is quite probable that the difference will not be repaid through dividends or otherwise in the future.

***Uncertain tax positions.*** The Group'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 Group 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 credit-impaired assets, the Group 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 credit-adjusted 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 Group 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 Group 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 consolidated 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 consolidated 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 consolidated 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 Group 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 Group'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 Group 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 Group 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:

	<b>31 December 2020,</b>	<b>31 December 2019,</b>
	<b>UAH</b>	<b>UAH</b>
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 consolidated 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: (a) in the normal course of business, (b) the event of default and (b) 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 Group. The Group 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 Group'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 Group have been reported separately in these consolidated 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 consolidated statement of financial position in order of liquidity.**

The Group does not have a clearly identifiable operating cycle and therefore does not present current and noncurrent assets and liabilities separately in the consolidated 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 consolidated 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		Total	Amounts to be recovered or settled per contract		Total
	Within 12 months after the reporting period	After 12 months after the reporting period		Within 12 months after the reporting period	After 12 months after the reporting period	
<i>In thousands of hryvnias</i>						
<b>Assets</b>						
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	5 742 116	7 550 181	13 292 297	5 352 203	6 342 743	11 694 946
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
Premises, 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	132 944	-	132 944	109 653	50	109 703
<b>Total assets</b>	<b>14 044 998</b>	<b>11 194 181</b>	<b>25 239 179</b>	<b>10 307 160</b>	<b>8 840 262</b>	<b>19 147 422</b>
<b>Liabilities</b>						
Due to other banks	539 280	2 300 000	2 839 280	1 612 017	-	1 612 017
Customer accounts	17 904 592	406 261	18 310 853	13 817 986	134 473	13 952 459
Due to other financial institutions	328 139	-	328 139	268 727	216 229	484 956
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
<b>Total liabilities</b>	<b>19 496 674</b>	<b>2 813 521</b>	<b>22 310 195</b>	<b>16 067 546</b>	<b>680 825</b>	<b>16 748 371</b>

**3 Significant accounting policies (continued)**

**New or Revised Standards and Interpretations.** The Group first applied certain standards and amendments that became effective for annual accounting periods beginning on or after 1 January, 2020. The Group has not applied in advance standards, clarifications or amendments that have been issued but have are not yet effective.

**Amendments to IFRS 3 - « Definition of a Business »**

The amendments to IFRS 3 explain that in order to be considered a business, an integrated set of activities and assets must include at least a contribution and a fundamentally significant process, which together can significantly contribute to generating returns. This explains that a business doesn't necessarily have to include all the contributions and processes needed to generate revenue. These amendments had no impact on the Group's consolidated financial statements, but may be applicable in the future if the Group performs a 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 for a number of exemptions that apply to all hedging relationships that are directly affected by the interest rate benchmark reform. the interest rate benchmark reform affects hedging relationships if its application results in uncertainty about the timing of occurrence and/or the amount of cash flows based on the interest rate benchmark reform for the hedged object or hedge instrument. These amendments had no impact on the Group's consolidated financial statements, as it does not have an interest-rate hedging relationship.

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

The amendments offer a new definition of material, according to which "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the 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 explain that material will depend on the nature or quantitative importance of information (taken alone or in conjunction with other information) in the context of financial statements considered as a whole. Misrepresentation is significant if one can reasonably expect it to affect the decisions of the main users of the financial statements. These amendments had no impact on the Group's consolidated financial statements, and it is expected that there will also be no impact in the future.

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

The conceptual framework is not a standard, and none of the provisions of the conceptual framework takes precedence over any provision or requirement of the standard. The objectives of the conceptual framework are: to assist the IASB in developing standards; to assist those who prepare financial statements in developing accounting policy provisions where none of the standards governs a particular transaction or other event; and to assist all parties in understanding and interpreting the standards. This document will affect organisations that develop their accounting policies in accordance with the provisions of the conceptual framework.

The revised version of the conceptual framework contains several new concepts, updated definitions of assets and liabilities and criteria for their recognition, and explains some essential provisions. The revision of this document had no impact on the Group's consolidated financial statements.

**Amendments to IFRS 16 - «Leasing Considerations Resulting From The COVID-19 Pandemic»****3 Significant accounting policies (continued)**

On May 28, 2020, the IASB issued an amendment to IAS 16 "Leases" - "Leases related to the COVID-19 pandemic". This amendment provides for an exemption for lessees from applying the requirements of IAS (IFRS) 16 in terms of accounting for modifications to leases in the case of leases arising as a direct consequence of the COVID-19 pandemic. As a practical simplification, the lessee may decide not to analyze whether the lease assignment provided by the lessor in connection with the COVID-19 pandemic is a modification of the lease agreement. The lessee making such a decision must take into account any changes in lease payments resulting from a lease assignment related to the COVID-19 pandemic, just as this change would be reflected in accounting under IAS (IFRS) 16 if it were not a modification of the lease agreement. This amendment applies to annual accounting periods beginning on or after June 1, 2020. Early application is allowed. This amendment had no impact on the Group's consolidated financial statements.

**New accounting provisions**

The following are new standards, amendments and interpretations that have been issued but was not yet effective as of the date of the Group's financial statements. The Group intends to apply these standards, amendments and interpretations, as appropriate, from the effective date.

**IFRS 17 Insurance Contracts**

In May 2017, the IFRS Board issued IFRS 17 Insurance Contracts, a new comprehensive financial reporting standard for insurance contracts that addresses the recognition and measurement, presentation and disclosure of information. When IFRS 17 becomes effective, it will replace IFRS 4 Insurance Contracts, which was issued in 2005. IFRS 17 applies to all types of insurance contracts (ie life and non-life insurance, direct insurance and reinsurance) regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation. There are a few exceptions to the scope. The main purpose of IFRS 17 is to provide an insurance contract accounting model that is more efficient and consistent for insurers. Unlike the requirements of IFRS 4, which are largely based on previous local accounting policies, IFRS 17 provides a comprehensive model for accounting for insurance contracts, covering all relevant aspects of accounting. IFRS 17 is based on a general model, supplemented by the following:

- certain modifications for insurance contracts with direct participation conditions (variable remuneration method);
- simplified approach (premium-based approach) mainly for short-term contracts.

IFRS 17 comes into force for accounting periods starting from or after January 1, 2023, and comparative information must be provided. Early application is allowed, provided that the organization also applies IAS (IFRS) 9 and IAS (IFRS) 15 as of or prior to the first application of IAS (IFRS) 17. This standard does not apply to the Group.

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

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

- what is meant by the right to defer the settlement of obligations;
- the right to defer settlement of obligations should exist at the end of the reporting period;
- the classification of liabilities is not affected by the likelihood that the entity will exercise its right to defer settlement of the liability;
- the terms of the liability will not affect its classification only if the derivative that is included in the convertible liability is itself an equity instrument.

These amendments come into force before or after the annual accounting periods starting on or after January 1, 2023, and are applied retrospectively. The Group is currently reviewing the possible impact of these amendments on the current classification of liabilities.

**Amendments to IFRS 3- «References to the conceptual framework»**

In May 2020, the IASB issued amendments to IAS 3 "Business combinations" - "references to the conceptual framework". The purpose of these amendments is to replace the reference to the "concept of preparation and presentation of financial statements" issued in 1989 with the reference to the "conceptual framework for the presentation of financial statements" issued in March 2018, without making significant changes to the requirements of the standard.

The Board also added an exception to the recognition principle in IFRS 3 to avoid the occurrence of potential gains or losses "on Day 2" for liabilities and contingent liabilities that would fall within the scope of IAS 37 or the clarification of KTMFZ (IFRIC) 21 "mandatory payments" if they arose in separate transactions.

**3 Significant accounting policies (continued)**

At the same time, the Board decided to clarify the existing requirements of IFRS 3 for contingent assets, which will not be affected by the replacement of references to the "concept of preparation and presentation of financial statements".

These amendments become effective before or after the annual accounting periods beginning on or after January 1, 2022, and are applied prospectively.

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

In May 2020, the IASB issued a document entitled " **Property, Plant and Equipment: Proceeds before Intended Use** ", which prohibits organisations deducting from the initial cost of an item of property, plant and equipment any proceeds from the sale of products produced during the delivery of this item to the location and bringing it into a condition necessary for its operation in accordance with the requirements of the manual.



Instead, the organisation recognises the proceeds from the sale of such products, as well as the cost of producing these products in profit or loss.

These amendments enter into force before or after the annual accounting periods beginning on or after January 1, 2022, and should be applied retrospectively to those items of property, plant and equipment that became available for use on or after the start date of (or after) the earliest period presented in the financial statements in which the entity applies these amendments for the first time.

These amendments are not expected to significantly impact on the Group.

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

In May 2020, the IAS board issued amendments to IAS 37 explaining what costs an entity should consider when assessing whether a contract is onerous or unprofitable.

The amendments provide for an approach based on "costs directly related to the contract". Costs directly related to the contract for the provision of goods or services include both additional costs for the performance of this Agreement and distributed costs directly related to the performance of the contract. General and administrative costs are not directly related to the contract and, therefore, are excluded, except in cases where they are clearly subject to reimbursement by the counterparty under the contract.

These amendments become effective for annual accounting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which all obligations have not yet been fulfilled at the start date of the annual reporting period in which these amendments are first applied.

**Поправка до МСФЗ (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 the process of annual improvements to IFRSs for the period 2018-2020, the IFRS Board issued an amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards". Under this amendment, a subsidiary that decides to apply paragraph D16 (a) of IFRS 1 has the right to measure accumulated exchange differences using the amounts recognized in the financial statements of the parent based on the date of transition of the parent to IFRS. This amendment may also be applied to associates and joint ventures that decide to apply paragraph D16 (a) of IFRS 1.

This amendment shall be effective for annual periods beginning on or after 1 January, 2022. Early adoption is permitted.

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

As part of the process of annual improvements to IFRS, for the period 2018-2020, the IASB issued an amendment to IFRS 9. the amendment explains the fees that an organization takes into account when assessing whether the terms of a new or modified financial liability differ significantly from the terms of the original financial liability. These amounts include only those commissions fees that have been paid or received between a particular lender and the borrower, including commissions paid or received by the lender or borrower on behalf of the other party. The organization should apply this amendment to financial liabilities that have been modified or replaced at the start (or after) date of the annual reporting period in which the organisation first applies this amendment.

**3 Significant accounting policies (continued)**

This amendment comes into force for annual accounting periods beginning on or after January 1, 2022. Early application is allowed. The panel will apply this amendment to financial liabilities that have been modified or replaced at or after the start date of the annual reporting period in which the amendment is first applied.

The amendment is not expected to have a significant impact on the Group.

**Amendment to IAS 41 Agriculture - Taxation in Fair Value Measurement** As part of the process of annual improvements to IFRS, for the period 2018-2020, the IAS Board issued an amendment to IFRS (IAS) 41 "Agriculture". This amendment excludes the requirement in Paragraph 22 of IAS 41 that organisations do not include taxable cash flows in the calculation when measuring the fair value of assets falling within the scope of IAS 41.

The organisation should apply this amendment prospectively to the fair value measurement at the beginning (or after) date of the first annual reporting period beginning on or after January 1, 2022. Early application is permitted.

The amendment is not expected to have a significant impact on the Group.

#### **4 Critical accounting estimates, and judgements in applying accounting policies**

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated 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 consolidated 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 Group'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 Group. The Group 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 Group 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 Group 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 premises, in determining the value by the method of comparing sales prices.

The Group's premises 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 Group considers all available facts and circumstances that give rise to an economic incentive to exercise the extension options. The Group determines the total lease term based on the option to extend the lease and terminate the longer lease term. Where practicable, the Group seeks to include renewal options in new leases to provide operational flexibility. The Group 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.

**KREDOBANK GROUP****Notes to the Consolidated Financial Statements – 31 December 2020****5 Cash and cash equivalents**

<i>In thousands of hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
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)
<b>Total cash and cash equivalents</b>	<b>4 201 484</b>	<b>2 923 310</b>

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

As at 31 December 2020, the Group's cash and cash equivalents for the purposes of the consolidated 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:

<i>In thousands of hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Cash balances on correspondent accounts with the NBU</b>	<b>324 022</b>	<b>621 498</b>
<b>Deposit certificates issued by the NBU</b>	<b>1 200 298</b>	<b>450 831</b>
<b>Correspondent accounts with other banks:</b>		
- 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)
<b>Total cash and cash equivalents, excluding cash funds</b>	<b>3 552 061</b>	<b>2 360 106</b>

As at 31 December 2020, the Group 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:

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

**KREDOBANK GROUP****Notes to the Consolidated Financial Statements – 31 December 2020****6 Due from other banks**

<i>In thousands of hryvnias</i>	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)
<b>Total due from other banks</b>	<b>30 764</b>	<b>7 438</b>

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.

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

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

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

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

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

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

<i>In thousands of hryvnias</i>	Note	Loans from banks	Guarantee deposits	Total
<b>Loss allowances for 12-months expected credit losses at 1 January 2019 - Stage 1</b>		<b>132</b>	<b>30</b>	<b>162</b>
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
<b>Loss allowances for 12-months expected credit losses at 31 December 2019 - Stage 1</b>		<b>66</b>	<b>38</b>	<b>104</b>

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**

<i>In thousands of hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
Corporate loans	7 701 212	6 606 667
Loans to individuals - car loans	2 946 302	2 952 955
Loans to individuals - mortgage loans	1 850 888	1 267 471
Loans to individuals - other consumer loans	1 666 190	1 557 486
Loss allowances for expected credit losses	(872 295)	(689 633)
<b>Total loans and advances to customers</b>	<b>13 292 297</b>	<b>11 694 946</b>

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

<i>In thousands of hryvnias</i>	<b>Note</b>	<b>Stage 1 12-month expected credit losses</b>	<b>Stage 2 Lifetime expected credit losses for not credit- impaired</b>	<b>Stage 3 Lifetime expected credit losses for credit- impaired</b>	<b>Purchased credit- impaired</b>	<b>Total</b>
<b>Loss allowances for expected credit losses at 1 January 2020</b>		<b>172 704</b>	<b>39 802</b>	<b>429 280</b>	<b>47 847</b>	<b>689 633</b>
New originated or purchased	23	125 431	56	523	-	<b>126 010</b>
Net remeasurement of loss allowance for expected credit losses	23	(67 675)	179 759	69 905	6 008	<b>187 997</b>
Write-offs		-	(30)	(177 014)	(84 059)	<b>(261 103)</b>
Adjustment for interest income from credit-impaired loans		(54)	(64)	56 948	5 973	<b>62 803</b>
Effect of exchange rate of foreign currency		6 872	334	34 812	-	<b>42 018</b>
Repayment of POCI assets in excess of initial loss recognised		-	-	-	-	-
Other movements, including transfers to Stages:		(17 235)	(170 569)	187 757	24 984	<b>24 937</b>
- transfer from Stage 1		(28 740)	26 212	2 528	-	-
- transfer from Stage 2		10 686	(200 419)	189 733	-	-
- transfer from Stage 3		807	3 636	(4 443)	-	-
<b>Loss allowances for expected credit losses at 31 December 2020</b>		<b>220 043</b>	<b>49 288</b>	<b>602 211</b>	<b>753</b>	<b>872 295</b>

\* 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 Group 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:

	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
<i>In thousands of hryvnias</i>						
<b>Loss allowances for expected credit losses at 1 January 2019</b>		<b>169 392</b>	<b>31 819</b>	<b>462 119</b>	<b>17 766</b>	<b>681 096</b>
New originated or purchased	23	166 717	352	1 329	-	<b>168 398</b>
Net remeasurement of loss allowance for expected credit losses	23	(146 909)	142 002	(66 984)	3 557	<b>(68 334)</b>
Write-offs		(85)	(213)	(137 096)	(1 684)	<b>(139 078)</b>
Adjustment for interest income from credit-impaired loans		(104)	-	48 141	28 208	<b>76 245</b>
Effect of exchange rate of foreign currency		(3 013)	(300)	(25 381)	-	<b>(28 694)</b>
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)	-	-
<b>Loss allowances for expected credit losses at 31 December 2019</b>		<b>172 704</b>	<b>39 802</b>	<b>429 280</b>	<b>47 847</b>	<b>689 633</b>

\* 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 3 232 723 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:

<i>In thousands of hryvnias</i>	<b>31 December 2020</b>		<b>31 December 2019</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	6 463 380	46	5 777 912	47
Agriculture and food processing	2 757 423	20	2 339 252	19
Trade	1 998 340	14	1 687 999	14
Manufacturing	1 707 419	12	1 525 263	12
Other services	612 341	4	546 690	4
Real estate and construction	277 151	2	214 690	2
Transportation	214 747	2	154 194	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	-	-	444	-
Other	70 209	-	91 354	1
<b>Total loans and advances to customers (before expected credit losses)</b>	<b>14 164 592</b>	<b>100</b>	<b>12 384 579</b>	<b>100</b>

As at 31 December 2020, the total gross carrying value of top 10 borrowers of the Group 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.



**KREDOBANK GROUP**
**Notes to the Consolidated Financial Statements – 31 December 2020**
**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
<b>Corporate loans</b>					
- 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	-	-	127 461	-	127 461
Loss allowances for expected credit losses	(110 850)	(11 095)	(212 256)	-	(334 201)
<b>Carrying value of the loans to legal entities</b>	<b>7 139 097</b>	<b>31 716</b>	<b>196 198</b>	<b>-</b>	<b>7 367 011</b>
<b>Loans to individuals - car loans</b>					
- 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)
<b>Carrying value of the car loans to individuals</b>	<b>2 665 137</b>	<b>35 628</b>	<b>95 025</b>	<b>-</b>	<b>2 795 790</b>
<b>Loans to individuals - mortgage loans</b>					
- 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	-	-	29 764	-	29 764
Loss allowances for expected credit losses	(22 582)	(2 494)	(43 258)	-	(68 334)
<b>Carrying value of mortgage loans to individuals</b>	<b>1 716 350</b>	<b>16 355</b>	<b>49 849</b>	<b>-</b>	<b>1 782 554</b>
<b>Loans to individuals - other consumer loans</b>					
- 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)
<b>Carrying value of other consumer loans to individuals</b>	<b>1 243 989</b>	<b>42 336</b>	<b>60 129</b>	<b>488</b>	<b>1 346 942</b>
<b>Total loans and advances to customers</b>	<b>12 764 573</b>	<b>126 035</b>	<b>401 201</b>	<b>488</b>	<b>13 292 297</b>

**7 Loans and advances to customers (continued)**

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

	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
In thousands of hryvnias					
<b>Corporate loans</b>					
- 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	-	-	162 132	-	162 132
Loss allowances for expected credit losses	(46 563)	(4 472)	(214 775)	-	(265 810)
<b>Carrying value of the loans to legal entities</b>	<b>6 148 102</b>	<b>26 826</b>	<b>165 929</b>	<b>-</b>	<b>6 340 857</b>
<b>Loans to individuals - car loans</b>					
- 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)
<b>Carrying value of the car loans to individuals</b>	<b>2 768 256</b>	<b>18 379</b>	<b>55 223</b>	<b>-</b>	<b>2 841 858</b>
<b>Loans to individuals - mortgage loans</b>					
- 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	-	-	31 013	-	31 013
Loss allowances for expected credit losses	(19 740)	(4 828)	(45 532)	-	(70 100)
<b>Carrying value of mortgage loans to individuals</b>	<b>1 135 703</b>	<b>21 567</b>	<b>40 101</b>	<b>-</b>	<b>1 197 371</b>
<b>Loans to individuals - other consumer loans</b>					
- 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	3 745	95	30 495
- 91 to 180 days overdue	-	449	27 742	227	28 418
- 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)
<b>Carrying value of other consumer loans to individuals</b>	<b>1 300 296</b>	<b>8 876</b>	<b>3 932</b>	<b>1 756</b>	<b>1 314 860</b>
<b>Total loans and advances to customers</b>	<b>11 352 357</b>	<b>75 648</b>	<b>265 185</b>	<b>1 756</b>	<b>11 694 946</b>

**7 Loans and advances to customers (continued)**

The Group 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:

<i>In thousands of hryvnias</i>	<b>Corporate loans</b>	<b>Car loans</b>	<b>Mortgage loans</b>	<b>Consumer loans</b>	<b>Total</b>
Unsecured loans	812 981	204 105	5 020	1 663 647	<b>2 685 753</b>
Loans collateralised by:	-	-	-	-	
- cash deposits	291 737	-	-	-	<b>291 737</b>
- residential real estate	184 982	442	1 743 121	333	<b>1 928 878</b>
- other real estate	2 684 190	-	68 578	-	<b>2 752 768</b>
- other assets	3 727 322	2 741 755	34 169	2 210	<b>6 505 456</b>
<b>Total loans and advances to customers (before expected credit losses)</b>	<b>7 701 212</b>	<b>2 946 302</b>	<b>1 850 888</b>	<b>1 666 190</b>	<b>14 164 592</b>

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

<i>In thousands of hryvnias</i>	<b>Corporate loans</b>	<b>Car loans</b>	<b>Mortgage loans</b>	<b>Consumer loans</b>	<b>Total</b>
Unsecured loans	754 164	263 904	20 147	1 553 287	<b>2 591 502</b>
Loans collateralised by:	-	-	-	-	
- cash deposits	317 765	-	-	-	<b>317 765</b>
- residential real estate	134 394	-	1 165 870	344	<b>1 300 608</b>
- other real estate	2 264 787	-	57 365	-	<b>2 322 152</b>
- other assets	3 135 557	2 689 051	24 089	3 855	<b>5 852 552</b>
<b>Total loans and advances to customers (before expected credit losses)</b>	<b>6 606 667</b>	<b>2 952 955</b>	<b>1 267 471</b>	<b>1 557 486</b>	<b>12 384 579</b>

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:

<i>In thousands of hryvnias</i>	Over-collateralised assets		Under-collateralised assets	
	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	117 880	159 804	70 476	52 262
Mortgage loans	1 734	2 934	22 961	14 221
Consumer loans	-	-	-	-
Car loans	-	-	3 812	3 055
<b>Total</b>	<b>119 614</b>	<b>162 738</b>	<b>97 248</b>	<b>69 538</b>

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

<i>In thousands of hryvnias</i>	Over-collateralised assets		Under-collateralised assets	
	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	110 476	175 542	49 390	32 857
Mortgage loans	1 575	2 953	20 844	12 413
Consumer loans	-	-	-	-
Car loans	2 165	3 242	788	581
<b>Total</b>	<b>114 216</b>	<b>181 737</b>	<b>71 022</b>	<b>45 851</b>

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 Group'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 Group 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 Group according to the legislation.

The Group'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 Group 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 premises, 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 Group'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:

<i>In thousands of hryvnias</i>	<b>Gross investment in lease</b>	<b>Present value of minimum lease payments</b>	<b>Unrealized financial income</b>
<i>Finance lease receivables</i>			
- 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
<b>Less loss allowances for expected credit losses</b>	<b>(30 033)</b>	<b>(30 033)</b>	<b>-</b>
<b>Total after deduction of loss allowances for expected credit losses</b>	<b>1 233 164</b>	<b>1 055 347</b>	<b>177 817</b>

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:

<i>In thousands of hryvnias</i>	<b>Gross investment in lease</b>	<b>Present value of minimum lease payments</b>	<b>Unrealized financial income</b>
<i>Finance lease receivables</i>			
- 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
<b>Less loss allowances for expected credit losses</b>	<b>(12 167)</b>	<b>(12 167)</b>	<b>-</b>
<b>Total after deduction of loss allowances for expected credit losses</b>	<b>894 844</b>	<b>724 039</b>	<b>170 805</b>

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.

<i>In thousands of hryvnias</i>	<b>2020</b>	<b>2019</b>
<b>Financial assets modified during the period</b>		
Amortised cost before modification	69 382	100 297
Gains less losses from modification	(1 233)	(643)
<b>Financial assets modified since initial recognition</b>		
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**

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

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

The Group 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:

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

\* 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 Group 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 Group 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:

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

\* 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**

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

As at 31 December 2020 and 31 December 2019, investment properties include commercial premises held by the Group to earn rental income, which were transferred from premises 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 Group'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).



**KREDOBANK GROUP**
**Notes to the Consolidated Financial Statements – 31 December 2020**
**10 Premises, equipment and intangible assets**

The movement of premises, equipment and intangible assets and assets in the form of right of use is presented as follows:

	Premises and leasehold improvements	Computer and equipment	Security systems, cars and other equipment	Right-of-use assets		Total
				Premises and leasehold improvements	Computer and equipment	
<i>In thousands of hryvnias</i>						
<b>Cost or valuation</b>						
<b>At 1 January 2019</b>	<b>378 891</b>	<b>565 809</b>	<b>364 649</b>	<b>103 981</b>	<b>315</b>	<b>1 413 645</b>
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)
<b>At 31 December 2019</b>	<b>380 073</b>	<b>656 932</b>	<b>399 874</b>	<b>199 543</b>	<b>4 585</b>	<b>1 641 007</b>
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
<b>At 31 December 2020</b>	<b>409 398</b>	<b>697 939</b>	<b>432 252</b>	<b>209 332</b>	<b>-</b>	<b>1 748 921</b>
<b>Accumulated depreciation</b>						
<b>At 1 January 2019</b>	<b>62 462</b>	<b>225 064</b>	<b>150 710</b>	<b>-</b>	<b>-</b>	<b>438 236</b>
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)
<b>At 31 December 2019</b>	<b>35 674</b>	<b>287 860</b>	<b>195 872</b>	<b>49 925</b>	<b>764</b>	<b>570 095</b>
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)
<b>At 31 December 2020</b>	<b>57 219</b>	<b>349 364</b>	<b>242 958</b>	<b>91 887</b>	<b>-</b>	<b>741 428</b>
<b>Carrying amount</b>						
<b>At 31 December 2019</b>	<b>344 399</b>	<b>369 072</b>	<b>204 002</b>	<b>149 618</b>	<b>3 821</b>	<b>1 070 912</b>
<b>At 31 December 2020y</b>	<b>352 179</b>	<b>348 575</b>	<b>189 294</b>	<b>117 445</b>	<b>-</b>	<b>1 007 493</b>

The Group presents right-of use assets that related to leased real estate and do not meet the definition of investment property in “Premises, leasehold improvements, equipment and intangible assets”.

Changes in intangible assets are presented as follows:

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

**10 Premises, 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 Group has no premises and equipment of which ownership, use and disposal are limited by laws of Ukraine. The Group 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 Group.

The Group's premises 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 value all objects of premises and equipment.

The fair value of the Group's buildings are categorized into Level 3 of the fair value hierarchy.

Had the assets been recognized at cost less depreciation, the carrying value of the premises 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:

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

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

**11 Other financial assets**

<i>In thousands of hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
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)
<b>Total other financial assets</b>	<b>153 702</b>	<b>70 042</b>

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

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

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

<i>In thousands of hryvnias</i>	<b>Note</b>	<b>Fees and commissions to be received (Stage 2,3)</b>	<b>Non-confirmed cash (Stage 3)</b>	<b>Receivables from operations with customers and banks and other (Stage 3)</b>	<b>Total</b>
<b>Loss allowances for expected credit losses at 1 January 2019</b>		<b>1 916</b>	<b>3 404</b>	<b>356</b>	<b>5 676</b>
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)
<b>Loss allowances for expected credit losses at 31 December 2019</b>		<b>1 885</b>	<b>-</b>	<b>285</b>	<b>2 170</b>

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 (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:

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

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

	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
<i>In thousands of hryvnias</i>					
<b>Assets without estimation of expected credit losses (not overdue)</b>	-	34 298	22 719	1 024	58 041
<b>Past due but not impaired other financial assets with 12-month expected credit losses</b>					
- not yet past due	6 352	-	-	-	6 352
- less than 30 days overdue	48	-	-	-	48
- 31 to 90 days overdue	757	-	-	-	757
<b>Credit-impaired other financial assets (Stage 3)</b>					
- 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
<b>Total credit-impaired other financial assets (gross)</b>	<b>6 729</b>	<b>285</b>	<b>-</b>	<b>-</b>	<b>7 014</b>
<b>Less loss allowances for expected credit losses</b>	<b>(1 885)</b>	<b>(285)</b>	<b>-</b>	<b>-</b>	<b>(2 170)</b>
<b>Total other financial assets</b>	<b>12 001</b>	<b>34 298</b>	<b>22 719</b>	<b>1 024</b>	<b>70 042</b>

**11 Other financial assets (continued)**

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

Information on related party balances is disclosed in Note 35.

**12 Other non-financial assets**

<i>In thousands of hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
Prepayments for goods and unfinished construction	33 577	31 550
Prepaid expenses	61 145	38 386
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
<b>Total other non-financial assets</b>	<b>132 944</b>	<b>109 703</b>

**13 Due to other banks**

<i>In thousands of hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
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
<b>Total due to other banks</b>	<b>2 839 280</b>	<b>1 612 017</b>

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 Group received a refinancing loan from the National Bank of Ukraine in the amount of UAH 2 300 000 thousand. The Group 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.

**KREDOBANK GROUP****Notes to the Consolidated Financial Statements – 31 December 2020****14 Customer accounts**

<i>In thousands of hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Legal entities</b>		
- Current/settlement accounts	8 132 052	5 209 436
- Term deposits	2 439 676	2 176 827
<b>Individuals</b>		
- Current/demand accounts	3 676 230	2 324 267
- Term deposits	4 062 895	4 241 929
<b>Total customer accounts</b>	<b>18 310 853</b>	<b>13 952 459</b>

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of hryvnias</i>	<b>2020</b>		<b>2019</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
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	1 140 415	8
Financial services	1 108 982	6	1 190 227	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
<b>Total customer accounts</b>	<b>18 310 853</b>	<b>100</b>	<b>13 952 459</b>	<b>100</b>

As at 31 December 2020, the Group 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**

<i>In thousands of hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
Financial Company Pryvatni Investytsii	212 559	207 965
Entrepreneurship Development Fund	115 580	102 592
European Fund for Southeast Europe	-	174 399
<b>Total other financial institutions</b>	<b>328 139</b>	<b>484 956</b>

In October 2017, the Group 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 Group 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 Group 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 Groups' debt securities in the amount of UAH 250 000 thousand (Note 16).

In December 2019, EFSE entered into an agreement to purchase the Groups' 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).

In 2019, PKO BP S.A. made an assignment of debt of a subsidiary of FC Private Investments Group. The debt amounted to UAH 212 559 thousand at the date of the assignment. As at 31 December 2020 and 2019, the Group has pledged the following assets and equity instruments as collateral for loan of Financial Company Pryvatni Investytsii:

- Property rights for cash and deposits placed with the Bank in amount of UAH 8 912 thousand (31 December 2019: UAH 9 086 thousand);
- 100% of the Bank's rights for participant's capital belonging in subsidiary (31 December 2019: 100%);
- Property rights for all debts purchased by the Bank's subsidiary in the amount of UAH 10 268 thousand (31 December 2019: UAH 10 863 thousand).

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

<i>In thousands of hryvnias</i>	<b>2020</b>	<b>2019</b>
<b>Due to other financial institutions as at 1 January</b>	<b>484 956</b>	<b>165 851</b>
Proceeds during the year	-	116 390
Repayment during the year	(54 889)	(4 900)
Interest accrued	12 082	19 766
Interest paid	(16 214)	(19 860)
Reclassification of subsidiary's loan	-	212 559
Other changes	(97 796)	(4 850)
<b>Due to other financial institutions as at 31 December</b>	<b>328 139</b>	<b>484 956</b>

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

**16 Debt securities**

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

In July 2018 the Group 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 consolidated 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 redeemed with a total number of 2 430 units, with a total value of UAH 2 445 thousand. The Group can sell the redeemed 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 Groups' 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:

<i>In thousands of hryvnias</i>	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
<b>Total other financial liabilities</b>		<b>246 528</b>	<b>240 083</b>

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:

<i>In thousands of hryvnias</i>	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
<b>Total other non-financial liabilities</b>	<b>166 801</b>	<b>143 238</b>

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



**KREDOBANK GROUP****Notes to the Consolidated Financial Statements – 31 December 2020****19 Share capital**

<i>In thousands of hryvnias, except for number of shares</i>	<b>Number of outstanding shares</b>	<b>Nominal amount</b>	<b>Total</b>
<b>At 1 January 2019</b>	224 896 946 916	2 248 969	2 248 969
<b>At 31 December 2019</b>	224 896 946 916	2 248 969	2 248 969
<b>At 31 December 2020</b>	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 Group's shareholder structure is presented below:

<b>Shareholder</b>	<b>2020</b>	<b>2019</b>
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:

<i>In thousands of hryvnias</i>	<b>Revaluation reserve for investment securities at fair value through other comprehensive income</b>	<b>Revaluation reserve for premises</b>	<b>Total</b>
<b>Year ended 31 December 2019</b>			
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 premises and equipment	-	6 329	6 329
<b>Total other comprehensive income</b>	<b>3 607</b>	<b>6 329</b>	<b>9 936</b>
<b>Year ended 31 December 2020</b>			
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 premises and equipment		102	102
<b>Total other comprehensive income</b>	<b>3 968</b>	<b>102</b>	<b>4 070</b>

**21 Interest income and expense**

<i>In thousands of hryvnias</i>	<b>2020</b>	<b>2019</b>
<b>Interest income</b>		
Loans and advances to individuals	1 276 391	1 096 612
Loans and advances to legal entities	848 895	932 709
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
<b>Total interest income</b>	<b>2 425 605</b>	<b>2 284 649</b>
<b>Interest expense</b>		
Customer accounts of individuals	290 743	385 142
Customer accounts of legal entities	215 959	295 803
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	59 279
Other	1	2
<b>Total interest expense</b>	<b>644 221</b>	<b>815 739</b>
<b>Net interest income</b>	<b>1 781 384</b>	<b>1 468 910</b>

Interest income on impaired financial assets amounts to UAH 17 150 thousand for 2020 (2019: UAH 37 981 thousand).

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

**22 Fee and commission income and expense**

<i>In thousands of hryvnias</i>	<b>2020</b>	<b>2019</b>
<b>Fee and commission income</b>		
Cash and settlement transactions	483 143	471 741
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
<b>Total fee and commission income</b>	<b>634 962</b>	<b>615 516</b>
<b>Fee and commission expense</b>		
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
<b>Total fee and commission expense</b>	<b>161 924</b>	<b>151 129</b>
<b>Net fee and commission income</b>	<b>473 038</b>	<b>464 387</b>

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

**KREDOBANK GROUP****Notes to the Consolidated Financial Statements – 31 December 2020****23 Credit loss expense on financial assets**

<i>In thousands of hryvnias</i>	Note	2020	2019
Cash and cash equivalents	5	284	(22)
Due from other banks	6	(39)	(58)
Loans and advances to customers	7	303 790	89 341
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
<b>Credit loss expense on financial assets</b>		<b>363 453</b>	<b>65 604</b>

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 2732 thousand).

**24 Other operating income**

<i>In thousands of hryvnias</i>	2020	2019
Penalties and fine received	18 358	15 240
Support of operations from partner companies	9 866	8 962
Gain from disposal of premises 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 premises and equipment	103	429
Other	2 246	639
<b>Total other operating income</b>	<b>50 345</b>	<b>46 448</b>

**25 Administrative and other operating expenses**

<i>In thousands of hryvnias</i>	2020	2019
Wages, bonuses and other employee costs	520 454	442 490
Social contributions accrued on employee benefits	104 761	90 692
<b>Total employee payments expenses</b>	<b>625 215</b>	<b>533 182</b>
Software maintenance	106 383	95 259
Repair and maintenance of premises and equipment	60 261	62 744
Contributions to Individuals' Deposit Guarantee Fund	58 931	50 208
Utilities	49 759	47 412
Communication	42 412	35 710
Security services	25 947	33 650
Professional services	18 697	22 594
Legal services	13 420	9 664
Advertising and marketing services	12 085	28 015
Taxes other than on income	8 032	6 708
Cybersecurity systems	7 391	-
Charity	5 192	2 407
Operating lease expense for premises	4 268	18 779
Business trips	3 045	10 359
Impairment and disposal of premises	2 706	4 440
Leases modification	895	-
Other	35 318	56 931
<b>Total administrative and other operating expenses</b>	<b>454 742</b>	<b>484 880</b>

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

**26 Income tax**

**(a) Components of income tax expense**

Components of income tax expense are presented as follows:

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

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

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

<i>In thousands of hryvnias</i>	<b>2020</b>	<b>2019</b>
<b>Profit before tax</b>	<b>642 199</b>	<b>714 671</b>
The theoretical tax charge at the current tax rate (2020 - 18%, 2019 - 18%)	115 596	128 641
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(25)	(6 229)
- Income recognised for tax purposes only	-	109
- Costs related to debt forgiveness and formation of provisions not included for tax purposes	3 540	738
- Other costs not included for tax purposes	882	4 456
Unrecognized deferred tax asset of the Group's subsidiary / (Tax losses used)	164	(6 221)
Effect of accounting policies changes and other changes of temporary differences	(3 821)	(2 620)
<b>Income tax expense for the year</b>	<b>116 336</b>	<b>118 874</b>

**(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.

<i>In thousands of hryvnias</i>	<b>1 January 2020</b>	<b>Credited/ (charged) to profit or loss for the year</b>	<b>31 December 2020</b>
<b>Tax effect of deductible/(taxable) temporary differences</b>			
Premises and equipment	27 422	6 988	34 410
Commitment provision and other losses	5 138	3 456	8 594
Tax losses carried forward	5 172	164	5 336
Uncertain tax asset	(5 172)	(164)	(5 336)
<b>Net deferred tax asset</b>	<b>32 560</b>	<b>10 444</b>	<b>43 004</b>

**26 Income tax (continued)**

<i>In thousands of hryvnias</i>	1 January 2019	Credited/ (charged) to profit or loss for the year	31 December 2019
<b>Tax effect of deductible/(taxable) temporary differences</b>			
Premises and equipment	23 964	3 458	27 422
Commitment provision and other losses	6 532	(1 394)	5 138
Tax losses carried forward	11 393	(6 221)	5 172
Uncertain tax asset	(11 393)	6 221	(5 172)
<b>Net deferred tax asset</b>	<b>30 496</b>	<b>2 064</b>	<b>32 560</b>

The recognized deferred tax asset is the amount of income tax that may be credited against future income taxes and is recognized in the consolidated 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:

<i>In thousands of hryvnias</i>	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
<b>Basic and diluted profit per share attributable to shareholders of the Group (UAH per share)</b>	<b>0,0023</b>	<b>0,0026</b>

**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 group of persons who allocate resources and measure the Group's performance. The CODM functions are performed by Management Board.

**(a) Reportable segments**

The Group 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 Group'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).

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

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

	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Total
<i>In thousands of hryvnias</i>					
<b>Reportable segment assets</b>	5 929 266	7 418 691	10 427 534	1 463 688	<b>25 239 179</b>
<b>Reportable segment liabilities</b>	7 747 351	10 882 338	3 286 104	394 402	<b>22 310 195</b>
<b>Capital expenditure</b>	-	-	-	242 680	<b>242 680</b>

**KREDOBANK GROUP**
**Notes to the Consolidated Financial Statements – 31 December 2020**
**28 Segment analysis (continued)**

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

	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Eliminations	Total
<i>In thousands of hryvnias</i>						
<b>2020</b>						
<i>External revenues:</i>						
- Interest income	1 276 391	848 895	300 319	-	-	<b>2 425 605</b>
- Fee and commission income	280 859	326 346	1 475	26 282	-	<b>634 962</b>
- Other operating income	25 038	3 004	77	22 226	-	<b>50 345</b>
Gains less losses from trading in foreign currencies	10 797	-	69 095	-	-	<b>79 892</b>
Foreign exchange translation gains less losses	-	-	1 982	-	-	<b>1 982</b>
Gains less losses on derecognition of securities measured at fair value through other comprehensive income	-	-	3 774	-	-	<b>3 774</b>
<i>Revenues from other segments</i>						
- Interest income	504 581	511 038	1 412 335	-	(2 427 954)	-
<b>Total revenues</b>	<b>2 097 666</b>	<b>1 689 283</b>	<b>1 789 057</b>	<b>48 508</b>	<b>(2 427 954)</b>	<b>3 196 560</b>
Interest expense	(1 092 873)	(826 611)	(1 131 300)	(21 391)	2 427 954	<b>(644 221)</b>
Credit loss expense on financial assets	(203 206)	(101 120)	(43 286)	(15 841)	-	<b>(363 453)</b>
Provision for other cost	-	-	-	(1 348)	-	<b>(1 348)</b>
Gains less losses on derecognition of financial assets measured at amortised cost	7 122	3 049	-	2 805	-	<b>12 976</b>
Fee and commission expense	(110 334)	(12 223)	(35 687)	(3 680)	-	<b>(161 924)</b>
Personnel expenses, depreciation costs, administrative and other operating expenses	(665 820)	(601 377)	(126 587)	(2 607)	-	<b>(1 396 391)</b>
<b>Segment result</b>	<b>32 555</b>	<b>151 001</b>	<b>452 197</b>	<b>6 446</b>	<b>-</b>	<b>642 199</b>
Income tax expense for the year						(116 336)
<b>Profit for the year</b>						<b>525 863</b>

**28 Segment analysis (continued)**

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

	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Total
<i>In thousands of hryvnias</i>					
<b>Reportable segment assets</b>	5 358 176	6 380 314	6 014 548	1 394 384	<b>19 147 422</b>
<b>Reportable segment liabilities</b>	6 648 042	7 657 875	2 061 874	380 580	<b>16 748 371</b>
<b>Capital expenditure</b>	-	-	-	296 620	<b>296 620</b>

**KREDOBANK GROUP**
**Notes to the Consolidated Financial Statements – 31 December 2020**

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

	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Eliminations	Total
<i>In thousands of hryvnias</i>						
<b>2019</b>						
<i>External revenues:</i>						
- Interest income	1 096 612	932 709	255 328	-	-	<b>2 284 649</b>
- Fee and commission income	274 161	319 255	1 502	20 598	-	<b>615 516</b>
- Other operating income	18 333	4 143	-	23 972	-	<b>46 448</b>
Gains less losses from trading in foreign currencies	11 451	-	(16 012)	-	-	<b>(4 561)</b>
Foreign exchange translation gains less losses	-	-	64 286	-	-	<b>64 286</b>
Gains less losses on derecognition of securities measured at fair value through other comprehensive income	-	-	3 198	-	-	<b>3 198</b>
<i>Revenues from other segments</i>						-
- Interest income	695 975	711 249	1 508 211	-	(2 915 435)	-
<b>Total revenues</b>	<b>2 096 532</b>	<b>1 967 356</b>	<b>1 816 513</b>	<b>44 570</b>	<b>(2 915 435)</b>	<b>3 009 536</b>
Interest expense	(1 173 414)	(1 016 622)	(1 518 732)	(22 406)	2 915 435	<b>(815 739)</b>
Credit loss expense on financial assets	(108 252)	18 908	28 539	(4 799)	-	<b>(65 604)</b>
Gains less losses on derecognition of financial assets measured at amortised cost	1 517	4 067	-	364	-	<b>5 948</b>
Fee and commission expense	(108 880)	(12 114)	(30 135)	-	-	<b>(151 129)</b>
Personnel expenses, depreciation costs, administrative and other operating expenses	(669 059)	(512 465)	(87 293)	476	-	<b>(1 268 341)</b>
<b>Segment result</b>	<b>38 444</b>	<b>449 130</b>	<b>208 892</b>	<b>18 205</b>	<b>-</b>	<b>714 671</b>
Income tax expense for the year						(118 874)
<b>Profit for the year</b>						<b>595 797</b>



**28 Segment analysis (continued)****(e) Analysis of revenues by product and service**

Analysis of Group'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 Group 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 Group's assets and liabilities.

**(g) Major customers**

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

**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 Group 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 Group'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 consolidated 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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.

The Group is exposed to market risks arising from open positions of (a) currencies, (b) interest rates and (C) capital instruments, which are largely dependent on general and specific market changes. The bank's Supervisory Board and Management Board set limits on the amount of risk that can be accepted by the Bank and monitor their compliance. However, this approach does not prevent losses from occurring beyond these limits in the event of more significant market changes.

**Currency risk.** Management sets currency risk limits and overall acceptable risk exposure for overnight and intra-day positions, with periodical control performed. The Group 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 Group 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 Group's currency risk exposure as at the reporting date is presented as follows:

<i>In thousands of hryvnias</i>	At 31 December 2020				At 31 December 2019			
	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	4 507 037	71 059	(182 858)
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 Group's functional currency, with all other variables remaining constant:

<i>In thousands of hryvnias</i>	At 31 December 2020		At 31 December 2019	
	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	(14 994)	(14 994)
US dollar weakening by 10% (2019: weakening by 10%)	(1 637)	(1 637)	14 994	14 994
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 and its subsidiary's functional currency.

**29 Financial risk management (continued)**

**Interest rate risk.** The Group 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 Group's profit for a 12-month period in case of an increase or decrease in interest rates on financial instruments denominated in major currencies:

Type of financial instrument rate	At 31 December 2020		At 31 December 2019		
	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	-26 032 / +26 032	+200/-200	-53 500 / +53 500
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 Group's other comprehensive income for investment securities at FVOCI:

Rate change (b. p.)	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)
+100/-100	+100/-100	-35 203 / +34 276	+100/-100	-846 / +846
+100/-100	+100/-100	-21 397 / +21 073	+100/-100	-16 542 / +16 542
+100/-100	+100/-100	-	+100/-100	-1 263 / +1 263

**29 Financial risk management (continued)**

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

% per annum	2020				2019			
	UAH	US Dollars	EUR	Other	UAH	US Dollars	EUR	Other
<b>Assets</b>								
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%	-	-
<b>Liabilities</b>								
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 Group 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 Group is exposed to early repayment risk due to providing fixed rate loans, including mortgages, which allow a borrower to early repay its loan. The Group'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 Group's assets and liabilities as at 31 December 2020 is presented as follows:

<i>In thousands of hryvnias</i>	<b>Ukraine</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	2 217 353	1 970 774	13 357	<b>4 201 484</b>
Due from other banks	7 530	23 234	-	<b>30 764</b>
Loans and advances to customers	13 291 585	574	138	<b>13 292 297</b>
Investment securities	6 187 229	-	-	<b>6 187 229</b>
Other financial assets	153 581	105	16	<b>153 702</b>
<b>Total financial assets</b>	<b>21 857 278</b>	<b>1 994 687</b>	<b>13 511</b>	<b>23 865 476</b>
<b>Non-financial assets</b>	<b>1 360 292</b>	<b>13 411</b>	<b>-</b>	<b>1 373 703</b>
<b>Total assets</b>	<b>23 217 570</b>	<b>2 008 098</b>	<b>13 511</b>	<b>25 239 179</b>
<b>Liabilities</b>				
Due to other banks	2 744 023	95 257	-	<b>2 839 280</b>
Customer accounts	18 047 578	199 759	63 516	<b>18 310 853</b>
Due to other financial institutions	328 139	-	-	<b>328 139</b>
Debt securities	18 463	366 347	-	<b>384 810</b>
Other financial liabilities	214 874	31 654	-	<b>246 528</b>
<b>Total financial liabilities</b>	<b>21 353 077</b>	<b>693 017</b>	<b>63 516</b>	<b>22 109 610</b>
<b>Non-financial liabilities</b>	<b>200 367</b>	<b>211</b>	<b>7</b>	<b>200 585</b>
<b>Total liabilities</b>	<b>21 553 444</b>	<b>693 228</b>	<b>63 523</b>	<b>22 310 195</b>
<b>Net position</b>	<b>1 664 126</b>	<b>1 314 870</b>	<b>(50 012)</b>	<b>2 928 984</b>

Assets and liabilities have been classified based on counterparty's resident country. Cash on hand, premises, 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 Group's assets and liabilities at 31 December 2019 is presented as follow:

<i>In thousands of hryvnias</i>	<b>Ukraine</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	1 654 959	1 261 427	6 924	<b>2 923 310</b>
Due from other banks	7 438	-	-	<b>7 438</b>
Loans and advances to customers	11 693 128	784	1 034	<b>11 694 946</b>
Investment securities	3 072 580	-	-	<b>3 072 580</b>
Other financial assets	69 976	39	27	<b>70 042</b>
<b>Total financial assets</b>	<b>16 498 081</b>	<b>1 262 250</b>	<b>7 985</b>	<b>17 768 316</b>
<b>Non-financial assets</b>	<b>1 377 221</b>	<b>1 885</b>	<b>-</b>	<b>1 379 106</b>
<b>Total assets</b>	<b>17 875 302</b>	<b>1 264 135</b>	<b>7 985</b>	<b>19 147 422</b>
<b>Liabilities</b>				
Due to other banks	1 087 908	524 109	-	<b>1 612 017</b>
Customer accounts	13 796 358	121 113	34 988	<b>13 952 459</b>
Due to other financial institutions	310 557	174 399	-	<b>484 956</b>
Debt securities	18 472	260 998	-	<b>279 470</b>
Other financial liabilities	214 471	25 611	1	<b>240 083</b>
<b>Total financial liabilities</b>	<b>15 427 766</b>	<b>1 106 230</b>	<b>34 989</b>	<b>16 568 985</b>
<b>Non-financial liabilities</b>	<b>179 159</b>	<b>205</b>	<b>22</b>	<b>179 386</b>
<b>Total liabilities</b>	<b>15 606 925</b>	<b>1 106 435</b>	<b>35 011</b>	<b>16 748 371</b>
<b>Net position</b>	<b>2 268 377</b>	<b>157 700</b>	<b>(27 026)</b>	<b>2 399 051</b>



**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 Group 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 Group 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 Group seeks to maintain a stable funding base primarily consisting of amounts due to banks, corporate and retail customer deposits, and debt securities. The Group 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 Group 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 Group'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 consolidated statement of financial position, since the amounts in the consolidated 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:

<i>In thousands of hryvnias</i>	<b>Demand and less than 1 month</b>	<b>1-12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>					
Due to other banks	551 001	126 387	2 805 907	-	<b>3 483 295</b>
Customer accounts	13 703 912	4 324 995	393 741	28 043	<b>18 450 691</b>
Loans from international and other institutions	214 720	104 311	-	-	<b>319 031</b>
Debt securities	5 459	409 365	-	-	<b>414 824</b>
Financial lease liabilities	220	16 233	70 554	36 706	<b>123 713</b>
Other financial liabilities	122 816	-	-	-	<b>122 816</b>
Credit related commitments	3 905 948	-	-	-	<b>3 905 948</b>
Spot and forward contracts					
- inflows	(14 155)	-	-	-	<b>(14 155)</b>
- outflows	14 178	-	-	-	<b>14 178</b>
<b>Total potential future payments for financial obligations</b>	<b>18 504 099</b>	<b>4 981 291</b>	<b>3 270 202</b>	<b>64 749</b>	<b>26 820 341</b>

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 Group 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:

<i>In thousands of hryvnias</i>	<b>Demand and less than 1 month</b>	<b>1-12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>					
Due to other banks	1 137 027	475 831	-	-	<b>1 612 858</b>
Customer accounts	9 501 676	4 503 253	119 940	27 801	<b>14 152 670</b>
Loans from international and other institutions	214 012	97 052	245 193	-	<b>556 257</b>
Debt securities	15 025	60 323	271 759	-	<b>347 107</b>
Financial lease liabilities	4 694	78 827	100 036	18 794	<b>202 351</b>
Other financial liabilities	86 668	-	-	-	<b>86 668</b>
Credit related commitments	2 321 400	-	-	-	<b>2 321 400</b>
Spot and forward contracts					
- inflows	(71 059)	-	-	-	<b>(71 059)</b>
- outflows	70 035	-	-	-	<b>70 035</b>
<b>Total potential future payments for financial obligations</b>	<b>13 279 478</b>	<b>5 215 286</b>	<b>736 928</b>	<b>46 595</b>	<b>19 278 287</b>

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:

<i>In thousands of hryvnias</i>	<b>Demand and less than 1 month</b>	<b>1-12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
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

**KREDOBANK GROUP****Notes to the Consolidated Financial Statements – 31 December 2020**

**29 Financial risk management (continued)** The Group monitors the following contractual maturities as at 31 December 2020 and 31 December 2019:

<i>In thousands of hryvnias</i>	Demand and less than 1 month	1-12 months	From 12 months to 5 years	Over 5 years	Total
<b>At 31 December 2020</b>					
Financial assets	5 336 130	8 575 904	8 536 103	1 417 339	23 865 476
Financial liabilities	(14 558 239)	(4 737 850)	(2 752 037)	(61 484)	(22 109 610)
<b>Net liquidity gap based on expected maturities</b>	<b>(9 222 109)</b>	<b>3 838 054</b>	<b>5 784 066</b>	<b>1 355 855</b>	<b>1 755 866</b>
<b>Spot and forward contracts</b>					
- inflows	14 155	-	-	-	14 155
- outflows	(14 178)	-	-	-	(14 178)
<b>At 31 December 2019</b>					
Financial assets	4 295 930	5 901 493	6 510 456	1 060 437	17 768 316
Financial liabilities	(10 903 515)	(4 984 645)	(650 315)	(30 510)	(16 568 985)
<b>Net liquidity gap based on expected maturities</b>	<b>(6 607 585)</b>	<b>916 848</b>	<b>5 860 141</b>	<b>1 029 927</b>	<b>1 199 331</b>
<b>Spot and forward contracts</b>					
- 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 Group 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 Group would indicate that these customer accounts provide a long-term and stable source of financing for the Group.

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 Group's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Group's ability to continue as a going concern. In the opinion of management, the total amount of capital managed by the Group is equal to the amount of capital represented in the consolidated statement of financial position. The amount of capital managed by the Group as at 31 December 2020 is UAH 2 928 984 thousand (as at 31 December 2019 - UAH 2 399 051 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:

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

As at 31 December 2020 and 31 December 2019, the Group 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-pш) 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 Group 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:

<i>In thousands of hryvnias</i>	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Commitment provision at 1 January</b>	18	<b>7 998</b>	<b>21 857</b>
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)
<b>Commitment provision at 31 December</b>	18	<b>8 117</b>	<b>7 998</b>

**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 consolidated 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 Group's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessment has been made in these consolidated financial statements.

**Capital expenditure commitments.**

At 31 December 2020, the Group had contractual capital expenditure commitments in respect of premises 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 Group has already allocated the necessary resources in respect of these commitments. The Group'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 Group 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 Group on behalf of a customer authorising a third party to draw drafts on the Group 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 Group 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 Group 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.

**KREDOBANK GROUP****Notes to the Consolidated Financial Statements – 31 December 2020****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:

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

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

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:

<i>In thousands of hryvnias</i>	<b>Note</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance at 1 January 2020</b>		<b>14 781</b>	<b>72</b>	<b>278</b>	<b>15 131</b>
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
<b>Balance at 31 December 2020</b>		<b>27 381</b>	<b>297</b>	<b>1 444</b>	<b>29 122</b>

<i>In thousands of hryvnias</i>	<b>Note</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>		<b>9 695</b>	<b>19</b>	<b>1 310</b>	<b>11 024</b>
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)
<b>Balance at 31 December 2019</b>		<b>14 781</b>	<b>72</b>	<b>278</b>	<b>15 131</b>

**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 consolidated 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:

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

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:

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

**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:

<i>In thousands of hryvnias</i>	2020				2019			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
<b>Assets</b>								
<b>Due from other banks</b>	-	30 764	-	30 764	-	7 438	-	7 438
<b>Loans and advances to customers</b>	-	-	13 225 058	13 292 297	-	-	11 728 567	11 694 946
- Corporate loans	-	-	7 208 543	7 367 011	-	-	6 275 642	6 340 857
- Loans to individuals - consumer loans	-	-	1 453 863	1 346 942	-	-	1 424 756	1 314 860
- Loans to individuals – mortgage loans	-	-	1 779 719	1 782 554	-	-	1 196 368	1 197 371
- Loans to individuals - car loans	-	-	2 782 933	2 795 790	-	-	2 831 801	2 841 858
<b>Investment securities at amortized cost</b>	293 819	-	-	289 693	-	344 908	-	355 821
<b>Other financial assets</b>	-	153 702	-	153 702	-	70 042	-	70 042
<b>Total</b>	<b>293 819</b>	<b>184 466</b>	<b>13 225 058</b>	<b>13 766 456</b>	<b>-</b>	<b>422 388</b>	<b>11 728 567</b>	<b>12 128 247</b>

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

<i>In thousands of hryvnias</i>	2020				2019			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
<b>Liabilities</b>								
<b>Due to other banks</b>	-	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
<b>Customer accounts</b>	-	18 489 065	-	18 310 853	-	13 934 474	-	13 952 459
- Current/settlement accounts of legal entities	-	8 132 052	-	8 132 052	-	5 209 436	-	5 209 436
- Term deposits of legal entities	-	2 439 436	-	2 439 676	-	2 179 218	-	2 176 827
- 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
<b>Due to other financial institutions</b>	-	314 066	-	328 139	-	476 743	-	484 956
<b>Other financial liabilities</b>	-	246 528	-	246 528	-	240 083	-	240 083
<b>Debt securities</b>	-	401 667	-	384 810	-	280 999	-	279 470
<b>Total</b>	<b>-</b>	<b>22 215 560</b>	<b>-</b>	<b>22 109 610</b>	<b>-</b>	<b>16 544 575</b>	<b>-</b>	<b>16 568 985</b>

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 Group used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Group'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 Group.



**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:

<i>In thousands of hryvnias</i>	Financial instruments measured at amortised cost	Financial instruments at fair value through other comprehensive income	Finance lease receivables	Total
<b>Assets</b>				
<b>Cash and cash equivalents</b>	4 201 484	-	-	4 201 484
<b>Due from other banks</b>				-
- Guarantee deposits	30 764	-	-	30 764
- Loans to other banks	-	-	-	-
<b>Loans and advances to customers</b>				-
- Corporate loans	6 325 681	-	1 041 330	7 367 011
- 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	1 782 554	-	-	1 782 554
<b>Investment securities</b>	289 693	5 897 536	-	6 187 229
<b>Other financial assets</b>	153 702	-	-	153 702
<b>Total financial assets</b>	<b>16 912 593</b>	<b>5 897 536</b>	<b>1 055 347</b>	<b>23 865 476</b>

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

<i>In thousands of hryvnias</i>	Financial instruments measured at amortised cost	Financial instruments at fair value through other comprehensive income	Finance lease receivables	Total
<b>Assets</b>				
<b>Cash and cash equivalents</b>	2 923 310	-	-	2 923 310
<b>Due from other banks</b>				-
- Guarantee deposits	4 479	-	-	4 479
- Loans to other banks	2 959	-	-	2 959
<b>Loans and advances to customers</b>				-
- Corporate loans	5 626 017	-	714 840	6 340 857
- 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	1 197 371	-	-	1 197 371
<b>Investment securities</b>	355 821	2 716 759	-	3 072 580
<b>Other financial assets</b>	70 042	-	-	70 042
<b>Total financial assets</b>	<b>14 327 518</b>	<b>2 716 759</b>	<b>724 039</b>	<b>17 768 316</b>

As at 31 December 2020 and 31 December 2019, all of the Group'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.

<i>In thousands of hryvnias</i>	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 (+)	<b>70 035</b>	-
<b>Total</b>	<b>1 024</b>	-

As at 31 December 2020 the Group 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:

<i>In thousands of hryvnias</i>	Parent company	Entities under common control	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	25 380
Due to other financial institutions (contractual interest rate: 0%)	-	212 559	-
Other liabilities	67	505	12 060

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

<i>In thousands of hryvnias</i>	Parent company	Entities under common control	Key management personnel
Interest income	-	-	94
Interest expense	(10 512)	(3 485)	(2 397)
Other income	-	-	1
Loss allowances for expected credit losses	-	-	(10)
Fee and commission income	1	147	137
Fee and commission expense	(598)	-	(2)
Other expenses	(877)	(1 186)	-

**KREDOBANK GROUP****Notes to the Consolidated Financial Statements – 31 December 2020****35 Related party transactions (continued)**

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

<i>In thousands of hryvnias</i>	<b>Parent company</b>	<b>Entities under common control</b>	<b>Key management personnel</b>
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:

<i>In thousands of hryvnias</i>	<b>Parent company</b>	<b>Entities under common control</b>	<b>Key management personnel</b>
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:

<i>In thousands of hryvnias</i>	<b>Parent company</b>	<b>Entities under common control</b>	<b>Key management personnel</b>
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	16 138
Due to other financial institutions (contractual interest rate: 5,51%)	-	207 965	-
Other liabilities	3 762	1	22 060

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

<i>In thousands of hryvnias</i>	<b>Parent company</b>	<b>Entities under common control</b>	<b>Key management personnel</b>
Interest income	-	-	68
Interest expense	(9 744)	(9 198)	(815)
Other income	-	29	8
Loss allowances for expected credit losses	-	-	(1)
Fee and commission income	-	133	149
Fee and commission expense	(2 938)	-	1
Other expenses	(557)	(1 527)	-

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

<i>In thousands of hryvnias</i>	<b>Parent company</b>	<b>Entities under common control</b>	<b>Key management personnel</b>
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:

<i>In thousands of hryvnias</i>	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:

<i>In thousands of hryvnias</i>	2020		2019	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	36 101	1 290	26 220	2 176
- Annual bonus	45	-	11 794	19 800
- Termination bonus	10	-	-	-
Social insurance contributions	1 714	115	1 293	80
<i>Other long-term employee benefits:</i>				
- Annual bonus	-	10 651	-	-
<b>Total</b>	<b>37 870</b>	<b>12 056</b>	<b>39 307</b>	<b>22 056</b>

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.

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 Consolidated Financial Statements

#### Opinion

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

In our opinion, the accompanying consolidated financial statements, presents fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2020, and its consolidated financial performance and its consolidated 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 consolidated 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 Charged 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.

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

Partner  
Registered Auditor #100594

Kyiv, Ukraine  
April 6, 2021



Vitaliy Havrysh.