



**PRIVATBANK GROUP**  
**ANNUAL REPORT**  
**31 December 2020**

Translation from Ukrainian original

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## **I. MANAGEMENT REPORT**

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## Management report of Group "PrivatBank"

### *The nature of the business*

JSC CB "PrivatBank" and its subsidiaries and associates (collectively, the Group) is an universal bank with a focus on the retail segment and selective presence in the corporate segment.

The Bank carries out its activities in accordance with the license of the National Bank of Ukraine (NBU) since March 1992. As at 31 December 2020, the Group has 26 departments and 1 690 operating branches in Ukraine and the Cyprus branch.

### *External environment*

The most significant event of 2020 was the COVID-19 pandemic, which led to a sharp global recession. In general, the banking sector of Ukraine proved to be resistant to the corona crisis. Banks provided uninterrupted services, supported customers by lending. The crisis had a moderate negative impact on the operating activities of the banking sector. Since the unfolding of the crisis, most banks have quickly shifted to working online. Despite the temporary reduction in the number of operating branches, the availability of banking services has not decreased.

In June 2020, the international rating agency Moody's Investors Service raised the rating of the long-term issuer and Government of Ukraine priority unsecured liabilities from "Caa1" to the level of "B3" with a stable outlook. The decision to upgrade the ratings was made as Ukraine signed a new program with the International Monetary Fund and reduced short-term funding challenges.

In 2020, the international rating agency Fitch Ratings reaffirmed Ukraine's long-term issuer default rating (IDR) at "B" and downgraded its outlook from "positive" to "stable". The revision of Ukraine's Outlook to Stable reflects the significant impact of the COVID-19 pandemic on Ukraine's growth and fiscal accounts. The heightened macroeconomic and fiscal risks associated with this unprecedented global shock will partially reverse Ukraine's improvements in recent years in terms of a declining debt burden, the normalisation of growth prospects after the 2014-2015 geopolitical and economic crises, and reduced growth volatility.

At the same time, Ukraine's real GDP declined sharply, with consumer inflation accelerating to 3.8% yoy at the end of the year, approaching the lower end of the target range ( $5\% \pm 1$  pp). The official exchange rate of the hryvnia to the US dollar of the National Bank of Ukraine decreased by 19.5% from 23.6862 hryvnias to the US dollar on January 1, 2020 to 28.2746 hryvnias to the US dollar on January 1, 2021.

The Board of the National Bank of Ukraine decided to reduce the discount rate from 13.5%, set from December 13, 2019, to 11% from January 31, 2020, to 10% from March 13, 2020, to 8% from April 24, 2020 and to 6% from June 12, 2020, respectively. In December, the National Bank remain the discount rate at the previous level. A key argument in favor of this decision was the increase in inflationary pressures together with high uncertainty about quarantine and the continued impact of the pandemic on consumer demand and business activity. Maintaining the discount rate has not changed the stimulus nature of monetary policy, which is important for economic recovery, and will ensure moderate inflation.

The Ukrainian banking sector remains highly profitable due to the stability of operating profits and the absence of significant credit losses. The corona crisis has worsened the financial position of banks, but less significantly than expected in the spring of 2020. The number of unprofitable banks has not increased. Net commission income only temporarily declined at the peak of the crisis, but recovered sharply in the following months. Net interest income increased due to the maintenance of a high interest rate spread - during the year, interest rates on assets and liabilities decreased in parallel. At the same time, decrease the interest rate spread in the medium term is inevitable. This is a key risk for banks' profitability in the coming years.

The main macroeconomic risks in 2021 are the sharp deterioration of the epidemiological situation (and as response - the strengthening of quarantine measures), a significant weakening of external demand for Ukrainian exports, as well as imbalances in public finances and Ukraine's inability to obtain external financing. If the situation with the level of morbidity does not worsen and no more severe restrictions are introduced, starting from the second quarter until the end of 2021, the economy will reach a positive dynamics.

The legal risks have increased due to cancellation of some anti-corruption reforms agreed with IMF. Direct geopolitical risks have changed insignificantly.

Management monitors the state of development of the current situation with the spread of coronavirus and quarantine and takes measures, if necessary, to minimize any negative consequences as much as possible. Further negative developments and macroeconomic conditions may have a negative impact on the Bank's financial position and performance such that they cannot yet be determined.

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*Management and organizational structure***Structure of corporate governance**

To ensure a balance between management and control the Group implements a transparent and clear corporate governance structure of the Group.

The Group's governing bodies are:

- Shareholder or Supreme governance Body

The Group protects the rights and legitimate interests of the shareholder;

- The Group's Supervisory Board

The Supervisory Board provides strategic management of the Group's activities, control over the activities of the Group's Management Board and protection of the shareholder's rights. Effective management involves the reporting system of the Supervisory Board to the Supreme governance Body;

- The Board of the Group

The Board manages the day-to-day operations of the Group and reports to the Supervisory Board and the Supreme governance Body.

Shareholder (Supreme governance Body)

The only shareholder of the Group, which holds 100% of the Group's shares, is the State represented by the Cabinet of Ministers of Ukraine (location: 01008 Kyiv, Hrushevskoho street, 12/2).

On 21 December 2016, the State, represented by the Ministry of Finance of Ukraine, acquired the ownership of 100% of the Group's shares in accordance with Article 41.1 of the Law of Ukraine "On the System of Guaranteeing Deposits of Physical Persons" and pursuant to the Resolution of the Cabinet of Ministers of Ukraine "Certain Issues on Ensuring the Stability of the Financial System", dated December 18, 2016, No. 961." From April 30, 2019, the owner of the Group is the State represented by the Cabinet of Ministers.

The state exercises its rights as the owner of the Group, and the Group's governing bodies act in accordance with the best world practices of corporate governance, in particular, the Principles of the Organization for Economic Development and Cooperation on Corporate Governance for State-Owned Enterprises (OECD Guidelines on Corporate Governance of State-Owned Enterprises), corporate governance principles for banks by the Basel Committee on Banking Supervision, the Guidelines on Internal Governance by the European Banking Authority, which apply to the extent that does not contradict the imperative norms of the current legislation of Ukraine.

During 2019, the Group did not have any operations to buy / sell shares of the Group.

All operations with the Shareholder are carried out under arm's length terms. Group's decisions about operations with a Shareholder are based on their economic expediency.

The Group promotes the implementation and protects the rights and legitimate interests of the shareholder, stipulated by the Charter, the Regulations on the General Meeting and the current legislation of Ukraine.

The Supreme governance Body manages the corporate rights of the State.

The Supreme governance Body does not participate in the day-to-day management of the Group.

The Supreme governance Body determines the main (strategic) directions of the Group's activity and approves reports on their implementation.

The rights, duties and responsibilities of the Supreme governance Body are determined by the current legislation of Ukraine and the Bank's Charter.

The Supreme governance Body have the right to receive any information on the financial and economic activity of the Group necessary for the exercise of its powers, taking into account the provisions of the Law of Ukraine "On Banks and Banking" regarding banking secrecy.

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The decision-making powers that fall within the exclusive competence of the Supreme governance Body cannot be delegated to other governing bodies of the Group.

#### The Supervisory Board

The Group's Supervisory Board is a collegial governing body of the Group, which, within its competence, ensures the strategic management of the Group, as well as monitors and regulates the activities of the Management Board in order to implement the Group's Development Strategy. The Group's Supervisory Board, acting in the interests of the Group in accordance with the Law of Ukraine "On Banks and Banking", protects the rights of depositors, creditors and the state as a shareholder.

The competence, structure, procedure, rights, responsibilities and responsibilities of the Supervisory Board are determined by the current legislation of Ukraine, the Charter and the Regulations on the Supervisory Board of the Group.

The Chairman of the Group's Supervisory Board heads and organizes the work of the Supervisory Board and is responsible for its effective work. The Chairman of the Supervisory Board ensures a clear division of responsibilities between the members of the Supervisory Board and efficient exchange of information between them.

Members of the Supervisory Board perform their duties in good faith, honestly and solely in the interests of the Group, undertake not to disclose banking secrecy, confidential information that they have become aware in the performance of the functions as a member of the Supervisory Board, and do not use it to their advantage or in the interests of third parties.

For the purpose of effective overall management and control of the Group's financial and business activities, as well as the proper performance by the Supervisory Board of its responsibilities, the members of the Supervisory Board shall have appropriate professional qualifications, qualifications, education, experience and business reputation. Additional requirements for members of the Supervisory Board shall be established by the current legislation of Ukraine.

Verification of the professional and qualification compliance of the members of the Supervisory Board, compliance with the requirements of Ukrainian legislation and bank legal requirements regarding business reputation and professional suitability is carried out in each case, when it is necessary, in accordance with the requirements of the legislation of Ukraine.

The main functions of the Supervisory Board include:

- approval of the Group's strategy, main action plans, risk management strategies and policies, approval of the annual budget, business plans of the Group and control over their implementation;
- ensuring a transparent procedure for nomination and election of members of the Management Board, approval of the terms of contracts concluded with the Chairman and members of the Management Board, determination of the amount of their remuneration, define the forms of control over the activity of the Management Board;
- control over the financial and economic activity of the Group;
- determination of the procedure and plans of the internal audit and control over its activity;
- control over the effectiveness of the Group's management;
- control over the prevention, detection and resolution of conflicts of interest in the Group and facilitating their settlement;
- other functions defined by the current legislation of Ukraine, the Statute and the Regulations on the Supervisory Board of the Group.

The Supervisory Board monitors the activities of the Management Board, the divisions that are directly subordinate to the Supervisory Board, and ensures the protection of the shareholder's rights.

The procedure for convening and holding meetings of the Supervisory Board is determined by the Group's Charter and the Regulations on the Supervisory Board.

The Supervisory Board annually evaluates the effectiveness of its own activities as a whole, its committees and each member of the Supervisory Board. The results of the evaluation of the activities of the Supervisory Board, its members and the committees of the Supervisory Board, that has carried out by the Supervisory Board or with the involvement of independent experts, are presented by the Chairman of the Supervisory Board at a meeting of the Supervisory Board for discussion and approval. The results of the evaluation are presented in the form of an evaluation report on the activities of the Supervisory Board and a plan of measures to improve the activities of the Supervisory Board.

The Supervisory Board is responsible for:

- security and financial sustainability of the Group;
  - compliance of the Group's activities with the laws, standards of professional associations, the effect of which extends to the Group;
  - implementation of the Group's development strategy in accordance with the main activities defined by the Supreme governance Body and the Group's business development plan;
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- ensuring effective organization of corporate governance;
- functioning and control of the effectiveness of the internal control system, risk management system and compliance of the Group;
- appointment of the Chairman and members of the Management Board, as well as the heads of the Risk Management, Compliance and Internal Audit divisions.

The Supervisory Board consists of nine members, of which six are independent and three are State representatives.

At the end of the year, the Supervisory Board reports to the Supreme governance Body on its activities.

#### Committees of the Supervisory Board

The Supervisory Board may set up temporary and permanent Steering Committee committees that assist the Supervisory Board in the exercise of its powers through prior examination and consideration of the most important issues that fall within the competence of the Supervisory Board.

The standing committees of the Supervisory Board are:

- Audit Committee;
- Risk Committee;
- Committee on Corporate Governance, Remuneration and Appointments;
- Committee on Technology, Data and Innovation;
- Strategy and Transformation Committee.

The procedure for the formation and activities of the Supervisory Board committees, the requirements for their members, and the list of issues to be considered by the Supervisory Board committees defined by the Group's Charter, the Regulations on the Supervisory Board, and the Regulations on the relevant committees of the Group's Supervisory Board.

#### The Management Board

The Management Board is the executive body of the Group, which organizes and manages the Group's current activities in accordance with the current legislation of Ukraine, the Group's Charter and other internal documents of the Group. The Management Board shall be accountable to the Supreme governance Body and the Supervisory Board and shall ensure the implementation of their resolutions.

The Management Board is responsible to all matters in connection with the management of current operations of the Group, except for matters referred to the exclusive competence of the Supreme governance Body and the Supervisory Board. The Management Board acts on behalf of the Group within the law, the Group's Charter and the Regulations on the Management Board.

The Chairman of the Management Board manages the Group's Management Board and manages its work in accordance with the powers determined by the current legislation of Ukraine, the Group's Charter, the Regulations on the Management Board of the Group.

In order to increase the efficiency of the Board's work, the permanent collegial bodies (committees) are formed within the Group, the activities of which are regulated by the Group's internal regulations.

The Board ensures that the internal control units are independent by not interfering with their work processes.

The Management Board, in the manner and within the terms set by the Supervisory Board, shall submit to it a report on its activities.

The Chairman and members of the Management Board are responsible for the Group's activities within its authority.

Verification of the professional and qualification compliance of the members of the Management Board, compliance with the requirements of Ukrainian legislation and bank legal requirements regarding business reputation and professional suitability is carried out in each case, when it is necessary, in accordance with the requirements of the legislation of Ukraine.

In order to ensure the efficient operation of the Board, the following committees are established:

- Budget Committee,
  - Compliance and Financial Security Committee,
  - Assets and Liabilities Management Committee,
  - Change Management Committee,
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- BadBank Portfolio Management Committee,
  - Operational Risk and Information Security Committee,
  - Credit Committee,
  - Marketing and PR Committee,
  - Project Committee,
  - Products and Tariffs Committee,
  - Tender Committee,
  - Technology Committee.
  - Committee on Management of Non-performing Assets.

The Board may establish other committees based on the size of the assets, the features of the Group's activities, the nature and extent of banking and other financial services, the Group's risk profile, the systemic importance of the Group, and the activities of the Banking Group that includes the Bank.

The competence, structure, procedure, rights, duties and responsibilities of committees are determined by the Regulations on the relevant committee, which are approved by the Group's Management Board.

During 2020, the Supervisory Board approved a number of changes to the organizational structure of the Group, according to which the Management Board consists of seven positions, namely:

- Chairman of the Board,
- Deputy Chairman of the Board (Finance),
- Deputy Chairman of the Board (Bad Assets Management),
- Deputy Chairman of the Board (Operations),
- Deputy Chairman of the Board (Business development),
- Member of the Board (Risk management),
- Member of the Board (Network issues and problem debts).

This Board structure will ensure the optimal composition of the executive body necessary for the management of the Group and the successful implementation of its strategy.

#### Corporate secretary

The Corporate Secretary shall ensure the functioning of the Supervisory Board, together with the Corporate Secretary's office, as well as the Group's structural unit, which may be established to provide technical support to the Supervisory Board's activities, its individual members and the Corporate Secretary.

The Corporate Secretary is an official of the Group and may not be a member of any governing body of the Group. The Corporate Secretary reports to the Supervisory Board at least once a quarter about his work.

The legal status, procedure for election and activities of the Corporate Secretary are determined by the Group's Charter, the Group's Supervisory Board Regulation and the Corporate Secretary Regulation. The Corporate Secretary provides informational and organizational support to the activities of the Supervisory Board, as well as the exchange of information between the Supervisory Board and other management and control bodies of the Group and its Supreme governance Body.

#### Audit

The Group has a permanent internal audit department, which carries out an independent assessment of the effectiveness of the first and second lines of defense and an overall assessment of the effectiveness of the Group's internal control system.

The Internal Audit Division submits to the Supervisory Board of the Group and reports to it. The Supervisory Board monitors and verifies the effectiveness of the Internal Audit Service at the Group.

The Internal Audit Department performs the following functions:

- inspects and evaluates the processes that ensure the activities of the Group, including those that carry potential risk and the implementation of which is ensured by involving legal entities and individuals on a contractual basis (outsourcing);
  - checks the availability, evaluates the effectiveness and adequacy of risk management, internal control systems, Group management processes, compliance of these systems and processes with the types and volumes of operations performed by the Group, including prevention of the using banking system for money laundering / terrorist financing;
  - checks the process of capital adequacy, liquidity assessing, safety of assets, taking into account the risks of the Group;
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- checks the correctness and accuracy of accounting, information, financial and other reporting prepared by the Group, their completeness and timeliness, including reporting to the National Bank, public authorities and other bodies, which within their competence supervise the activities of the Group;
- carries out an independent assessment of the internal control system implemented by the Group's management;
- independently assesses the reliability, efficiency and integrity of information systems and processes of the Group;
- checks the financial and economic activities of the Group;
- assesses the effectiveness and adequacy of the Group's recovery plan;
- evaluates the activities of risk management and compliance risk units, committees established by the Group and the quality of risk reports provided to the Supervisory Board and Management Board of the Group;
- detects and checks cases of abuse of power by Group officials, as well as conflicts of interest in the Group;
- other functions provided by the legislation of Ukraine.

The Internal Audit Division, based on the results of the inspections, prepares and submits to the Supervisory Board the reports and proposals for the elimination of the revealed violations.

To verify and confirm the authenticity of annual financial statements, consolidated financial statements and other information on financial and economic activities, the Group annually engages an independent auditing company that is not linked to property interests with the Group or its shareholders, which has a corresponding license and is included in the Register of Audit Firms, which are conducted in accordance with the Law of Ukraine "On Audit", in the part of auditors who are entitled to carry out statutory audits of companies of public interest.

#### Changes in organizational structure

In 2020, the improvement of the organizational structure of the Group was continued in accordance with the approved Development Strategy and transformation of the Group. The organizational structure of some divisions has been changed (Financial Monitoring Direction, Marketing Direction, etc.).

#### Business model

The Group provides universal service to a wide range of clients, being the leader of the Ukrainian market in the retail segment, actively promoting services for small and medium-size businesses and selectively working in the corporate sector. The base of the Group's resource is the funds of individuals in the national currency, with a significant share of current accounts. The strategic goal of the Group is to build a high-quality loan portfolio of retail loans and SME loans. The Group has a high-powered Transactional Platform Privat24, which allows to manage customer accounts for all segments effectively and generates the high level of commission income. Along with online services, the Group has a wide network of branches, ATMs and self-service terminals that allow to serve clients throughout the country (excluding temporarily occupied territories).

#### **Goals of management and strategies for their achievement**

Improving the quality of customer service processes, with mandatory compliance with legal requirements, development of lending while maintaining a high quality loan portfolio, improvement and development of banking products / services, optimization of infrastructure have been and remain priority areas in the Group's activities.

Recognition of the results and efficiency of the Group's activities is confirmed in various nominations. Thus, in 2020 the Group entered the top ten banks in Central and Eastern Europe according to one of the most reputable economic publications - British Euromoney, receiving the nomination "CEE's best bank transformation". At the same time, PrivatBank became the first Ukrainian bank to be included in the rating of the best banks in the region in the history of "Euromoney's Awards for Excellence" and one of the few local banks to be included in the regional rating together with leading European and American banking groups.

On December 10, 2020, the international rating agency Moody's upgraded the Group's long-term foreign currency deposit rating to B3 from Caa1. The Group's rating was upgraded as part of a rating action on 18 banks in the CIS region due to changes in the "ceiling" applied to the jurisdictions of these banks due to the publication on December 7, 2020 of the updated Moody's Country Ceilings Methodology. The ceiling reflects the highest level of rating that can generally be assigned to the financially strongest liabilities of issuers located in this country. PrivatBank's rating on long-term foreign currency deposits now corresponds to Ukraine's rating (current B3 is stable).

On October 21, 2020, the international rating agency Fitch Ratings reaffirmed the Group's rating at "stable".

The Group pays considerable attention to research and development, stimulating the development of innovation in the organization. The Group's efforts in this area are aimed at developing new products and increasing the availability of services for customers. As a result, the Group was recognized as the best Ukrainian digital bank in 2020 in the ranking of World's Best Digital Banks, conducted by the American magazine Global Finance. The ranking includes the most innovative banks in Europe, America, Africa and the Asia-Pacific region. The ranking was based on criteria such as the effectiveness of the strategy of

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attracting and serving digital customers, the growth of users of digital services, as well as the design and functionality of mobile applications and websites of banks.

The Group does not stop in the development of its innovations. In 2020, the Group launched the first biometric payment POS-terminals in Ukraine with FacePay24 technology, together with SM POS and UKey began implementing software RRO for business (a comprehensive solution in one device that combines a modern mobile POS-terminal with payment functions, cash register and goods accounting system), introduced the possibility of payments in chatbots of the popular messenger Viber, using Internet acquiring LiqPay, was the first in Ukraine to open a payment card of the international system UnionPay International, and in October launched the first online subscription and management of utility providers.

The Group also continues to develop its network of ATMs and terminals, updating the devices themselves, their software and adding new service features..

### **Ecological and social aspects of activity**

First of all, the Group's social position is its status as an employer in the Ukrainian labor market. The Group provides its employees with competitive employment conditions, provides a full social package and additional benefits in the form of preferential lending for mortgage and cars, providing advice on legal issues, ensuring the safety of employees and their family members.

Also, the Group, as a socially responsible institution, support clients with disabilities, adapting branches for their services, and promotes their employment - the share of employed people with disabilities is about 4% of the total number of Group's employees.

In addition, the Group aims to increase the financial literacy of its clients. The Group implemented educational programs for schoolchildren (Junior Bank), Top Managers of the Group conduct business seminars for entrepreneurs and share their experience, educational videos with financial consumer advice are transmitted on the plasma screens in the branches.

The charity activity of the Group includes a number of programs. In particular, within the target program of the fund "Breathe! Together Against Coronavirus ", which was launched in March 2020, the Group provided hospitals with special equipment - expert-class ventilators, oxygen concentrators, X-ray equipment, pulse oximeters, bedside patient monitoring and so on. At the end of the year Bank's Charitable Foundation "It's easy to help!" and Mastercard held an annual "Ordinary Miracle" campaign to congratulate seriously ill children who will be in hospitals during the holiday on New Year's Eve. The Group also continues to operate permanent programs "For the life", the charity fund "To Help is Simple", one of the largest charitable foundations in Ukraine, providing assistance to the army and the wounded in the anti-terrorist operation, targeted assistance to seriously ill children. The Group's service channels (cash desk, ATM or Internet bank Privat24) have links that allow anyone to make a charitable contribution for any amount.

The Group implements a number of programs in the sphere of environmental protection, the first among which is paper-less customer service. The "green" cash program, which was launched by PrivatBank at the end of May 2020, saved 10.5 hectares of forest in six months. The new environmental project of the Group allows to reduce the use of paper by reducing the printing of unnecessary checks in POS-terminals. The Group also has an ecological collection technology, which provides 99.05% of documents signed in electronic form.

### **Resources, risks and relationships**

#### *Resources*

The keys in the Group's activity are financial, labor and technological resources.

The sources of financial resources for the Group are:

A) Capital, consisting of share capital and reserve funds. Taking into account the losses incurred in past years due to the former beneficial owners transactions, the Group has accumulated deficit, which is covered by contributions to the share capital during the year 2017.

B) Clients' funds, of which at the end of 2020, about 50% were current highly diversified accounts, mainly individuals accounts. Due to the low concentration of the client base, the Group has stable current liabilities, which provide low cost of attracted resources compared with competitors.

B) Funds of the interbank market and refinancing of the NBU. Group does not rely on this type of resources in its liquidity management policy, using them only in exceptional cases and in limited quantities.

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The Group's management policy is aimed to efficient management of all types of resources, improvement of Group financial performance and increase the value of its assets. Consequently, an important element of corporate governance is the regular development, review and approval of the Strategy, as well as the identification of the priorities of each business activities and the Group as a whole.

As part of the management system, the Group uses budget management and planning as well as a system for monitoring the implementation of plans and evaluating the Group's performance.

The Group's internal normative documents establish qualitative and quantitative indicators of activity in business areas, which allow assessing the activities of various divisions of the Group.

The most valuable resource of the Group is its staff, the Group's successful work, further development and implementation of the Strategy depend on staff. As of January 1, 2021 the Group employs more than 22 thousand employees, with a monthly recruitment of over 400 candidates. Group has been recognized as the best employer of Ukraine among young people and students for 6 years running.

The Code of Conduct (Ethics) has been approved by the Group for the purpose of a corporate culture establishing, defining the ethics of team relations, respecting employees to clients, to each other to management and business. In accordance with the Code of Conduct (Ethics) in the sphere of human resources management and respect to human rights, the Group:

- ▢ Values its employees, creates conditions under which everyone can fully realize their professional potential.
- ▢ Involves in its team and promotes the best employees on actively and consistently basis, regardless of age, gender, religion, beliefs or nationality, and rewards them for success in their work.
- ▢ Respect human dignity and identity and believe in the importance of an atmosphere of trust and cooperation.
- ▢ Creates conditions for open and timely communication, healthy working microclimate, observance of safety, provides an opportunity for individual growth and self-affirmation of employees.
- ▢ Interested in the proper observance of labor laws.

Recognizing that investing in skilled staff is the basis of long-term success, the Group cares about raising the skills of employees, their motivation, and social security. The Group increases the professional level of employees. The Group pays constant attention to the improvement and strengthening of the corporate culture, workers health care and the safety of their working conditions. In 2020, a new voluntary health insurance program for employees and their families was implemented and launched.

At the same time, the Group's key resources are technological resources. In this area, on the one hand, the Group develops customer service through the automation of a significant part of business processes, builds a comprehensive system of sellers training, develops technologies for business supports; on the other hand, develops its organizational structure, which will allow to implement the changes and manage the Group more efficiently. In addition, the Group supports the stability of its IT system, develops its target architecture, implements projects to develop and support critical systems. Privat24, IT systems and processing, development of non-cash and contactless payments, biometrics, improvement of the network and approaches to customer service, improving the quality of services - all these are the main directions of development of technological resources of the Group.

### **Organization of risk management and internal control**

The risk management function within the Group is carried out in respect of financial risks as well as non-financial risks (operational, legal, compliance risks and reputation risks). Financial risks comprise market risk (including currency risk), credit risk, interest rate risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits and monitor them to avoid exceedance

For the purposes of efficient risk management, the Group has developed and operates the risk management system, that anticipates the segregation of rights, duties and responsibilities among governance bodies and structural units of the Group, the separation of the processes of identifying and assessing risks and assessing the efficiency of risk management system from the process of risk acceptance.

The bodies of risk management system in the Group include:

- Supervisory Board;
  - Audit Committee of the Supervisory Board;
  - Risk Committee of the Supervisory Board;
  - Management Board;
  - Credit Committee;
  - Asset and Liability Management Committee;
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- Internal Audit;
- Risk Management Function;
- Chief Compliance Manager and Compliance Department;
- Treasury Department;
- Asset, Liability and Investment Analysis Department;
- Other support divisions (Back and Middle Office);
- Business divisions that directly accept risks.

In 2020, the Management of Non-performing Assets Committee was established.

The Group's significant risks and management approaches (Mitigation and Potential opportunities Plan) are as follows.

*Credit risk.* The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by defaulting on a contracted liability. Credit risk arises as a result of the Group's lending and other transactions with counterparties generating financial assets.

The Group's credit policy defines the general principles for implementing the credit process and credit risk management, establishes a general approach to the acceptance of credit risks, principles and standards of credit activity, defines the authorities and responsibilities of the Group governance bodies, employees and structural subdivisions at each stage of the credit process, provides for the comprehensive approach to credit risk management.

Credit risk management is carried out on the basis of the regular analysis of the capacity of borrowers and potential borrowers to fulfill their obligations on repaying loan principal and paying interest, the regular analysis of loan portfolio qualify in order to monitor the rate of credit risk by changing lending limits as necessary, by obtaining collateral, making its examination and appraisal at established frequency, and by applying other instruments of credit risk mitigation.

Main information on credit risk rate is systematically updated and provided for analysis in the form of loan portfolio status reports.

The Credit Committee approves the classification of credit transactions by risk groups, reviews, corrects and approves the credit risk assessment in line with regulatory requirements and the estimated amount of loan losses in compliance with IFRS (loans and advances to clients, loan commitments and other financial assets).

To limit the risks to which the Group is exposed as a result of its lending transactions, the Group has the system of decision-making authority for lending transactions.

The Group IT systems allow the management to monitor loan portfolio behaviour real time. The Group regularly monitors the risk of each loan. To do this, it performs: (i) review of the borrower's financial condition, (ii) assessment of the adequacy of the loan collateral. The borrower's financial condition are regularly reviewed, and the borrower's internal credit rating may be revised based on the results of such analysis. This analysis is based on data on the receipt of funds on the client's account, the latest financial statements and other commercial information of the borrower, which he provided to the Group or which the Group otherwise received.

The Group performs regular monitoring of market value of the collateral to assess its sufficiency for loan coverage. Assessment of collateral is performed by independent appraisers, certified by the Group or qualified as internal appraisers. Regularity of these assessments depends on type of collateral.

The Group maintains client credit history records. This allows the Group to control the credit risk rate by targeting borrowers, who have a good credit history.

For the purpose of efficient management of non-performing assets, the Group performs the following: prevention and timely detection of non-performing loans, efficient handling of potentially non-performing debts; reduction of the value and share of non-performing debts in the Group portfolio by developing and implementing measures for the recovery of such debts, in particular, restructuring, pre-trial settlement, enforcement on collateral including its forecasted sale, etc.; establishment of the comprehensive and efficient system of non-performing loans management.

The Group has implemented a segregation of duties as to recovery of non-performing loans at different stages of their identification and settlement depending on the type and amount of an NPL, availability and condition of collateral, capacity and/or intention of a borrower to repay the loan and accrued interest.

The Group conducts its business with related parties on commercial terms. Each loan request from a related party is subject to the same credit approval procedures that apply to any loan application from a nonrelated party.

*Market risk.* Market risk is a probability of occurrence of losses or additional expenses or a shortfall in the planned income as a result of unfavourable movements in foreign exchange rates, interest rates, cost of financial instruments (market quotes, indexes,

etc.). The strategic objective of the Group risk management policy is to minimize and prevent possible losses that can arise in case the market conditions change.

*Currency risk.* Currency risk is the risk that the value of financial instruments owned by the Group will fluctuate due to changes in foreign exchange rates. The Group's major currency positions are in Ukrainian hryvnia, U.S. dollars and Euros. The Group's policy in respect of open currency positions is restricted under Ukrainian law to regulatory limits.

*Interest rate risk.* Interest rate risk in the banking book is a probability of occurrence of losses or additional expenses, or a shortfall in the planned income due to the effect of unfavourable changes in the interest rates. Interest rate risk affects the economic value of the Group capital and net interest income of the Group.

The strategic objective of the Group's interest rate management policy is to minimize and prevent possible losses that can arise in case the market conditions change. The Group faces the risk of financial losses due to movement of interest rates on assets and liabilities, mainly as a result of granting fixed interest rate loans for the terms and in amounts different from the terms and amounts of liabilities with fixed interest rate.

The Group conducts interest rate stress testing to determine the conditions under which the Group is exposed to the risk of loss, as well as to determine the extent of these losses and the impact on the Group's interest income. Stress testing is performed by analyzing the sensitivity of net interest income to changes in interest rates, based on the assumption that rates increase or decrease by a certain number of percentage points.

*Liquidity risk.* Liquidity risk is a probability of losses or additional expenses, or a shortfall in the planned revenues as a result of the Group's inability to finance the growth of its assets and/or fulfil its obligations in due time.

Strategic tasks of the Group policy in area of liquidity risk management are: liquidity indicators keeping at level higher the regulatory level, minimization of liquidity risk by keeping of sufficient amount of high quality liquid assets as possible source of pledge for case of stressing situations implementation, limits of borrowed funds concentration by formation of diversifying resources base, etc.

The Group strives to support stable form of financing, develop sources of funds, in first turn, funds of individuals and legal entities.

Liquidity risk control is implemented through the compliance with regulatory ratios of short-term liquidity and LCR ratio, as well as limits and liquidity GAPs indicators requirements, required level of high quality liquid assets and funding concentrations by sources.

Contingency Funding Plan was developed to manage liquidity in crisis periods. It contains a list of possible reasons leading to crisis, indicators of crisis and list of measures on crisis events localization and liquidation. The Plan establishes responsible bodies for certain measures and procedure of their interaction. The Group also performs stress-testing by liquidity scenarios that include possible unfavourable conditions.

The distribution of functions between the management bodies of the Group provides an effective system of management and internal control.

The main areas of internal control within the Group include:

- control over the achievement of the Group's objectives;
- control over ensuring the efficiency of the Group's financial and economic activities in conducting banking and other operations;
- control over the effectiveness of asset and liability management;
- control over the preservation of the Group's assets;
- monitoring the effectiveness of the risk management system;
- control over compliance with the requirements of legislation, regulatory acts of the National Bank, internal documents of the Group;
- control over the accuracy, completeness, objectivity and timeliness of accounting, preparation and disclosure of financial and other reports for external and internal users;
- managing information flows, including receiving and providing information, ensuring the operation of the information security management system.

Three-lines internal control system of the Group is based on the segregation of responsibilities between the Group's divisions, except the functions that are within the exclusive competence of the Group's Supervisory Board / Management Board / Committees in accordance with the legislation of the National Bank of Ukraine:

- 1) first line of defense - business units and support units that initiate, carry out or record operations, accept risks in the course of their activities and are responsible for the day-to-day management of these risks, carry out control procedures;
- 2) second line of defense - a blocks of Risk management and Compliance Divisions, which assure the Group's management that the first line of defense controls and risk management measures have been developed and are functioning properly;
- 3) third line of defense - Internal Audit Division, which performs an independent assessment of the effectiveness of the first and second lines of defense and an overall assessment of the effectiveness of the internal control system.

The subjects of the organizational structure of the Group's internal control system are:

- Supervisory Board;
- Risk Management Committee of Supervisory Board;
- Audit Committee of Supervisory Board;
- Management Board;
- Committee of Management Board on Operational Risk and Information Security;
- Committee of Management Board on Compliance and Financial Security;
- Internal Audit;
- Risk management;
- Compliance;
- Accounting service;
- Other structural units (branches, outlets) of the Group.

The internal control system covers all stages of the Group's operations and includes:

- preliminary control carried out before the actual operations of the Group are provided in terms of recruitment, attraction and placement of funds, material resources, choice of suppliers of goods, works and services, development and introduction of new products;
- current control, which is carried out during operations of the Group, and includes control over observance of laws and acts of internal regulation of the Group regarding the implementation of these operations, the order of decision-making on their implementation, control over the complete, timely and accurate reflection of transactions in accounting and reporting, control for the preservation of the Group's property;
- further control carried out after the operations of the Group are to verify the validity and correctness of transactions, the compliance of the documents with the established forms and requirements for their execution, the compliance of the duties performed by the employees with their official instructions, the identification of the causes of violations and shortcomings and the determination of measures for their elimination, control over performance of the planned performance indicators, defined in the strategy of the Group development, its business plans and budget, verification of completeness and reliability of the tribute financial, statistical, administrative, tax and other reports, the existing Group.

The Group ensures the functioning of the internal control system by:

- control of the Group's executives for compliance with the legislation of Ukraine and acts of internal regulation of the Group;
- division of responsibilities during the Group's activities;
- control over the risk management system;
- control over information security and information exchange;
- introduction internal control procedures;
- monitoring of the internal control system;
- introduction of internal audit procedures.

### **Corporate Ethics Code**

All the Group's management bodies operate on the basis of the Code of Conduct of Ethics.

Corporate behavior in Group is based on the principles of legality, transparency, competence, observance of the rights and interests of clients, business partners, shareholders and employees, and is aimed at improving the Group's efficiency, support its financial stability and profitability.

The Code defines:

- Group's relationship with clients;
  - The order of relations between managers and subordinates;
  - Business Ethics;
  - Equal opportunities for all Group staff;
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- Conflict of interest;
  - Preservation of the Group's property;
  - Gifts and rewards;
  - Relations with the media.

**Corporate values of the Group are:**

Relations with Clients: The Group's goal is to reach the highest standards of client services, protects interests of each client.

The Group develops new transactions, products and directions confessing principles of reasonable conservatism. The Group is oriented to transparency in relations with clients and provisions them with reliable information on its services.

The Group is interested in establishment of long-termed relations with its clients.

Relations with Shareholders: In its relations with shareholders the Group has intentions to conduct transparent policy and strictly observe these principles of Corporate Management: to respect and implement rights of shareholder, to protect his/her interest steadily, to disclose information in a timely manner, to implement active communication policy, to increase visibility and accessibility of information by way of reporting and accounting quality improvement.

Relations with Personnel: The Group's Personnel is a key to its successful activity. The Group actively and consistently attracts to its ranks and distinguishes the best employees without connection to age, race, gender, faith, beliefs or nationality and rewards them for their achievements. The Group values its employees, creates conditions under which everyone working in it can fully realize their abilities, cares about their veterans. The Group respects human dignity and personality and believes in importance of environment of trust and cooperation.

Relations with Governmental Agencies: The Group keeps a principle of neutrality related to business groups, politic parties and associations, and performs its activity in interests of investors, clients and shareholders. Employees of the Group should deal with state bodies and authorities without personal interest, without resorting to unlawful means of influencing the adoption of administrative decisions.

**Business Ethics**

Group managers are keen to develop a sense of belonging to the Group to achieve high results, creating a team of like-minded people, aimed at achieving the set strategic goals.

The supervisor should pay heed to the requests of the Group's employees.

Leaders are obliged to respect the personal dignity of the subordinate.

Employees of the Group should take measures to immediately eliminate the causes and conditions that complicate or impede the normal performance of work and immediately notify such cases to the administration of the Group and, if necessary, the unit compliant, as well as not to carry out actions that cause damage to the Group, its property and finance.

Employees are required to plan their work and must coordinate their plans and actions with their colleagues and related units.

**Conflict of interests**

The management of the conflict of interest in the Group is regulated by the Policy of Prevention of Conflicts of Interest, the Anti-Corruption Program, the Code of Conduct (Ethics), the Charter of the Group, as well as the rules of the current legislation of Ukraine.

The Group's managers should fully disclose their conflicts of interest and should not use their own position for personal purposes at the expense of the Group. Conflicts of interest are the existing and potential conflicts between personal interests and the official or professional responsibilities of a person, which may affect the conscientious performance of his / her powers, objectivity and impartiality of decision making. Related party transactions which are included in agreements with third parties, except those that conducted on the basis of the non-interest principle on a standard basis, are regarded as conflicts of interest. The Group has internal regulations governing the processes of identifying related parties of the Group, conducting transactions with them, as well as the procedure of such operations control.

The Management Board and members of the Group's bodies should fully disclose all relevant information about the identified existing interests or conflicts of interest to the Supervisory Board.

The Group's managers shall ensure that conflicts of interest are avoided when exercising their powers. However, if a conflict of interest persists, the Group's manager must disclose it and refrain from participating in the relevant decision-making process.

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In order to prevent and identify potential and actual conflicts of interest, the Group has introduced an annual declaration of the Group's employees on the existence of circumstances that may cause potential / actual conflicts of interest, and certain groups of employees - on the presence or absence of conflicts of interest. related to the purchase of goods and services by the Group.

### **Anticorruption program**

Group employees, officials, manager and shareholder in their internal activities, as well as in legal relationships with business partners, state authorities, local governments are guided by the principle of "zero tolerance" to any corruption and will take all necessary actions obliged by law to corruption prevention.

The Group approved the Anti-corruption Program, which is based on: the principles of the Convention against Corruption (ratified by Ukraine - Law N251-V (251-16) from October 18, 2006), in accordance with Article 62 of the Law of Ukraine "On Prevention of Corruption"; decisions of the National Agency for the Prevention of Corruption of March 02, 2017 N 75 "On Approval of the Standard Anti-Corruption Program of a Legal Entity".

Anticorruption program is a set of rules, standards and procedures for identifying, counteracting and preventing corruption in the Group's activities. The program sets standards and requirements that are not lower than those in Law of Ukraine "On Prevention of Corruption" and the Standard Anti-Corruption Program, approved by the decision of the National Agency for the Prevention of Corruption. The current version of the Anti-Corruption Program was approved by the decision of the Group's Management Board dated 13.05.2020 (Minutes № 27). The text of the Anticorruption Program is permanently available to the Group's employees, officials, as well as its business partners, on the official website of the Group and internal information resources.

In accordance with the Anti-corruption Program, Group appointed the Commissioner to implement the Program, organized the channels for sending communications about Anti-corruption program violations, corruption or corruption-related offenses, namely: a link (button) on the Group's internal information resources to the dedicated line "Stop Corruption", the telephone number for the messages, the address of the special e-mail.

During 2020, 59 communications were received through existing communication channels regarding possible violation of the "Anticorruption Program". According to the results of the reviews / internal investigations, information on 7 cases was partly confirmed. The ways of elimination of the causes and consequences of the detected violations have been identified, and measures have been taken to prevent such actions in the future. Obtained complaints that are not related to corruption offenses and are not within the competence of the Commissioner for implementation of the anti-corruption program, have been forwarded to the relevant structural units for further consideration.

An assessment of corruption risks in the activity of JSC CB "PRIVATBANK" was carried out during 2020. 237 conclusions were drawn on the absence of corruption risks when providing charitable assistance to the bank. Anti-corruption audit of 16 372 business partners of the Group was conducted. These measures minimize the risks of a Group's business relationship with counterparties that may be involved in corruption

### **Results of activity and further development**

During 2020, the Group continued to hold a leading position in the banking market of Ukraine both in terms of the number of customers who consider the Group to be their main bank and in terms of financial indicators.

Thus, the Group remains the most profitable bank in Ukraine - the profit in 2020 amounted to UAH 24.6 billion. At the same time, profit at any cost is not a key priority of the Group. The main goal is to ensure the long-term sustainability of the Group's business model. Evidence of such stability and sustainable development of the Group is the growing number of active customers, including customers using digital channels, a significant increase in funds of individuals and legal entities on current and term accounts, prudent credit policy and maintaining the NPL of loans at a managed level during 2020, even under the influence of the crisis related of COVID-19 pandemic.

In general, 2020 is the year of the spread of the coronavirus pandemic (COVID-19), which led to a recession in the world economy and a significant slowdown in economic activity in Ukraine. Under quarantine conditions, the Group promptly responded to changes and ensured the uninterrupted operation of branches, customer support and staff protection. Thus, since the beginning of the spread of coronavirus and the introduction of quarantine restrictions, the Group has developed and offered customer support through "credit vacations", various restructuring programs, reduction of tariffs for banking operations. Within the Group, there was an active review of the internal processes, products and service channels optimization. In addition, the priority was to ensure an uninterrupted high quality customer service, taking into account the work of the branches and offices in terms of quarantine restrictions and increased requirements for employee protection.

The Group continues the quantitative and qualitative development of services, develops Privat24 technologies, IT systems and processing, development of cashless and contactless payments, biometrics, which led to the growth of the active cards number, operations in digital channels, TCO and ATM.

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In parallel, the Group invests to the development of offline business, in the efficiency of branches. Thus, in December 2020, the Group opened the new format branch, Concept Store of the Group. It combines modern design, the latest technologies and excellent banking service. Clients can receive financial services, as well as hold meetings, events or just work in a comfortable atmosphere. The synergy of online and offline networks, where everyone can get the necessary banking service through innovation and the latest service - is the basis of a positive customer experience. Ensuring this balance is the strategy and basic principle of the Group's business model.

The Group is also a leading bank that supports government lending programs, such as loans "5-7-9", compensatory loans for agribusiness and so on.

According to the results of 2020, the Group has a sufficient level of capital. The Group's regulatory capital at the end of 2020 is UAH 35.3 billion, and the regulatory capital adequacy ratio is 28.09% (at a requirement > 10%). All regulatory indicators of the Group's liquidity significantly exceed the norms set by the NBU. Thus, as of December 31, 2020, the liquidity coverage ratio was 278.23% for all currencies and 218.18% in foreign currency with the NBU set the value of the ratio at least 100%.

The main challenges of 2021 are related to the further restructuring of the Group's activities and adaptation to the new conditions caused by the change of the macroenvironment and the further impact of the coronavirus. For the Group, this means finding new opportunities for development in digital channels, new ways of interacting with customers, optimizing internal processes and costs. And this is taking into account the implementation of the increased requirements of the regulator in terms of anti money laundering / terrorist financing (AML), quality risk management and stricter capital requirements.

The Group's task for the next year is to ensure the stability of its business model and maintain its leading position in the Ukrainian banking market.

The main priorities of the Group for the near future:

- Further increase of high-quality loan portfolio with expansion of loans to small and medium-sized businesses;
- Maintaining an optimal and sufficient level of resource base in the subsequent policy of reducing interest rates;
- Transformation of internal business processes that will increase business efficiency and customer service;
- Further optimization and bringing to the proper state of the regional network of branches and banking infrastructure;
- Continuation of development and implementation of quality and innovative products and services.

### **Profitability Indicators**

The Group's sources of income in 2020 did not change significantly, although they were limited by the impact of macroeconomic trends. Thus, in 2020, on the one hand, the Group's income was strongly affected by restrictions on credit growth, fluctuations in commission income, and on the other hand, the trend of declining interest rates in the market has reduced the cost of resources. Also in 2020, the volatility of macro-factors increased, which led to a significant result from the revaluation of the position and financial assets.

The Group's net profit for 2020 amounted to UAH 24.6 billion, which remains the maximum result of the banking sector of Ukraine.

Net interest income amounted to UAH 21.6 billion, having increased by almost 10% compared to 2019. At the same time, the Group was forced to form additional impairment provision due to the coronary crisis negative impact on clients activities. The amount of such provision is amounted to UAH 1.25 billion. After deducting the provision for impairment, the Group's net interest income is almost stable at UAH 19.8 billion. in 2020 (UAH 19.7 billion in 2019).

Also, the net fees and commission income has a stable volume, which in 2020 reached the level of UAH 18.8 billion, while in 2019 it amounted to UAH 18.2 billion. The trend of commission income is result of two drivers - the increase in customer payments and the revision of the Group's tariffs.

The trading result is formed mainly by transactions of purchase and sale of currency, which in 2020 amounted to UAH 3.1 billion.

Also, part of the Group's profit is the result of macroeconomic factors. Thus, changes in the world economy and the economy of Ukraine led to an increase in the fair value of domestic government bonds, which were obtained as a contribution to the authorized capital of the bank during nationalization. Due to this revaluation in 2020, the Group received UAH 16.0 billion. of income. At the same time, this revaluation partially offsets the negative impact on the Group's results of exchange rate fluctuations, which in 2020 resulted in UAH -7.5 billion. losses.

The Group's administrative and operating expenses amounted to UAH 18.1 billion, of which about UAH 0.7 billion. spent on special bonus payments to network employees for increased risk while working in a coronavirus environment; UAH 0.3 billion - for protective materials and additional disinfection of branches, ATMs and terminals.

So, the results of 2020 reflect the moderate impact of the COVID19 coronavirus pandemic and the realized opportunities for rapid Group and its products adaptation to new market and customer requirements. For 2021, the Group plans to continue developing its products, offering customers innovative services, improving its network and payment infrastructure, actively developing lending, expanding the product offer for different segments and taking a balanced approach to risk assessment.

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## II. FINANCIAL STATEMENTS

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## Independent auditor's report

To the Shareholder and Supervisory Board of Joint Stock Company Commercial Bank  
"PrivatBank"

Report on the audit of the consolidated financial statements

### *Qualified Opinion*

We have audited the consolidated financial statements of Joint Stock Company Commercial Bank "PrivatBank" (the Bank) and its subsidiaries (the Group), which are presented on pages 1 to 83 of Section II of the Group's Annual Report 2020 and comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other 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 a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements for the preparation of financial statements established by Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

### *Basis for Qualified Opinion*

The Group did not complete an analysis of whether criteria for derecognition were met in respect of certain amounts due to customers that were subject to conversion into equity (Note 14). Such amounts due to customers, and a corresponding receivable of UAH 8,144 million (net of impairment allowance of UAH 734 million) as at 31 December 2020 and 2019 (Note 13), were recognised in the consolidated statement of financial position of the Group. This receivable does not meet the definition of an asset in accordance with IFRS. As a result, the Group's other assets were overstated by UAH 8,144 million as at 31 December 2020 and 2019. The effect of not completing the analysis of the criteria for derecognition of the amounts due to customers on the Group's liabilities and equity as at 31 December 2020 and 2019 as well as interest expense and foreign exchange gains and losses for 2020 and 2019 has not been determined. Our audit opinion on the consolidated financial statements for 2019 was modified accordingly.

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 consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

*Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matter described in the *Basis for qualified opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our qualified audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<i>Assessment of expected credit loss on loans and advances to customers</i>	
<p>Assessment of expected credit losses in accordance with IFRS 9 “Financial instruments” is complex and inherently subjective process that requires application of judgements and making assumptions by Management.</p> <p>The use of different techniques and assumptions made on how to incorporate historical and forecast macroeconomic information, in the assessments of such indicators as historical losses, recoveries, macroeconomic indicators, could produce significantly different estimates of expected credit loss on loans and advances to customers.</p> <p>Additionally, for individually assessed defaulted loans, the Group applied judgments to estimate fair value of collateral and expected cash flows under a range of scenarios.</p> <p>Due to significance of the balance of loans and advances to customers to the consolidated financial statements and judgemental nature of expected credit loss assessment, this matter was one of the key audit matters.</p> <p>Notes 3, 4, 8 and 24 to the consolidated financial statements provide information in respect of expected credit loss on loans and advances to customers and the Group’s risk management policies.</p>	<p>Our audit procedures included assessment of the methodology, techniques and assumptions used by the Group to incorporate historical and macroeconomic information in the assessment of expected credit losses on loans and advances to customers.</p> <p>We obtained an understanding, evaluated the design, and tested operating effectiveness of the controls related to the expected credit loss calculations and input data.</p> <p>We also tested information used in calculation of expected credit loss including but not limited to historical losses and recoveries, macroeconomic indicators and other inputs.</p> <p>For individually assessed loans secured with collateral, we assessed the methodology of collateral valuation, assumptions used to estimate its fair value and expected cash flows under a range of scenarios.</p> <p>We analysed disclosures on expected credit losses on loans and advances to customers included in the notes to the consolidated financial statements.</p>
<i>Valuation of investment securities at fair value through profit or loss</i>	
<p>Valuation of investment securities at fair value through profit or loss with embedded derivative feature was a key area of judgments for the Group’s management due to complexity of the model, subjectivity of assumptions and valuation techniques.</p>	<p>Our audit procedures included obtaining understanding of the process of fair value assessments, key sources of inputs and assumptions.</p>

#### Key audit matter

Also, the carrying value of UAH 100,750 million is significant to the consolidated financial statements. Therefore, we considered this matter to be a key audit matter.

Information and judgments on the investment securities at fair value through profit or loss is presented in the Notes 4, 9 and 28 to the consolidated financial statements.

#### How our audit addressed the key audit matter

We evaluated, with the assistance of our internal valuation specialists, the model, assumptions and judgements applied by the Group's management, including those applied in the determination of period for volatility of exchange rates and other factors in modelling long-term forecast of exchange rates.

Also, we tested inputs applied by Bank's management in development of their assumptions, such as historical exchange rates, terms of financial instruments and discount rates.

#### *Other information included in the Group's Annual report and the Bank's Annual Information of the Issuer of Securities for 2020*

Other information consists of the Group's Annual report (including the Group's Management report) and other information included in the Bank's Annual Information of the Issuer of Securities (including the Corporate Governance report) but does not include consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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.

## *Responsibilities of management and the Supervisory Board for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

## *Auditor's responsibilities for the audit of the consolidated financial statements*

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

- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board and the Audit Committee 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 the Supervisory Board and the Audit Committee 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Supervisory Board and the Audit Committee we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report in accordance with requirements of Section IV paragraph 11 "Instruction on preparation and publication of financial statements of banks in Ukraine" as approved by Resolution of the Board of National Bank of Ukraine No. 373 dated 24 October 2011 (as amended)

In accordance with Section IV paragraph 11 of "Instruction on preparation and publication of financial statements of banks in Ukraine" as approved by Resolution of the Board of National Bank of Ukraine No. 373 dated 24 October 2011 (as amended) ("Instruction No. 373"), we report the following:

In our opinion, based on the work undertaken in the course of our audit of the Group's consolidated financial statements, the Group's Management report is prepared in accordance with requirements of Instruction No. 373 and information given is consistent with the consolidated financial statements.

We are required to report if we have identified material misstatements in the Group's Management report in light of the knowledge and understanding obtained during the course of the audit of the Group's consolidated financial statements. We have nothing to report in this regard.

#### Report on other legal and regulatory requirements

Pursuant to the requirements of Article 14 paragraph 4 of Law of Ukraine "On audit of financial statements and auditing activity" No. 2258-VIII (the "Law No. 2258-VIII") we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

#### *Appointment of the auditor and period of engagement*

We were first appointed as independent auditors to perform a statutory audit of the Group's consolidated financial statements on 17 January 2017 by the Supervisory Board. Our appointment has been renewed annually by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Group is five years.

#### *Consistency of the independent auditor's report with the additional report to the Audit Committee and the Supervisory Board*

We confirm that our independent auditor's report is consistent with the additional report to the Audit Committee and the Supervisory Board of the Group, which we issued on 18 March 2021 in accordance with Article 35 of Law No. 2258-VIII.

*Provision of non-audit services*

We declare that no prohibited non-audit services referred to in Article 6 paragraph 4 of Law No. 2258-VIII were provided. In addition, there are no non-audit services which were provided by us to the Bank or its controlled entities and which have not been disclosed in the consolidated financial statements or the Group's Management report.

The partner in charge of the audit resulting in this independent auditor's report is Studynska Y.S.

For and on behalf Ernst & Young Audit Services LLC



Svistich O.M.  
General Director

Registration number in the Register of auditors  
and audit firms: 101250



Studynska Y.S.  
Partner

Registration number in the Register of  
auditors and audit firms: 101256



Simak M.V.  
Auditor

Registration number in the Register of  
auditors and audit firms: 101255

Kyiv, Ukraine

19 March 2021

Ernst & Young Audit Services LLC is included in  
the Register of auditors and audit firms,  
registration number: 3516.

<i>In millions of Ukrainian hryvnias</i>	Note	31 December 2020	31 December 2019
<b>ASSETS</b>			
Cash and cash equivalents and mandatory reserves	6	49,911	45,894
Due from banks	7	25,059	27,118
Loans and advances to customers	8	55,021	59,544
Investment securities:			
- at fair value through profit or loss	9	100,750	84,680
- at fair value through other comprehensive income	9	119,196	66,602
- at amortized cost	9	1,765	875
Current tax assets	22	6,660	2,257
Investment properties		2,933	3,379
Right-of-use assets	10	1,738	1,703
Fixed assets and intangible assets	11	5,982	4,850
Other financial assets	12	3,467	2,228
Other assets	13	8,901	9,285
Repossession collateral		1,228	1,244
Assets held for sale		32	-
<b>TOTAL ASSETS</b>		<b>382,643</b>	<b>309,659</b>
<b>LIABILITIES</b>			
Due to the NBU		-	7,721
Due to banks and other financial institutions		19	201
Customer accounts	14	312,568	240,457
Lease liabilities		1,844	1,734
Current income tax liability	22	9	9
Deferred income tax liability	22	147	122
Other financial liabilities	15	2,912	1,523
Provisions and non-financial liabilities	16	12,087	3,266
<b>TOTAL LIABILITIES</b>		<b>329,586</b>	<b>255,033</b>
<b>EQUITY</b>			
Share capital	17	206,060	206,060
Share premium	17	23	23
Revaluation reserve of premises	11	689	614
Unrealised losses on investment securities		(2,937)	(1,274)
Result from transactions with the shareholder		12,174	12,174
Currency translation reserve		27	27
Accumulated deficit		(162,980)	(162,999)
<b>Net assets attributable to the Bank's shareholder</b>		<b>53,056</b>	<b>54,625</b>
Non-controlling interest		1	1
<b>TOTAL EQUITY</b>		<b>53,057</b>	<b>54,626</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>382,643</b>	<b>309,659</b>

Approved for issue and signed on 16 March 2021.

Ganna Y. Samarina  
Acting Chair of the Board



  
Valentyna V. Yarmolenko  
Chief Accountant


## Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020

<i>In millions of Ukrainian hryvnias</i>	Note	2020	2019
Interest income	18	33,563	33,841
Interest expense	18	(11,943)	(14,162)
<b>Net interest income</b>		<b>21,620</b>	<b>19,679</b>
Charge for impairment	19	(1,771)	(4)
<b>Net interest income after charge for impairment</b>		<b>19,849</b>	<b>19,675</b>
Fee and commission income	20	27,649	24,575
Fee and commission expense	20	(8,888)	(6,386)
Gains less losses from trading in foreign currencies and swaps		3,103	2,589
Foreign exchange translation gains less losses		(7,460)	6,510
Gains less losses from sale of investment securities at fair value through other comprehensive income		8	8
Provision for legal cases		(8,577)	(387)
Gains less losses/(Losses less gains) on revaluation of investment securities at fair value through profit or loss		16,045	(1,526)
Losses/(gains) on the depreciation of premises (exceeding revaluation) and the revaluation of investment property		(256)	4
Impairment of repossessed collateral		(119)	(134)
Share of loss of an associate		-	(117)
Administrative and other operating expenses	21	(18,087)	(14,502)
Other income, net		1,319	2,391
<b>Profit before tax</b>		<b>24,586</b>	<b>32,700</b>
Income tax expense	22	(25)	(30)
<b>Net profit for the year</b>		<b>24,561</b>	<b>32,670</b>
<b>Other comprehensive income/(loss):</b>			
<i>Items that will be reclassified subsequently to profit or loss:</i>			
Financial assets on fair value through other comprehensive income:			
- Unrealised (losses)/gains on revaluation		(1,649)	2,037
- Gains reclassified to profit or loss		(8)	(8)
- Income tax effect		(6)	-
<i>Items that will not be reclassified to profit or loss:</i>			
Premises:			
- Valuation of premises		139	(70)
- Income tax effect		(25)	15
<b>Other comprehensive (loss)/income</b>		<b>(1,549)</b>	<b>1,974</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>23,012</b>	<b>34,644</b>
<b>Loss is attributable to:</b>			
Shareholder of the Bank		24,561	32,670
<b>Profit</b>		<b>24,561</b>	<b>32,670</b>
<b>Total comprehensive loss is attributed to:</b>			
Shareholder of the Bank		23,012	34,644
<b>Total comprehensive income</b>		<b>23,012</b>	<b>34,644</b>

Approved for issue and signed on 16 March 2021.



Ganna Y. Samarina  
Acting Chair of the Board



Valentyna V. Yarmolenko  
Chief Accountant




## Consolidated Statement of Changes in Equity for the year ended 31 December 2020

In millions of Ukrainian hryvnias	Note	Attributable to the shareholder of the Bank						Total	Non-controlling interest	Total equity	
		Share capital	Share premium	Revaluation reserve of premises	Unrealised losses on investment securities	Result from transactions with the shareholder	Currency translation reserve				Accumulated deficit
Balance at 1 January 2019		206,060	23	722	(3,303)	12,174	27	(184,129)	31,574	1	31,575
Profit for the reporting period		-	-	-	-	-	-	32,670	32,670	-	32,670
Other comprehensive income/(losses) for the year		-	-	(55)	2,029	-	-	-	1,974	-	1,974
Total other comprehensive income/(losses) for the year		-	-	(55)	2,029	-	-	32,670	34,644	-	34,644
The change in revaluation reserves for premises due to:											
- disposal of premises		-	-	-	-	-	-	-	-	-	-
- transfer (depreciation) of the reserve for revaluation of premises into retained earnings		-	-	(53)	-	-	-	53	-	-	-
Profit distribution:											
- payment of dividends to the shareholder	17	-	-	-	-	-	-	(11,593)	(11,593)	-	(11,593)
Balance at 31 December 2019		206,060	23	614	(1,274)	12,174	27	(162,999)	54,625	1	54,626
Balance at 1 January 2020		206,060	23	614	(1,274)	12,174	27	(162,999)	54,625	1	54,626
Profit for the reporting period		-	-	-	-	-	-	24,561	24,561	-	24,561
Other comprehensive income/(losses) for the year		-	-	114	(1,663)	-	-	-	(1,549)	-	(1,549)
Total other comprehensive income/(losses) for the year		-	-	114	(1,663)	-	-	24,561	23,012	-	23,012
The change in revaluation reserves for premises due to:											
- transfer (depreciation) of the reserve for revaluation of premises into retained earnings		-	-	(39)	-	-	-	39	-	-	-
Profit distribution:											
- payment of dividends to the shareholder	17	-	-	-	-	-	-	(24,581)	(24,581)	-	(24,581)
Balance at 31 December 2020		206,060	23	689	(2,937)	12,174	27	(162,980)	53,056	1	53,057

Approved for issue and signed on 16 March 2021.



Ganna Y. Samarina  
Acting Chair of the Board




Valentyna V. Yarmolenko  
Chief Accountant

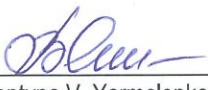
## Consolidated Statement of Cash Flows for the year ended 31 December 2020

<i>In millions of Ukrainian hryvnias</i>	Note	2020	2019
<b>Cash flows from operating activities</b>			
Interest income received		32,658	33,235
Interest paid		(12,248)	(14,083)
Fee and commission received		27,649	24,575
Fee and commission paid		(8,888)	(6,386)
Income received on trading in foreign currencies and swaps		3,110	2,599
Staff costs paid		(7,704)	(7,327)
Administrative and other operating expenses paid, except for staff costs paid		(6,361)	(6,607)
Other income received		1,543	2,455
Income tax paid		(4,433)	(2,108)
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>		<b>25,326</b>	<b>26,353</b>
<b>Changes in operating assets and liabilities</b>			
Net decrease/(increase) in mandatory reserve balances		5	(1)
Net decrease/(increase) in due from banks		2,065	(27,073)
Net decrease/(increase) in loans and advances to customers		2,568	(10,252)
Net (increase)/decrease in other financial assets		(2)	265
Net decrease/(increase) in other assets		300	(602)
Net (decrease)/increase in due to banks and other financial institutions		(203)	110
Net increase in customer accounts		56,219	21,873
Net (increase)/decrease in provisions, other financial and non-financial liabilities		(689)	25
<b>Net cash from operating activities</b>		<b>85,589</b>	<b>10,698</b>
<b>Cash flows from investing activities</b>			
Proceeds from sales of fixed assets		36	21
Acquisition of fixed assets and intangible assets		(2,237)	(1,982)
Proceeds from sale and redemption of investment securities on fair value through profit or loss		-	46
Proceeds from sale and redemption of investment securities at fair value through other comprehensive income		32,135	37,910
Purchases of investment securities at fair value through other comprehensive income		(81,623)	(24,156)
Proceeds from redemption of investment securities at amortized cost		-	12,385
Purchases of investment securities at amortized cost		(1,518)	(106)
<b>Net cash from/(used in) investing activities</b>		<b>(53,207)</b>	<b>24,118</b>
<b>Cash flows from financing activities</b>			
Repayment of lease liabilities		(631)	(531)
Repayment of the NBU refinancing loans		(7,621)	(2,068)
Dividend payment		(24,581)	(11,593)
<b>Net cash used in financing activities</b>	31	<b>(32,833)</b>	<b>(14,192)</b>
Effect of exchange rate changes on cash and cash equivalents		4,033	(1,815)
Effect of expected credit losses on cash and cash equivalents		(1)	-
<b>Net increase in cash and cash equivalents</b>		<b>3,581</b>	<b>18,809</b>
Cash and cash equivalents at the beginning of the year		44,487	25,678
<b>Cash and cash equivalents at the end of the year</b>	6	<b>48,068</b>	<b>44,487</b>

Approved for issue and signed on 16 March 2021.



Ganna Y. Samarina  
Acting Chair of the Board



Valentyna V. Yarmolenko  
Chief Accountant

## **1 Introduction**

Joint Stock Company Commercial Bank PrivatBank ("PJSC PrivatBank" or "the Bank") and its subsidiaries and an associate (together referred to as the "Group") was initially registered as a limited liability company and then, re-organised into a closed joint stock entity in 2000. In 2009, the Bank changed its legal form to a public joint stock company, where shareholders liability is limited by number of shares owned in accordance with changes in Ukrainian legislation. In June 2018, the Bank changed its organisational and legal form from public joint stock company into a joint stock company.

As at 31 December 2020 the Government of Ukraine represented by the Cabinet of Ministers of Ukraine is the ultimate controlling party of the Bank.

**Principal activity.** The Bank's principal business activity is commercial and retail banking operations within Ukraine. The Bank has operated under a full banking licence issued by the National Bank of Ukraine (the "NBU") since March 1992. The Bank has been operating in the stock market: trading in securities and depository activities in accordance with the licenses of the National Securities and Stock Market Commission for since 2012 and 2013. The Bank participates in the State deposit insurance plan (registration № 113 dated 2 September 1999), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). As at 31 December 2020 and 2019 the Deposit Guarantee Fund of Ukraine guaranteed repayment of individual deposits and interest on them for the amount up to UAH 200 thousand per individual in case bank liquidation procedure is started.

As at 31 December 2020, the Bank has 26 branches and 1,690 operating outlets in Ukraine and a branch in Cyprus (31 December 2019: 30 branches and 1,898 operating outlets in Ukraine and a branch in Cyprus).

**Registered address and place of business.** The Group's registered address as at the date of these consolidated financial statements is:

1D, HRUSHEVSKOHO STR.  
01001, KYIV,  
Ukraine.

**Presentation currency.** These consolidated financial statements are presented in million ("UAH million"), unless otherwise stated.

## **2 Operating Environment of the Group and the impact of the COVID-19 pandemic**

The Group carries out the main part of its activities in Ukraine. Ukraine's economy has certain characteristics that threaten its long-term stability. Such characteristics include, but are not limited by relatively low levels of liquidity in capital markets and a deficit in the balance of public finances and foreign trade.

In March 2020, the rapid spread of the coronavirus pandemic and the restrictions introduced to combat it determined the situation in the global commodity and financial markets. The deterioration of the situation in the global financial and commodity markets, together with increased uncertainty in the domestic market, provoked an increase in turbulence in the foreign exchange market of both Ukraine and partner countries.

The government of Ukraine introduced restrictions on business and social activity in March 2020. The pandemic situation also negatively affected the foreign trade of Ukraine, complicated the attraction of financing and led to further devaluation of the national currency against major currencies. During 2020 the official exchange rate of the hryvnia against the US dollar of the National Bank of Ukraine decreased by 19% (from 23.6862 UAH per USD to 1 January 2020 at 28.2746 UAH per USD as of 31 December 2020.).

In addition, in March-June 2020 the Board of the National Bank of Ukraine adopted a number of decisions to reduce the discount rate from 10% per annum from 31 March 2020, to 8% per annum from 24 April 2020 and to 6% per annum from 12 June 2020. Thus, the National Bank continued to ease monetary policy and support the economy in Ukraine amid the cooling of the global economy.

In the third quarter, the economy started to grow by to strong domestic demand and a favorable situation in key Ukrainian export markets. Unlike previous crises, this time it was possible to avoid the instability of the foreign exchange market, the level of reserves of the NBU guarantees the ability of the central bank to timely respond to possible challenges in the future. A traditional risk for the economy and the fiscal sector is slow progress in cooperation with international financial institutions. Without such cooperation, it will be difficult to maintain continuous access to world debt capital markets and attract foreign direct investment.



## **2 Operating Environment of the Group and the impact of the COVID-19 pandemic (Continued)**

The real sector is also recovering from the COVID crisis. Although the dynamics of industries is uneven, the corporate segment as a whole has proven to be stable. The quality of banks' corporate portfolios did not deteriorate significantly. Consumer lending slowed down significantly with the deployment of the crisis - both demand and supply on the market decreased. In this segment, there was a significant increase in delinquencies during the second quarter, and therefore some banks restructured unsecured consumer loans in significant volumes. During the crisis, there was no overflow of clients from banks to non-bank lenders, which indicates a fairly stable segmentation of borrower clients. The volume of lending to small and medium-sized businesses is growing even during the COVID crisis. The decrease in the cost of borrowing and the state program for compensation of high-income rates have created conditions for the growth of lending to small businesses. The development of lending in the future will lead to a decrease in lending rates. Since 2020, the banking system has been operating with the same interest rates on deposits. Inflation remained low throughout the year and monetary policy was stimulating. In 2020, rates on deposits and assets are the lowest in the history of the Ukrainian banking sector.

The Ukrainian banking sector remains highly profitable by to robust operating income and the absence of significant credit losses. Net fee and commission income only temporarily declined at the peak of the crisis, but recovered rapidly in the following months. Net interest income grew due to the persistence of a high interest rate spread - during the year rates on assets and liabilities decreased in parallel. At the same time, narrowing of the spread is inevitable in the medium term. This is a key risk to banks' profitability in the coming years.

Trading partner economies and global trade are recovering from the COVID crisis in the first half of the year, but the risks of a new downturn in the second wave of the pandemic are high, with the number of newly diagnosed cases of infection beginning to rise again in the world since October 2020. Commodity prices and financial assets are rising to pre-crisis levels. To a large extent, many governments and central banks and international financial organizations ("MFIs") are helping to stimulate the recovery with fiscal and monetary means.

For its part, the IMF has approved financial assistance to 83 countries since March to overcome the economic consequences of the coronavirus. In particular, USD 5 billion has been assigned for Ukraine in the form of a stand-by instrument for 18 months to overcome the COVID consequences and preserve reforms by covering the balance of payments and budget deficits. So far, only a smaller part of this amount has been received due to the slow progress in fulfilling the obligations assumed.

The main risk for the near future remains the further deployment of the pandemic. Legal risks have grown in connection with the cancellation of anti-corruption reforms agreed with the IFI. Direct geopolitical risks have changed insignificantly.

In December 2020, the rating agency Moody's Investors Service ("Moody's") raised PrivatBank's long-term foreign currency deposit rating to B3 from Caa1. The rating of PrivatBank on long-term deposits in foreign currency now corresponds to the rating of Ukraine (current B3 is stable).

Management monitors the state of development of the current situation with the spread of coronavirus and quarantine and takes measures, if necessary, to minimize any negative consequences as much as possible. Further negative developments and macroeconomic conditions may have a negative impact on the Bank's financial position and performance such that they cannot yet be determined.

The known and estimable effects of the above factors on the financial position and performance of the Bank in the reporting period have been taken into account in preparing these separate financial statements.

## **3 Summary of Significant Accounting Policies**

**Basis of preparation.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Law of Ukraine «On accounting and financial statements in Ukraine» № 996-XIV of 16 July 1999 on the preparation of financial statements (as amended).

These consolidated financial statements have been prepared on the historical cost basis, with the exception of the initial recognition of financial instruments based on fair value, subsequent measurement of premises at revalued amounts and derivative financial instruments, financial assets at fair value through other comprehensive income and financial instruments at fair value through profit or loss are measured at fair value. The key accounting policies used in preparing these consolidated financial statements are set out below. These principles have been applied consistently to all periods presented, unless otherwise indicated.

### **3 Summary of Significant Accounting Policies (Continued)**

**Consolidated financial statements.** Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

**Purchases and sales of non-controlling interests.** The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

**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.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

**Associates** are companies over which the Group has significant influence. After initial recognition, the Bank accounts for investments in associates of the company using the equity method.

### **3 Summary of Significant Accounting Policies (Continued)**

#### **Application of New or Revised Standards and Interpretations**

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The following new and revised standards and interpretations were adopted in the reporting year, but they had no impact on these financial statements:

- The revised Conceptual Framework - Amendments regarding measurement, guidance on reporting financial performance, improved definitions of an asset and a liability, and guidance supporting these definitions and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting (issued in March 2018; apply to annual periods beginning on or after 1 January 2020).
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. (issued in October 2018; apply to annual periods beginning on or after 1 January 2020).
- Amendments to IFRS 3 Business Combinations - Amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business (issued in October 2018; apply to annual periods beginning on or after 1 January 2020).
- Amendments to IFRS 16 Leases - Amendments regarding COVID-19-Related Rent Concessions (issued in May 2020; apply to annual periods beginning on or after 1 June 2020). Group did not use in 2020 and does not plan to use these amendments in the future.
- Amendments to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement - the amendments provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument (issued in March 2020).

#### **Reclassification**

For 2019, the following reclassification was made to match the 2020 presentation:

<i>In millions of Ukrainian hryvnias</i>	<b>2019 (as reported)</b>	<b>Reclassification</b>	<b>2019 (as reclassified)</b>
<b>Separate Statement of Cash Flows for the year ended 31 December 2019</b>			
Interest income received	35,569	(2,334)	33,235
<b>Cash flow (used in)/from operating activities before changes in operating assets and liabilities</b>	28,687	(2,334)	26,353
Net decrease/(increase) in loans and advances to customers	(12,586)	2,334	(10,252)

**Financial instruments – key measurement definitions.** Depending on business model financial instruments are carried at fair value or amortised cost as described below.

*Fair value* is the price that would be received from the sale of an asset or paid on a liability in a orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is a market in which asset and liability transactions are held at a sufficient frequency and in sufficient volumes to provide current pricing information.

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 entity. 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.

### **3 Summary of 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. Refer to Note 28.

*Transaction costs* are expenses directly related to the acquisition, issue or disposal of a financial asset or liability and which could not have occurred if the entity did not issue, acquire or sell a financial instrument. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortized cost* is the value at which the financial asset or financial liability is measured and comprised of the acquisition cost reduced by the amount of principal repayment, increased (reduced) by the amount of accumulated amortisation of any difference between the original cost and the repayment value calculated using the effective interest rate, adjusted in the case of financial assets, for expected credit losses. Accrued interest includes amortisation of transaction costs 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 of the statement of financial position.

*The effective interest method* is a method of calculating the amortized cost of a financial asset or financial liability (or a group of financial assets or financial liabilities) and distributing income or interest expenses over the relevant period. The effective interest rate (EIR) is the rate that discounts the expected flow of future cash payments or receipts over the life of the financial instrument to the gross carrying amount of a financial asset or to the gross amortised cost of a financial liability. 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 whole 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.

**Initial recognition of financial instruments.** Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. Gains or losses on initial recognition are recorded in the statement of profit or loss.

Profit or loss arising from transactions with the shareholder is recognised in equity under "Result from transactions with the shareholder".

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at settlement date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

**Derecognition of financial assets.** The Group derecognises financial assets when (a) the contractual rights to cash flows from the financial asset expire, or (b) the Group transfers the financial asset and this transfer match the criteria for derecognition.

**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 cash on hand, unrestricted demand and overnight deposits with central and other banks. Cash and cash equivalents are carried at amortised cost.

**Mandatory cash balances with the Central Banks.** Mandatory cash balances with the Central Banks are carried at amortised cost and are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

**Loans and advances to customers.** The Group measures loans and advances to customers at amortized cost if both of the following conditions are met:

### **3 Summary of Significant Accounting Policies (Continued)**

(a) an asset is managed on a “hold to collect” basis;

(b) the contractual terms of the financial asset provide for certain dates of cash flows, which are solely the repayment of the principal amount and payment of interest on the outstanding principal amount.

In more detail, such conditions are presented below.

At the first stage the Group determines the business model at a level that better reflects how the grouped financial assets are managed to achieve a specific business goal. The Group’s business model is not assessed at the level of individual instruments, but at a higher level of portfolio aggregation and is based on observable factors such as:

- how the performance of the business model and the profitability of financial assets held within this business model are assessed, and how this information is communicated to the key management staff of the Group;
- risks affecting the performance of the business model (and the profitability of financial assets held under this business model) and, in particular, the method of managing these risks.

At the second stage of the classification process, the Group evaluates the contractual terms of the financial asset to determine whether the contractual cash flows for the asset are solely payments from the principal amount and interest on the outstanding part of the principal amount (SPPI test).

For the purposes of this test, the “principal amount of the debt” is the fair value of the financial asset at initial recognition, and it may change over the term of the financial asset. The most significant elements of interest under a loan contract are usually reimbursement for the time value of money and reimbursement for credit risk. For the SPPI test, the Group applies judgments and analyzes relevant factors, such as the currency in which the financial asset is expressed, and the period for which the interest rate is set.

When financial assets are renegotiated and the renegotiated terms differ substantially from the previous terms, the new asset is initially recognised at its fair value. This asset at initial recognition is classified as purchase/originated credit-impaired if at the date of purchase/renegotiation was impaired.

In the case of purchase/originated credit-impaired financial assets, expected credit losses are measured based on cash flows discounted at the adjusted for credit risk effective interest rate determined upon initial recognition.

If the renegotiated terms differ substantially do not significantly differ from the previous terms, such changes do not lead to derecognition of the original asset, instead the Group recognizes a gain or loss on the modification based on changes in cash flows discounted at the original effective interest rate.

#### **Assessment of expected credit losses**

Credit loss is the difference between all contractual cash flows payable to the Group under the contract and all cash flows that the Group expects to receive (that is, taking into account all cash shortages) discounted at the original effective rate (or adjusted risk for purchased or originated credit impaired financial assets).

The Group estimates cash flows by taking into account all contractual terms for a financial instrument (for example, advances, extensions, a call option and similar options) during the expected life of such a financial instrument. The Group also considers cash flows from the sale of held collateral or other credit enhancement mechanisms, which are an integral part of the contract.

The Group assumes that it is possible to make a reliable estimate of the expected life of the financial instrument. At the same time, in those rare cases when it is impossible to make a reliable estimate of the expected life of a financial instrument, the Group uses the remaining term stipulated by the contract for such a financial asset.

The Group regularly assesses the quality of the loan portfolio and assesses the expected loss from possible losses. The amount of expected credit loss is equal to the 12-month expected credit loss or expected credit loss for the lifetime of the financial instrument.

Upon initial recognition and prior to the date of a significant increase in credit risk, the Group recognizes allowance for 12 month ECL or a period until repayment, if such a period is shorter than 12 months. Allowance for 12 month ECL is part of the allowance for lifetime ECL, reflecting expected credit losses due to the default of a financial instrument that may occur within 12 months after the reporting date.

### **3 Summary of Significant Accounting Policies (Continued)**

Allowance for lifetime ECL are expected credit losses that result from all possible default events over the expected life of a financial instrument. Allowance for lifetime ECL of the financial instrument are recognized if the credit risk of the financial instrument has increased significantly since initial recognition.

For all financial instruments, depending on the type of instrument and the type of a debtor, the following factors of significant increase in credit risk are determined:

- overdue payments of more than 30 days as at reported date (for banks more than 7 days);
- overdue of payments of more than 30 days that occur more than twice during last 12 months (loans to customers); and other.

The Group estimates the amount of expected credit losses of a financial instrument in such a way that it reflects: (a) an objective and probability-weighted amount, which is determined by evaluating a number of possible results; (b) time value of money; and (c) reasonable and acceptable information about past events, current conditions and forecasts regarding future economic conditions, which can be obtained without any extra effort or expense as of the reporting date.

Expected credit losses reflect the Group's own expectations of credit losses. However, taking into account all reasonable and confirmed information that can be obtained without extra costs or effort when assessing credit losses, the Group also considers observant market information about the credit risk of a particular financial instrument or similar financial instruments.

The Group recognizes, at each reporting date, a change in the amount of expected credit losses as a profit or loss from impairment in profit or loss. The Group recognizes positive changes in expected credit losses as a profit from impairment, and negative changes as loss from impairment.

For all financial instruments, depending on the type of instrument and the type of a debtor, the following impairment factors are determined:

- overdue over 90 days as at reported date (for banks from 30 days);
- initiation or declaration of bankruptcy; initialization of liquidation of a legal entity;
- identification of fraud or confirmation of fraud indicators in respect financial transaction (for loans starting 1st day of overdue) and other.

The assessment of financial instruments, depending on their significance, is conducted on an individual or portfolio basis. In the estimation of expected losses on an individual basis, the Group uses scenario analysis based on discounted cash flows weighted with probability.

The Group directly reduces the gross carrying amount of a financial asset and allowance for expected credit losses if it does not have reasonable expectations for the restoration of the financial asset as a whole or part of it. Write-off is a derecognition event.

**Reposessed collateral.** Reposessed collateral represents non-financial assets reposessed by the Group in settlement of past due loans. The assets are initially recognised at lower of fair value or gross carrying value of the related loans. Further the Group measures such assets at the lower of the two values: carrying amount and net realisable value. It is the Group's policy to dispose of reposessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding debt. In general, the Group does not occupy reposessed properties for business use.

**Credit related commitments and financial guarantees.** The Group enters into credit related commitments, including commitments to extend credit, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its financial obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a proportion basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; in this case loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) estimated allowance for expected credit losses.

### **3 Summary of Significant Accounting Policies (Continued)**

**Performance guarantees.** Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

**Investment securities.** The Group determines the category of securities valuation in accordance with the business model and SPPI criteria:

1) Investment securities are measured at amortized cost ("AC") if both of the following conditions are performed:

(a) an asset is matched on a "hold to collect" basis;

(b) the contractual terms of the financial asset provide for certain dates of cash flows, which are only the repayment of the principal amount and payment of interest on the outstanding principal amount.

2) Investment securities are measured at fair value through other comprehensive income ("FVOCI") if:

(a) an asset is matched on a "hold to collect and for sale" basis;

(b) the contractual terms of the financial asset provide for certain dates of cash flows, which are only the repayment of the principal amount and payment of interest on the outstanding principal amount.

After initial recognition, such securities are measured at fair value with the result of the revaluation transferred to other comprehensive income, except for impairment losses, gains or losses from foreign currency transactions and interest income accrued using the effective interest method are recognized directly in the statement of profit and loss and other comprehensive income. When securities are selling, the profit/loss previously reflected in other comprehensive income will be reflected in profit and loss.

3) Investment securities are measured at fair value through profit or loss ("FVPL"), unless it is measured at amortized cost or at fair value through other comprehensive income. The embedded derivative is accounted together with the host contract. For each reporting date investment securities measured at fair value through profit or loss are revalued together with an embedded option to fair value.

**Investment property.** Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property is initially recognised at cost, including transaction costs.

**Right-of-use assets.** The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

**Fixed assets.** Fixed assets are stated at cost or revalued cost, as described below, less accumulated depreciation and accumulated impairment losses, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Premises 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 recognised in other comprehensive income and increase the revaluation surplus in equity. 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 period. The revaluation reserve of premises included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. At the date of revaluation accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Construction in progress is carried at cost less impairment where required. Construction in progress is not depreciated until the asset is available for use.

### **3 Summary of Significant Accounting Policies (Continued)**

All other items of fixed assets are stated at cost.

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 fixed assets. 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 period to the extent it exceeds the previous revaluation surplus in equity. 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 and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the period.

**Depreciation.** Land is not depreciated. Depreciation on other items of fixed assets begins with the date when the asset is available for use and is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives mostly as follows:

Premises	5-50 years
Computers	2-10 years
Office furniture and equipment	4-13 years
Motor vehicles	5-10 years
Intangible assets	2-10 years
Electronic systems	4-20 years
Other	4-12 years

Leasehold improvements are depreciated over the term of the underlying lease. The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The liquidation value is reviewed at the end of each financial year and, if expectations differ materially from previous estimates, are reflected as changes in the accounting estimate. As of December 31, 2020 and 2019, the liquidation value was zero.

**Intangible assets.** The Group's intangible assets other than goodwill have 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 to use the specific software.

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 from 2 to 10 years.

**Short-term leases and leases of low-value assets.** The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (value of less than UAH 50 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

**Finance lease receivables.** Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).



### **3 Summary of Significant Accounting Policies (Continued)**

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in profit or loss for the period.

**Assets held-for-sale.** The Group classifies assets as non-current assets held-for-sale if their carrying amount is recovered principally through a sale transaction rather than through the operation. For this purpose, assets should be available for immediate sale in their present condition that is typical for such non assets offered for sale, it is highly probable that these assets will be sold and management of the Group has an intention and ability to sell them.

The Group measures such assets the lower of their carrying amount and fair value less costs to sell. No depreciation is charged on assets held-for-sale.

**Due to banks and other financial institutions.** Amounts due to banks and other financial institutions are recorded when money or other assets are advanced to the Group by counterparty banks or other financing institutions. The non-derivative liability is carried at amortised cost.

**Customer accounts.** Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

**Derivative financial instruments.** Derivative financial instruments, including foreign exchange contracts, forward rate agreements, currency swaps and currency options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the period. The Group does not apply hedge accounting.

**Derecognition of financial liabilities.** The Group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. An exchange between the Group 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 (whether or not attributable to the financial difficulty) is accounted for as an extinguishment 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, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss. 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 percent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

**Lease liabilities.** At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of option to purchase the underlying asset.

### **3 Summary of Significant Accounting Policies (Continued)**

**Income taxes.** Income taxes have been provided for in the consolidated financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the end of reporting period. The income tax charge 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. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. 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 liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. 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 provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable 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 the 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.

**Provisions.** Provisions are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**Trade and other payables.** Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

**Share capital and share premium.** 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.

**Income and expense recognition.** Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

The Group recognizes interest income on non-impaired financial assets based on the gross carrying value of such assets applying the original effective interest rate.

For impaired financial instruments, interest income is calculated as the product of the net carrying value (amortized cost) and the effective interest rate.

Interest income on all financial measured at FVPL is recognized using the contractual interest rate within other interest income in the consolidated statement of profit or loss and other comprehensive income.

### **3 Summary of Significant Accounting Policies (Continued)**

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

**Foreign currency translation.** The functional currency of the Group, and the Group's statement presentation currency, is the national currency of Ukraine, Ukrainian hryvnia ("UAH"). Transactions in foreign currencies are recognised in the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency are translated into the Group's 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 translation of monetary assets and liabilities into Group's functional currency at period-end official exchange rates of the NBU are recognised in profit or loss for the period (as foreign exchange translation gains less losses). Translation at period-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity instruments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

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

	<b>31 December 2020, UAH</b>	<b>Average 2020, UAH</b>	<b>31 December 2019, UAH</b>	<b>Average 2019, UAH</b>
1 US Dollar (USD)	28.274600	26.963899	23.686200	25.837338
1 Euro (EUR)	34.739600	30.801309	26.422000	28.940552

**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 (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

**Earnings per share.** Earnings per share are determined by dividing the profit or loss attributable to shareholder of the Group by the weighted average number of participating shares outstanding during the reporting period.

**Staff costs and related contributions.** Wages, salaries, contributions to state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period 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.** Segments are reported in a manner consistent with the internal reporting provided to 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.

#### 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 period. 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 period include:

**Impairment losses on loans and advances to customers.** The Group regularly assesses the quality of the loan portfolio and assesses the expected losses from possible losses. The amount of expected loan loss is equal to the 12-month expected credit loss or expected credit loss for the lifetime of the financial instrument, if deterioration in credit quality after initial recognition occurred. Allowance for lifetime ECL of a financial instrument are recognized if the credit risk of a financial instrument has increased significantly since its initial recognition.

As at 31 December 2020, a 10% increase or decrease in actual and forecast parameters on loans with estimate of allowance for 12 month ECL and with estimate of allowance for lifetime ECL on a portfolio basis would lead to an increase or decrease in the allowance for expected credit losses of UAH 150 million (2019: an increase or decrease in the allowance for expected credit losses of UAH 113 million).

As at 31 December 2020, a 10% increase or decrease in actual loss on impaired loans, which are assessed on a portfolio basis, would result in an increase or decrease in the allowance for expected credit losses of UAH 363 million or UAH 1,219 million, respectively (2019: in an increase or decrease provision for impairment of UAH 462 million or UAH 2,540 million, respectively).

As at 31 December 2020, a 10% increase or decrease in the actual loss from individually impaired significant loans, which could arise from differences in amounts and terms of the cash flows, would result in an increase or decrease allowance for expected credit losses of UAH 945 million or UAH 16,395 million, respectively (2019: in an increase or decrease allowance for expected credit losses of UAH 1,033 or UAH 20,988 million, respectively)

To estimate the expected credit losses on a portfolio basis, historical data (on default events, losses in case of default, etc.) of loan groups with similar characteristics are used, taking into account forecast macroeconomic drivers (average wages, current account, exchange rate, price of gasoline, price for basic export goods (eg wheat), gross domestic product and other indicators) using probability-weighted scenarios - basic, optimistic and pessimistic. The bank forecasts economic indicators for two years.

Information on key macro drivers (main indicators) in terms of weighted scenarios as of 31 December 2020 is presented below:

Key drivers	ECL Scenario	Assigned Weightings (%)	2021	2022
Dynamics of average monthly salary, %	Basic scenario	50%	3.40%	11.91%
	Optimistic scenario	10%	6.66%	14.19%
	Pessimistic scenario	40%	1.48%	9.95%
Current account, USD, mln	Basic scenario	50%	(180)	(650)
	Optimistic scenario	10%	67	(492)
	Pessimistic scenario	40%	(338)	(808)
Exchange rate, 1 USD/UAH	Basic scenario	50%	29	29
	Optimistic scenario	10%	28	28
	Pessimistic scenario	40%	39	41
The price of A95 gasoline, UAH/1 liter	Basic scenario	50%	27	27
	Optimistic scenario	10%	25	25
	Pessimistic scenario	40%	33	34
GDP, %	Basic scenario	50%	5	4
	Optimistic scenario	10%	6	5
	Pessimistic scenario	40%	(2)	(3)
Wheat price, USD per 1 bushel	Basic scenario	50%	593	526
	Optimistic scenario	10%	756	671
	Pessimistic scenario	40%	429	381

**4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)**

The following is the impact of the application of several scenarios on the amount of expected credit losses on the main segment of the Bank's loan portfolio (credit cards) as of 31 December 2020:

Stage of assessment of expected credit losses	Influence multiple scenarios	Influence base scenario	The effect of using multiple scenarios
With estimate of allowance for 12 month ECL	905	801	104
With estimate of allowance for lifetime ECL	174	160	14
Credit-impaired loans	2,176	2,140	36
<b>Total</b>	<b>3,254</b>	<b>3,100</b>	<b>154</b>

The effect of applying multiple economic scenarios on the amount of expected credit losses is defined as comparing the amount of expected credit losses as a result of applying 100% weighting to the baseline scenario for each stage with the amount of expected credit losses in the case of multiple weighted scenarios as at 31 December 2020.

The Bank regularly validates and analyzes macro indicators in terms of their impact on expected credit losses and changes their list and weights of scenarios if necessary. During 2020, a number of indicators were excluded from the calculation due to such an analysis (consolidated balance sheet, exports of ferrous metals, Brent oil price, etc.).

In 2020, due to the impact of the COVID-19 pandemic, as noted above, the Bank revised its approaches to the valuation and classification of assets, as well as the assessment of possible credit losses and the amount of required reserves.

During 2020, the Bank, in accordance with the recommendations of the NBU, offered borrowers affected by quarantine restrictions, various debt restructuring options (including credit holidays). Such borrowers, taking into account the presence of signs of increased risk, were classified for the purpose of estimating provisions for expected credit losses with an estimate of credit losses within the term of the loan (assets with significant deterioration but no signs of default). The Bank assesses the quality of these assets on a monthly basis in order to adjust the amount of reserves, if necessary. During the 4th quarter of 2020, the portfolio of assets classified with the assessment of credit losses within the term of the loan decreased significantly due to the restoration of credit quality.

In 2020, the assessment of possible credit losses and, accordingly, the amount of reserves was revised, taking into account more conservative macro-forecasts, namely: the probability of the pessimistic scenario was increased from 25% as of December 31, 2019 to 40% as of December 31, 2020; revised under the influence of the COVID-19 pandemic, macro indicators were taken into account in the PD and LGD models. The above measures led to an increase in the amount of the provision for expected credit losses by UAH 1,250 million. The forecasts of macro indicators used to forecast PD and LGD are reviewed by the Bank on a quarterly basis in order to adequately assess the amount of potential credit losses.

**4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)**

Information on key macro drivers (main indicators) in terms of weighted scenarios as of 31 December 2019 is presented below:

Key drivers	Scenario	Assigned Weightings (%)	2020	2021
Dynamics of average monthly salary, %	Basic scenario	50%	11,451	12,835
	Optimistic scenario	25%	12,137	13,766
	Pessimistic scenario	25%	11,359	12,663
Current account, USD, mln	Basic scenario	50%	(300)	(700)
	Optimistic scenario	25%	(150)	(350)
	Pessimistic scenario	25%	(600)	(1,400)
Exchange rate, 1 USD/UAH	Basic scenario	50%	27	29
	Optimistic scenario	25%	26	27
	Pessimistic scenario	25%	32	32
The price of A95 gasoline, UAH/1 liter	Basic scenario	50%	33	36
	Optimistic scenario	25%	31	34
	Pessimistic scenario	25%	34	37
Oil Brent, USD/1 barrel	Basic scenario	50%	68	65
	Optimistic scenario	25%	50	48
	Pessimistic scenario	25%	82	78
Wheat price, USD for 1 bushel	Basic scenario	50%	488	508
	Optimistic scenario	25%	448	468
	Pessimistic scenario	25%	528	548
Export of ferrous metals, USD, mln	Basic scenario	50%	994	1,021
	Optimistic scenario	25%	1,013	1,040
	Pessimistic scenario	25%	946	971
Balance payments, USD, mln	Basic scenario	50%	150	150
	Optimistic scenario	25%	152	152
	Pessimistic scenario	25%	147	147
Gross reserves of the NBU, USD, mln	Basic scenario	50%	24,000	23,100
	Optimistic scenario	25%	25,900	25,200
	Pessimistic scenario	25%	21,500	20,000
Import, USD, billion	Basic scenario	50%	6	7
	Optimistic scenario	25%	8	8
	Pessimistic scenario	25%	5	6
Consumer price index, %	Basic scenario	50%	101	101
	Optimistic scenario	25%	100	100
	Pessimistic scenario	25%	105	102
Core inflation, %	Basic scenario	50%	4	4
	Optimistic scenario	25%	3	3
	Pessimistic scenario	25%	6	5

The following is the impact of the application of several scenarios on the amount of expected credit losses on the main segment of the Bank's loan portfolio (credit cards) as of 31 December 2019:

Stage of assessment of expected credit losses	Influence multiple scenarios	Influence base scenario	The effect of using multiple scenarios
With estimate of allowance for 12 month ECL	613	611	2
With estimate of allowance for lifetime ECL	204	205	(1)
Credit-impaired loans	1,782	1,784	(2)
<b>Total</b>	<b>2,599</b>	<b>2,600</b>	<b>(1)</b>

**The fair value of investment securities at FVPL with an embedded option.** The fair value of investment securities at FVPL with an embedded option that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel. Additional information is provided in the Note 28.

**Tax legislation.** Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

**Significant judgement in determining the lease term of contracts with renewal options.** The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

#### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)**

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

#### **5 New or Revised Standards and Interpretations that are Issued, but not yet Effective**

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

*Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (released on 11 September 2014 and effective for annual periods beginning after the date specified by the International Accounting Standards Board)*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group does not expect a material effect from application of these amendments.

*IFRS 17 Insurance Contracts (issued in May 2017; applies to annual periods beginning on or after 1 January 2023)*

IFRS 17 Insurance Contracts (IFRS 17) is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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

IFRS 17 is not applicable to the Group, thus the Group expects this standard will not have any impact on these separate financial statements.

*Amendments to IFRS 1 First-time Adopter (issued in May 2020; apply to annual periods beginning on or after 1 January 2022).*

The amendments updated IFRS 1 by simplifying the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences.

These amendments are not applicable to the Bank and will not have an impact on the financial statements.

*Amendments to IAS 41 Agriculture (issued in May 2020; apply to annual periods beginning on or after 1 January 2022).*

The amendments updated IAS 41 by removing a requirement to exclude cash flows from taxation when measuring fair value thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

These amendments are not applicable to the Bank and will not have an impact on the financial statements.

*Amendments to IAS 16 Property, Plant and Equipment (issued in May 2020; apply to annual periods beginning on or after 1 January 2022).*

**5 New or Revised Standards and Interpretations that are Issued, but not yet Effective (Continued)**

The amendments updated IAS 16 by prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

These amendments are not applicable to the Bank and will not have an impact on the financial statements.

*Amendments to IFRS 3 Business Combinations (issued in May 2020; apply to annual periods beginning on or after 1 January 2022).*

The amendments updated IFRS 3 by narrowing and clarifying the definition of business. There were also made it easier to assess whether the acquired set of activities and assets is a group of assets rather than a business.

The Group does not expect these amendments will have a significant impact on these consolidated financial statements.

*Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets (issued in May 2020; apply to annual periods beginning on or after 1 January 2022).*

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

The Group does not expect these amendments and new standard will have a significant impact on these consolidated financial statements.

*Amendments to IFRS 9 Financial Instruments (issued in 2018-2020, effective for annual periods beginning on or after 1 January 2022).*

Fees in the "10 per cent" test for derecognition of financial liabilities. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The Group does not expect these amendments will have a significant impact on these consolidated financial statements.

*Amendments to IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 16 Leases and IFRS 4 Insurance contracts (issued in December 2020; apply to annual periods beginning on 1 January 2021).*

*(IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR. IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.*

The Group does not expect these amendments will have a significant impact on these consolidated financial statements.



## **6 Cash and Cash Equivalents and Mandatory Reserves**

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
Cash on hand	20,774	19,519
Cash balances with the NBU	5,549	8,525
Cash balances and mandatory reserves with the Central Bank of Cyprus	1,838	1,402
Correspondent accounts and overnight placements with banks		
- Ukraine	4	4
- OECD	21,664	16,393
- Other countries than OECD	98	66
Less: Allowance for 12 month ECL	(16)	(15)
<b>Total cash and cash equivalents and mandatory reserves</b>	<b>49,911</b>	<b>45,894</b>

As at 31 December 2020, the mandatory reserve balances of the Group's branch in Cyprus kept with the Central Bank of Cyprus was UAH 101 million (31 December 2019: UAH 81 million) and in the Group's correspondent accounts, funds in the amount of UAH 5 million were limited by a court decision. In addition, as at 31 December 2020 cash balances with the Central Bank of Cyprus of UAH 1,737 million (31 December 2019: UAH 1,321 million) were restricted in similar manner as a mandatory reserve balances and were not available for operating activities.

As the respective assets are not freely available to finance the day-to-day operations of the Group, for the purposes of the consolidated statement of cash flow, UAH 1,843 million of such balances were excluded from cash and cash equivalents (31 December 2019: UAH 1,407 million).

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
Total cash and cash equivalents and mandatory reserves	49,911	45,894
Less mandatory reserves and other restricted balances	(1,843)	(1,407)
<b>Cash and cash equivalents for the purposes of the consolidated statement of cash flows</b>	<b>48,068</b>	<b>44,487</b>

As at 31 December 2019, UAH 1,294 million of mandatory reserve balances with the NBU has been pledged as a collateral for the refinancing loan received from the NBU. Refer to Note 27. These funds were available to finance the day-to-day operations of the Group.

For the purposes of determining the expected credit losses the Group assesses all financial assets in cash and cash equivalents and mandatory reserves on an individual basis with the use of ratings and indicators of probability of defaults, published by international rating agencies Fitch Ratings, Moody's and Standard & Poor's, which have a continuous, coherent and long-term history of defaults.

For the correspondent account in the NBU, the counterparty is assessed based on the highest rating on the national scale.

**6 Cash and Cash Equivalents and Mandatory Reserves (Continued)**

The credit quality of cash and cash equivalents balances may be summarised based on Moody's ratings where available, or other rating agencies converted to the nearest equivalent on Moody's rating scale at 31 December 2020 as follows:

	Cash on hand	Cash balances with the central banks, including mandatory reserves	Correspondent accounts and overnight placements with banks	Total
<i>In millions of Ukrainian hryvnias</i>				
Cash on hand	20,774	-	-	20,774
Cash balances with the Central Banks	-	7,387	-	7,387
Aa1 to Aa2 rated	-	-	14,253	14,253
A1 to A2 rated	-	-	5,762	5,762
Baa1-Baa3 rated	-	-	1,616	1,616
Ba1 to Ba3 rated	-	-	39	39
B3 rated	-	-	85	85
Unrated	-	-	11	11
<b>Total cash and cash equivalents and mandatory reserves, gross</b>	<b>20,774</b>	<b>7,387</b>	<b>21,766</b>	<b>49,927</b>

The credit quality of cash and cash equivalents balances may be summarised based on Moody's ratings where available, or other rating agencies converted to the nearest equivalent on Moody's rating scale at 31 December 2019 as follows:

	Cash on hand	Cash balances with the central banks, including mandatory reserves	Correspondent accounts and overnight placements with banks	Total
<i>In millions of Ukrainian hryvnias</i>				
Cash on hand	19,519	-	-	19,519
Cash balances with the Central Banks	-	9,927	-	9,927
Aa1 to Aa2 rated	-	-	10,172	10,172
A1 to A2 rated	-	-	4,738	4,738
Baa1 to Baa3 rated	-	-	1,468	1,468
Ba2 to Ba3 rated	-	-	1	1
Caa1 to Caa2 rated	-	-	5	5
Caa3 rated	-	-	58	58
Unrated	-	-	21	21
<b>Total cash and cash equivalents and mandatory reserves, gross</b>	<b>19,519</b>	<b>9,927</b>	<b>16,463</b>	<b>45,909</b>

Geographical, maturity and interest rate analysis of cash and cash equivalents and mandatory reserves is disclosed in Note 24.

**7 Due from banks**

	31 December 2020	31 December 2019
<i>In millions of Ukrainian hryvnias</i>		
Deposit certificates of the National Bank of Ukraine	25,006	27,043
Finance lease receivable	53	75
<b>Total due from banks</b>	<b>25,059</b>	<b>27,118</b>

## 7 Due from banks (Continued)

Analysis by credit quality of amounts due from banks outstanding at 31 December 2020 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Deposit certificates of the National Bank of Ukraine</b>	<b>Finance lease</b>	<b>Total</b>
- Deposit certificates of the National Bank of Ukraine	25,006	-	25,006
- B2 rated	-	53	53
<b>Total due from banks</b>	<b>25,006</b>	<b>53</b>	<b>25,059</b>

Analysis by credit quality of amounts due from Banks outstanding at 31 December 2019 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Deposit certificates of the National Bank of Ukraine</b>	<b>Finance lease</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
- Deposit certificates of the National Bank of Ukraine	27,043	-	27,043
- B2 rated	-	75	75
<b>Total due from banks</b>	<b>27,043</b>	<b>75</b>	<b>27,118</b>

As at 31 December 2020 deposit certificates bore interest rate from 5% to 6% per annum (31 December 2019: from 11.5% to 13.5% per annum).

The credit quality is based on Moody's ratings where available, or other rating agencies converted to the nearest equivalent on Moody's rating scale. The primary factor that the Group considers in determining whether a balance is impaired is its overdue status.

Refer to Note 28 for the estimated fair value of each class of amounts due from banks. Geographical, maturity and interest rate analysis of due from banks is disclosed in Note 24.

## 8 Loans and Advances to Customers

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
Loans and finance lease managed as a separate portfolio	164,332	210,579
Corporate loans	5,509	6,250
Loans to individuals – cards	40,609	51,890
Loans to individuals – mortgage	9,566	11,467
Loans to individuals – consumer	3,500	4,148
Loans to individuals – auto	35	250
Loans to individuals – other	129	498
Loans to small and medium enterprises (SME)	6,859	8,555
Finance lease receivables – corporate customers	588	742
Finance lease receivables – individuals	1,052	1,152
Finance lease receivables – small and medium enterprises (SME)	517	418
Purchase/originated credit-impaired - corporate customers	76	94
<b>Total Loans and advances to customers, gross</b>	<b>232,772</b>	<b>296,043</b>
Less: Allowance for expected credit losses	(177,751)	(236,499)
<b>Total Loans and advances to customers</b>	<b>55,021</b>	<b>59,544</b>

**8        Loans and Advances to Customers (Continued)**

As at 31 December 2020 and 2019, category "Loans managed as a separate portfolio" includes non-performing loans, which were issued before 19 December 2016. Management considers that these loans bears similar credit risk characteristics regardless of the economy sector or commercial activity at the date of issuance of such loans. As at 31 December 2020 the Group recognised UAH 162,163 million of allowance for expected credit losses under these loans (31 December 2019: UAH 207,851 million). During 2020, the Bank wrote off UAH 56,664 million of these loans, but will continue to take measures to repay the written-off debt.

## 8 Loans and Advances to Customers (Continued)

The table below presents an analysis of changes in the gross carrying amount of loans and advances to customers in 2020:

	Transfer of loans to categories					Derecognition of financial instruments	New recognized financial assets	Other changes in gross carrying amount	Written off financial assets	Reclassification to other financial assets	Exchange differences	Gross carrying amount at 31 December 2020
	Gross carrying amount at 1 January 2020	With estimate of allowance for 12 month ECL	With estimate of allowance for lifetime ECL	Credit-impaired loans								
<i>In millions of Ukrainian hryvnias</i>												
<b>With estimate of allowance for 12 month ECL</b>	<b>55,569</b>	<b>3,769</b>	<b>(9,181)</b>	<b>(256)</b>	<b>(24,139)</b>	<b>39,616</b>	<b>(14,921)</b>	-	-	<b>199</b>	<b>50,656</b>	
Loans and finance lease managed as a separate portfolio	-	-	-	-	-	-	5	-	-	-	5	
Corporate loans	4,357	378	(1,202)	(1)	(3,310)	3,582	(334)	-	-	177	3,647	
Loans to individuals – cards	38,605	1,665	(3,469)	(187)	(14,498)	18,487	(4,800)	-	-	-	35,803	
Loans to individuals – mortgage	1,712	649	(1,040)	(35)	(162)	871	(281)	-	-	-	1,714	
Loans to individuals – consumer	3,917	26	(72)	(5)	(2,246)	7,887	(6,084)	-	-	-	3,423	
Loans to individuals – other	33	2	(4)	-	(56)	54	(12)	-	-	-	17	
Loans to small and medium enterprises (SME)	5,085	656	(2,273)	(24)	(3,656)	7,619	(2,724)	-	-	22	4,705	
Finance lease receivables	1,860	393	(1,121)	(4)	(211)	1,116	(691)	-	-	-	1,342	
<b>With estimate of allowance for lifetime ECL</b>	<b>1,399</b>	<b>(3,448)</b>	<b>9,261</b>	<b>(2,467)</b>	<b>(1,120)</b>	<b>714</b>	<b>(1,323)</b>	-	-	<b>52</b>	<b>3,068</b>	
Corporate loans	251	(377)	1,205	(42)	(615)	329	(273)	-	-	13	491	
Loans to individuals – cards	511	(1,406)	3,494	(2,102)	(31)	23	(106)	-	-	-	383	
Loans to individuals – mortgage	233	(613)	1,081	(76)	(51)	11	(95)	-	-	38	528	
Loans to individuals – consumer	10	(21)	71	(38)	(6)	2	(12)	-	-	-	6	
Loans to individuals – auto	1	-	-	-	-	-	(1)	-	-	-	-	
Loans to individuals – other	-	(2)	4	-	(1)	-	-	-	-	-	1	
Loans to small and medium enterprises (SME)	122	(640)	2,283	(178)	(367)	320	(588)	-	-	1	953	
Finance lease receivables	271	(389)	1,123	(31)	(49)	29	(248)	-	-	-	706	
<b>Credit-impaired loans</b>	<b>238,981</b>	<b>(321)</b>	<b>(80)</b>	<b>2,723</b>	<b>(437)</b>	<b>27</b>	<b>2,531</b>	<b>(61,039)</b>	<b>(13,586)</b>	<b>10,173</b>	<b>178,972</b>	
Loans and finance lease managed as a separate portfolio	210,579	-	-	-	(22)	-	2,727	(43,077)	(13,586)	7,706	164,327	
Corporate loans	1,642	-	(3)	42	(11)	3	(25)	(538)	-	261	1,371	
Loans to individuals – cards	12,774	(259)	(25)	2,289	(259)	11	(426)	(9,686)	-	4	4,423	
Loans to individuals – mortgage	9,522	(37)	(40)	111	(58)	-	278	(4,262)	-	1,810	7,324	
Loans to individuals – consumer	221	(5)	-	44	(16)	2	(4)	(171)	-	-	71	
Loans to individuals – auto	249	-	-	-	(1)	-	(2)	(246)	-	35	35	
Loans to individuals – other	465	-	-	-	(7)	-	(9)	(343)	-	5	111	
Loans to small and medium enterprises (SME)	3,348	(16)	(10)	202	(52)	11	(4)	(2,630)	-	352	1,201	
Finance lease receivables	181	(4)	(2)	35	(11)	-	(4)	(86)	-	-	109	
<b>Purchase/originated credit-impaired</b>	<b>94</b>				<b>(2)</b>	<b>-</b>	<b>(6)</b>	<b>(10)</b>	<b>-</b>	<b>-</b>	<b>76</b>	
<b>Total loans and advances to customers, gross</b>	<b>296,043</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(25,698)</b>	<b>40,357</b>	<b>(13,719)</b>	<b>(61,049)</b>	<b>(13,586)</b>	<b>10,424</b>	<b>232,772</b>	

## 8 Loans and Advances to Customers (Continued)

The table below presents an analysis of changes in the gross carrying amount of loans and advances to customers in 2019:

	Transfer of loans to categories									
	Gross carrying amount at 1 January 2019	With estimate of allowance for 12 month ECL	With estimate of allowance for lifetime ECL	Credit-impaired loans	Derecognition of financial instruments	New recognized in financial assets	Other changes in gross carrying amount	Written off	Exchange differences	Gross carrying amount at 31 December 2019
<i>In millions of Ukrainian hryvnias</i>										
<b>With estimate of allowance for 12 month ECL</b>	<b>45,765</b>	<b>3,439</b>	<b>(5,738)</b>	<b>(244)</b>	<b>(25,490)</b>	<b>46,071</b>	<b>(8,133)</b>	-	<b>(101)</b>	<b>55,569</b>
Loans and finance lease managed as a separate portfolio	-	-	-	-	(1)	1	-	-	-	-
Corporate loans	3,326	456	(949)	(10)	(3,251)	4,503	373	-	(91)	4,357
Loans to individuals – cards	32,452	2,156	(3,416)	(170)	(15,855)	22,099	1,339	-	-	38,605
Loans to individuals – mortgage	909	68	(36)	(40)	(87)	1,107	(209)	-	-	1,712
Loans to individuals – consumer	3,933	47	(112)	(6)	(2,498)	8,874	(6,321)	-	-	3,917
Loans to individuals – auto	1	-	-	-	-	-	(1)	-	-	-
Loans to individuals – other	39	-	-	-	(85)	94	(15)	-	-	33
Loans to small and medium enterprises (SME)	3,782	347	(780)	(14)	(3,594)	7,993	(2,639)	-	(10)	5,085
Finance lease receivables	1,323	365	(445)	(4)	(119)	1,400	(660)	-	-	1,860
<b>With estimate of allowance for lifetime ECL</b>	<b>1,556</b>	<b>(2,772)</b>	<b>5,912</b>	<b>(2,461)</b>	<b>(726)</b>	<b>389</b>	<b>(458)</b>	<b>(2)</b>	<b>(39)</b>	<b>1,399</b>
Loans and finance lease managed as a separate portfolio	10	-	3	(20)	(6)	10	5	-	(2)	-
Corporate loans	284	(454)	981	(64)	(458)	143	(180)	-	(1)	251
Loans to individuals – cards	596	(1,588)	3,467	(2,045)	(38)	9	110	-	-	511
Loans to individuals – mortgage	313	(23)	112	(49)	(26)	-	(57)	(1)	(36)	233
Loans to individuals – consumer	20	(37)	112	(52)	(8)	1	(26)	-	-	10
Loans to individuals – auto	1	-	-	-	-	-	-	-	-	1
Loans to small and medium enterprises (SME)	218	(323)	789	(206)	(184)	76	(247)	(1)	-	122
Finance lease receivables	114	(347)	448	(25)	(6)	150	(63)	-	-	271
<b>Credit-impaired loans</b>	<b>244,419</b>	<b>(666)</b>	<b>(174)</b>	<b>2,705</b>	<b>(652)</b>	<b>158</b>	<b>4,688</b>	<b>(3,096)</b>	<b>(8,401)</b>	<b>238,981</b>
Loans and finance lease managed as a separate portfolio	212,785	-	(3)	20	(68)	73	4,036	(3)	(6,261)	210,579
Corporate loans	2,038	(2)	(32)	74	(65)	7	19	(165)	(232)	1,642
Loans to individuals – cards	12,266	(567)	(50)	2,214	(270)	55	27	(898)	(3)	12,774
Loans to individuals – mortgage	11,701	(45)	(77)	89	(127)	4	491	(958)	(1,556)	9,522
Loans to individuals – consumer	240	(9)	-	58	(21)	4	(22)	(29)	-	221
Loans to individuals – auto	330	-	-	-	(4)	-	(1)	(44)	(32)	249
Loans to individuals – other	633	-	-	-	(17)	1	(42)	(105)	(5)	465
Loans to small and medium enterprises (SME)	4,251	(24)	(9)	220	(70)	14	171	(894)	(311)	3,348
Finance lease receivables	175	(19)	(3)	30	(10)	-	9	-	(1)	181
<b>Purchase/originated credit-impaired</b>	<b>196</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16</b>	<b>-</b>	<b>(118)</b>	<b>-</b>	<b>94</b>
<b>Total loans and advances to customers, gross</b>	<b>291,936</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>(26,868)</b>	<b>46,634</b>	<b>(3,903)</b>	<b>(3,216)</b>	<b>(8,541)</b>	<b>296,043</b>

## 8 Loans and Advances to Customers (Continued)

The analysis of the change in the allowance for expected credit losses for 2020 is as follows:

	Allowance for expected credit losses of subject at 1 January 2020	Transfer of loans between categories		Credit-impaired loans	Derecognition of financial instruments	Newly recognized financial assets	Changes in risk parameters for the reporting period	Adjustment of interest income on impaired loans	Written off	Reclassification to other financial assets	Exchange differences	Allowance for expected credit losses of subject at 31 December 2020
		With estimate of allowance for 12 month ECL	With estimate of allowance for lifetime ECL									
In millions of Ukrainian hryvnias												
Allowance for 12 month ECL	878	1,023	(819)	(8)	(384)	647	(227)	-	-	-	2	1,112
Corporate loans	74	11	(24)	-	(34)	48	(12)	-	-	-	2	65
Loans to individuals – cards	613	833	(644)	(6)	(285)	369	25	-	-	-	-	905
Loans to individuals – mortgage	31	95	(36)	(1)	(4)	14	(72)	-	-	-	-	27
Loans to individuals – consumer	37	11	(12)	-	(14)	73	(80)	-	-	-	-	15
Loans to small and medium enterprises (SME)	62	45	(64)	(1)	(43)	115	(35)	-	-	-	-	79
Finance lease receivables	61	28	(39)	-	(4)	28	(53)	-	-	-	-	21
Allowance for lifetime ECL	278	(785)	885	(1,406)	(158)	38	1,581	-	-	-	4	437
Corporate loans	11	(11)	29	(4)	(77)	13	70	-	-	-	-	31
Loans to individuals – cards	205	(646)	661	(1,267)	(8)	1	1,228	-	-	-	-	174
Loans to individuals – mortgage	22	(65)	71	(14)	(9)	1	69	-	-	-	4	79
Loans to individuals – consumer	4	(7)	12	(22)	(2)	-	17	-	-	-	-	2
Loans to small and medium enterprises (SME)	18	(31)	71	(95)	(58)	22	181	-	-	-	-	108
Finance lease receivables	18	(25)	41	(4)	(4)	1	16	-	-	-	-	43
Allowance for ECL on credit-impaired loans	235,263	(238)	(66)	1,414	(360)	23	969	3,838	(61,039)	(13,586)	9,917	176,135
Loans and finance lease managed as a separate portfolio	207,851	-	-	-	(12)	-	248	3,206	(43,077)	(13,586)	7,533	162,163
Corporate loans	1,598	-	(4)	3	(11)	3	(25)	51	(538)	-	257	1,334
Loans to individuals – cards	12,250	(188)	(17)	1,274	(224)	10	433	148	(9,686)	-	7	4,007
Loans to individuals – mortgage	9,117	(30)	(35)	15	(57)	-	296	352	(4,262)	-	1,751	7,147
Loans to individuals – consumer	215	(4)	-	22	(14)	2	(2)	19	(171)	-	-	67
Loans to individuals – auto	249	-	-	-	(1)	-	(1)	-	(246)	-	34	35
Loans to individuals – other	461	-	-	-	(7)	-	(6)	3	(343)	-	3	111
Loans to small and medium enterprises (SME)	3,344	(13)	(8)	96	(24)	8	13	48	(2,630)	-	332	1,166
Finance lease receivables	178	(3)	(2)	4	(10)	-	13	11	(86)	-	-	105
Allowance for ECL on purchased/originated credit-impaired loans	80	-	-	-	(2)	-	(7)	6	(10)	-	-	67
Total allowance for expected credit losses	236,499	-	-	-	(904)	708	2,316	3,844	(61,049)	(13,586)	9,923	177,751

## 8 Loans and Advances to Customers (Continued)

The analysis of the change in the allowance for expected credit losses for 2019 is as follows:

	Transfer of loans between categories					Derecognition of financial instruments	Newly recognized financial assets	Changes in risk parameters for the reporting period	Adjustment of interest income on impaired loans	Written off	Exchange differences	Allowance for expected credit losses of subject at 31 December 2019
	Allowance for expected credit losses of subject at 1 January 2019	With estimate of allowance for 12 month ECL	With estimate of allowance for lifetime ECL	Credit-impaired loans								
<i>In millions of Ukrainian hryvnias</i>												
<b>Allowance for 12 month ECL</b>	<b>1,037</b>	<b>1,181</b>	<b>(643)</b>	<b>(7)</b>	<b>(425)</b>	<b>739</b>	<b>(1,002)</b>	-	-	(2)	878	
Corporate loans	121	19	(24)	-	(44)	85	(81)	-	-	(2)	74	
Loans to individuals – cards	722	1,014	(500)	(6)	(288)	370	(699)	-	-	-	613	
Loans to individuals – mortgage	19	39	(3)	(1)	(3)	20	(40)	-	-	-	31	
Loans to individuals – consumer	39	25	(20)	-	(16)	76	(67)	-	-	-	37	
Loans to small and medium enterprises (SME)	88	51	(69)	-	(71)	147	(84)	-	-	-	62	
Finance lease receivables	48	33	(27)	-	(3)	41	(31)	-	-	-	61	
<b>Allowance for lifetime ECL</b>	<b>414</b>	<b>(719)</b>	<b>764</b>	<b>(1,236)</b>	<b>(75)</b>	<b>19</b>	<b>1,119</b>	-	(2)	(6)	278	
Loans and finance lease managed as a separate portfolio	3	-	2	(2)	-	-	(3)	-	-	-	-	
Corporate loans	88	(17)	44	(29)	(26)	3	(52)	-	-	-	11	
Loans to individuals – cards	246	(631)	532	(1,041)	(12)	-	1,111	-	-	-	205	
Loans to individuals – mortgage	39	(4)	60	(11)	(3)	-	(53)	-	(1)	(5)	22	
Loans to individuals – consumer	10	(18)	20	(29)	(5)	-	26	-	-	-	4	
Loans to small and medium enterprises (SME)	23	(31)	77	(122)	(29)	7	95	-	(1)	(1)	18	
Finance lease receivables	5	(18)	29	(2)	-	9	(5)	-	-	-	18	
<b>Allowance for ECL on credit-impaired loans</b>	<b>240,169</b>	<b>(462)</b>	<b>(121)</b>	<b>1,243</b>	<b>(609)</b>	<b>151</b>	<b>309</b>	<b>5,862</b>	<b>(3,095)</b>	<b>(8,184)</b>	<b>235,263</b>	
Loans and finance lease managed as a separate portfolio	209,450	-	(2)	2	(67)	73	(271)	4,788	(3)	(6,119)	207,851	
Corporate loans	1,988	(2)	(21)	30	(66)	7	(56)	110	(165)	(227)	1,598	
Loans to individuals – cards	11,915	(382)	(32)	1,046	(248)	49	538	265	(897)	(4)	12,250	
Loans to individuals – mortgage	11,246	(36)	(56)	12	(111)	4	38	463	(958)	(1,485)	9,117	
Loans to individuals – consumer	236	(7)	-	29	(19)	4	(21)	22	(29)	-	215	
Loans to individuals – auto	330	-	-	-	(4)	-	(3)	2	(44)	(32)	249	
Loans to individuals – other	627	-	-	-	(17)	1	(45)	5	(105)	(5)	461	
Loans to small and medium enterprises (SME)	4,217	(20)	(8)	122	(69)	13	88	207	(894)	(312)	3,344	
Finance lease receivables	160	(15)	(2)	2	(8)	-	41	-	-	-	178	
<b>Allowance for ECL on purchased/originated credit-impaired loans</b>	<b>176</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>16</b>	<b>(7)</b>	<b>10</b>	<b>(118)</b>	<b>-</b>	<b>80</b>	
<b>Total allowance for expected credit losses</b>	<b>241,796</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,106)</b>	<b>925</b>	<b>419</b>	<b>5,872</b>	<b>(3,215)</b>	<b>(8,192)</b>	<b>236,499</b>	



**8 Loans and Advances to Customers (Continued)**

In 2020, the Group conducted internal investigations and verifications of on certain transactions carried out with the Bank before 19 December 2016, the date of recognition of the Bank as insolvent. As a result of these verifications, the Group was unable to obtain confirmation that the asset with a total value of UAH 13,586 million met the requirements for classification as loans and advances to customers and reclassified this asset in other financial assets with the total amount of the provision. The Group wrote off the specified asset against the provision as at the date of reclassification.

The Group does not disclose the data in the statement of financial position as at 31 December 2018, since this reclassification does not affect the financial statements because of the provision for expected credit losses in the amount of 100% of the debt at that date. Refer to Note 12.

During 2020 loans and advances to customers, which the Group previously wrote off as not collectible were recovered in total amount of UAH 256 million (2019: UAH 338 million), including recoveries of UAH 180 million of credit cards (2019: UAH 233 million), UAH 73 million of corporate loans (2019: UAH 100 million) and UAH 3 million of small and medium-sized business loans (2019: UAH 5 million). The amount of recoveries was recognized directly in profit or loss as a charge for impairment on loans and advances to customers. Refer to Note 19.

Economic and business sector risk concentrations within the customer loan portfolio are as follows:

<i>In millions of Ukrainian hryvnias</i>	31 December 2020		31 December 2019	
	Amount	%	Amount	%
Loans and finance lease managed as a separate portfolio	164,332	70	210,579	71
Loans to individuals	54,967	24	69,499	23
<i>Corporate loans</i>				
Agriculture and food industry	1,690	1	1,942	1
Consumer	1,085	-	1,192	-
Other	3,322	1	3,858	1
<i>Loans to small and medium enterprises (SME)</i>				
Agriculture and food industry	2,344	1	2,316	1
Consumer	1,419	1	1,651	1
Services	1,337	1	2,440	1
Infrastructure	450	-	599	-
Other	1,826	1	1,967	1
<b>Total loans and advances to customers, gross</b>	<b>232,772</b>	<b>100</b>	<b>296,043</b>	<b>100</b>

As at 31 December 2020, the gross aggregate amount of loans to top 10 borrowers of the Group, other than those managed as a separate portfolio, amounted to UAH 2,264 million (31 December 2019: UAH 2,191 million) or 3% of the gross amount of loans less managed as a separate portfolio (31 December 2019: 3%). Allowance for expected credit losses related to these borrowers was UAH 986 million (31 December 2019: UAH 663 million).

## **8 Loans and Advances to Customers (Continued)**

Finance lease receivables, including finance lease receivables that are managed as a separate portfolio, gross investment in the leases and their present values at 31 December 2020 are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Due within 1 year</b>	<b>Due between 1 and 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
<b>Finance lease payments receivables as at 31 December 2020</b>	<b>7,601</b>	<b>3,692</b>	<b>12</b>	<b>11,305</b>
Unearned finance income	(507)	(551)	(1)	(1,059)
<b>Present value of finance lease payments receivables as at 31 December 2020</b>	<b>7,094</b>	<b>3,141</b>	<b>11</b>	<b>10,246</b>
Allowance for expected credit losses	(5,251)	(1,532)	(1)	(6,784)
<b>Total finance lease receivables</b>	<b>1,843</b>	<b>1,609</b>	<b>10</b>	<b>3,462</b>

Finance lease receivables, including finance lease receivables that are managed as a separate portfolio, gross investment in the leases and their present values at 31 December 2019 are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Due within 1 year</b>	<b>Due between 1 and 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
<b>Finance lease payments receivables as at 31 December 2019</b>	<b>8,661</b>	<b>6,607</b>	<b>316</b>	<b>15,584</b>
Unearned finance income	(831)	(1,300)	(25)	(2,156)
<b>Present value of finance lease payments receivables as at 31 December 2019</b>	<b>7,830</b>	<b>5,307</b>	<b>291</b>	<b>13,428</b>
Allowance for expected credit losses	(6,125)	(3,231)	(261)	(9,617)
<b>Total finance lease receivables</b>	<b>1,705</b>	<b>2,076</b>	<b>30</b>	<b>3,811</b>

## 8 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2020 is as follows:

	Loans and finance lease managed as a separate portfolio	Corporate loans	Loans to individuals					SME	Finance lease receivables – corporate customers	Finance lease receivables – individuals	Finance lease receivables – small and medium enterprises (SME)	Total
			Cards	Mortgage	Auto	Consumer	Other					
In millions of Ukrainian hryvnias												
With estimate of allowance for 12 month ECL												
Not overdue	-	1,572	-	-	-	-	-	-	-	-	-	1,572
Loans to large borrowers	3	1,990	-	-	-	-	-	1,497	246	-	141	3,877
Loans to medium size borrowers	-	84	-	-	-	-	-	3,190	18	-	197	3,489
Loans to small borrowers	-	-	22	186	-	1	8	-	-	21	-	238
Loans between UAH 1-100 million	2	-	35,311	1,517	-	3,416	9	-	-	703	-	40,958
Loans less than UAH 1 million	-	1	470	11	-	6	-	18	-	15	1	522
Less than 30 days overdue												
Total loans and advances to customers with estimate of allowance for 12 month ECL	5	3,647	35,803	1,714	-	3,423	17	4,705	264	739	339	50,656
With estimate of allowance for lifetime ECL												
not overdue	-	487	122	476	-	3	1	887	321	260	91	2,648
less than 30 days overdue	-	2	7	37	-	1	-	28	-	19	1	95
31 to 90 days overdue	-	2	254	15	-	2	-	38	-	12	2	325
over 90 days overdue	-	-	-	-	-	-	-	-	-	-	-	-
Total loans and advances to customers with estimate of allowance for lifetime ECL	-	491	383	528	-	6	1	953	321	291	94	3,068
Credit-impaired loans												
not overdue	653	4	29	27	-	1	-	23	-	1	1	739
less than 30 days overdue	-	-	13	3	-	-	-	6	-	-	3	25
31 to 90 days overdue	-	185	23	3	-	-	-	11	-	-	-	222
91 to 180 days overdue	-	25	415	14	-	3	-	54	-	3	3	517
181 to 360 days overdue	103	3	933	22	-	12	-	37	-	4	2	1,116
over 361 days overdue	163,571	1,154	3,010	7,255	35	55	111	1,070	3	14	75	176,353
Total impaired loans and advances to customers	164,327	1,371	4,423	7,324	35	71	111	1,201	3	22	84	178,972
Purchase/originated credit-impaired	-	-	-	74	1	-	-	1	-	-	-	76
Less: Allowance for 12 month ECL	-	(65)	(905)	(27)	-	(15)	-	(79)	(6)	(7)	(8)	(1,112)
Less: Allowance for lifetime ECL	-	(31)	(174)	(79)	-	(2)	-	(108)	(17)	(22)	(4)	(437)
Less: Allowance for ECL on credit-impaired loans	(162,163)	(1,334)	(4,007)	(7,147)	(35)	(67)	(111)	(1,166)	(3)	(19)	(83)	(176,135)
Less: Allowance for ECL on purchased/originated credit-impaired loans	-	-	-	(65)	(1)	-	-	(1)	-	-	-	(67)
Total loans and advances to customers	2,169	4,079	35,523	2,322	-	3,416	18	5,506	562	1,004	422	55,021

## 8 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2019 is as follows:

	Loans and finance lease managed as a separate portfolio	Corporate loans	Loans to individuals						SME	Finance lease receivables – corporate customers	Finance lease receivables – individuals	Finance lease receivables – small and medium enterprises (SME)	Total
			Cards	Mortgage	Auto	Consumer	Other						
In millions of Ukrainian hryvnias													
With estimate of allowance for 12 month ECL													
Not overdue	-	1,997	-	-	-	-	-	-	180	-	-	2,177	
Loans to large borrowers	-	2,311	-	-	-	-	-	1,662	278	-	162	4,413	
Loans to medium size borrowers	-	49	-	-	-	-	-	3,321	15	-	160	3,545	
Loans to small borrowers	-	-	39	294	-	1	21	-	-	38	-	393	
Loans between UAH 1-100 million	-	-	37,787	1,407	-	3,900	15	-	-	1,007	-	44,116	
Loans less than UAH 1 million	-	15	777	18	-	18	-	75	-	16	3	922	
Less than 30 days overdue	-	-	-	-	-	-	-	-	-	-	-	-	
Total loans and advances to customers with estimate of allowance for 12 month ECL	-	4,372	38,603	1,719	-	3,919	36	5,058	473	1,061	325	55,566	
With estimate of allowance for lifetime ECL													
not overdue	-	240	24	201	-	-	-	88	250	1	10	814	
less than 30 days overdue	-	5	14	3	-	-	-	2	-	-	-	24	
31 to 90 days overdue	10	7	472	12	-	9	-	28	1	4	5	548	
over 90 days overdue	-	-	-	-	-	-	-	-	-	-	-	-	
Total loans and advances to customers with estimate of allowance for lifetime ECL	10	252	510	216	-	9	-	118	251	5	15	1,386	
Credit-impaired loans													
not overdue	11,929	4	37	28	-	2	-	20	1	2	1	12,024	
less than 30 days overdue	-	-	13	6	-	-	-	4	-	-	-	23	
31 to 90 days overdue	-	187	21	3	-	-	-	1	-	-	-	212	
91 to 180 days overdue	3,740	2	505	14	-	6	-	30	-	3	-	4,300	
181 to 360 days overdue	124	5	793	20	-	8	-	91	-	3	2	1,046	
over 361 days overdue	194,776	1,428	11,408	9,461	250	204	462	3,233	17	78	75	221,392	
Total impaired loans and advances to customers	210,569	1,626	12,777	9,532	250	220	462	3,379	18	86	78	238,997	
Purchase/originated credit-impaired	-	-	-	93	1	-	-	-	-	-	-	94	
Less: Allowance for 12 month ECL	-	(74)	(613)	(31)	-	(37)	-	(62)	(30)	(10)	(21)	(878)	
Less: Allowance for lifetime ECL	-	(11)	(205)	(22)	-	(4)	-	(18)	(16)	(1)	(1)	(278)	
Less: Allowance for ECL on credit-impaired loans	(207,851)	(1,598)	(12,250)	(9,117)	(249)	(215)	(461)	(3,344)	(18)	(83)	(77)	(235,263)	
Less: Allowance for ECL on purchased/originated credit-impaired loans	-	-	-	(78)	(1)	-	-	(1)	-	-	-	(80)	
Total loans and advances to customers	2,728	4,567	38,822	2,312	1	3,892	37	5,130	678	1,058	319	59,544	

**8 Loans and Advances to Customers (Continued)**

Modified and restructured loans and advances. The table below includes with estimate of allowance for lifetime ECL and credit-impaired loans assets that were modified during the period, with the related modification loss suffered by the Group.

	31 December 2020	31 December 2019
<b>Loans modified during the period</b>		
Amortised cost before modification	887	39
Amortised cost after modification	842	35
Net modification loss/gain	(45)	(4)

Collateral. The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). Mortgage loans are secured by underlying housing real estate. Auto loans are secured by the underlying cars. Loans to small and medium enterprises are secured by underlying commercial real estate, equipment or commercial cars. Finance lease receivables due from individuals and from corporate customers are secured by cars and real estate. The tables below exclude card loans, consumer and part of loans to small and medium enterprises in amount of UAH 1,155 million (31 December 2019: UAH 1,572 million), issue of which did not require any collateral.

The effect of collateral at 31 December 2020:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets, net	Fair value of collateral	Carrying value of the assets, net	Fair value of collateral
<i>In millions of Ukrainian hryvnias</i>				
Loans and finance lease managed as a separate portfolio	1,974	3,121	195	-
Corporate loans	3,285	7,736	794	4
Loans to individuals – mortgage	2,231	9,006	91	9
Loans to individuals – other	13	40	5	-
Loans to SME	2,088	6,375	2,263	1
Finance lease receivables	1,968	4,684	20	9

The effect of collateral at 31 December 2019:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets, net	Fair value of collateral	Carrying value of the assets, net	Fair value of collateral
<i>In millions of Ukrainian hryvnias</i>				
Loans and finance lease managed as a separate portfolio	2,633	3,465	95	-
Corporate loans	2,953	6,686	1,614	288
Loans to individuals – mortgage	2,093	5,976	219	18
Loans to individuals – auto	-	-	1	-
Loans to individuals – other	30	52	7	-
Loans to SME	928	2,415	2,630	6
Finance lease receivables	2,034	3,784	21	10

Upon initial recognition of loans and advances to customers, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets.

Refer to Note 28 for the estimated fair value of each class of loans and advances to customers. Geographical, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

**9 Investment Securities**

<i>In millions of Ukrainian hryvnias</i>	31 December 2020			31 December 2019		
	Carrying value	Contractual rate, % per annum	Maturity	Carrying value	Contractual rate, % per annum	Maturity
<i>Investment securities at FVPL:</i>						
Long-term government bonds with an embedded option	100,750	6.00	September 2028 - January 2032	84,680	6.00	вересень 2028 - січень 2032
<b>Total investment securities at FVPL</b>	<b>100,750</b>			<b>84,680</b>		

<i>In millions of Ukrainian hryvnias</i>	Carrying value	EIR, % per annum	Maturity	Carrying value	EIR, % per annum	Maturity
<i>Investment securities at FVOCI:</i>						
Long-term government bonds	53,155	8.91 - 11.13	May 2027 - December 2032	55,639	8,91 - 19,14	травень 2020 - грудень 2032
Medium-term government bonds	21,084	7.91 - 12.13	January 2021 - May 2023	585	11,34 - 16,84	лютий 2020 - листопад 2023
Medium-term government bonds denominated in foreign currency	23,966	2.22 - 8.07	February 2021 - February 2022	2,133	3,43 - 7,65	січень 2020 - грудень 2021
Short-term government bonds	15,808	7.87 - 11.75	February 2021 - December 2021	-	-	-
Short-term government bonds denominated in foreign currency	5,183	2.46 - 3.50	January 2021 - November 2021	8,245	2,22 - 6,47	червень - липень 2020
<b>Total investment securities at FVOCI</b>	<b>119,196</b>			<b>66,602</b>		

<i>Investment securities at AC:</i>						
Medium-term government bonds	19	9.99	June 2021	-	-	-
Short-term government bonds	1,524	7.38 - 10.39	January 2021 - March 2021	-	-	-
Long-term bonds issued by the State Mortgage Institution	282	18.95	December 2023	930	18.95	грудень 2020 - грудень 2023
Less: Allowance for expected credit losses	(60)			(55)		
<b>Total investment securities at AC</b>	<b>1,765</b>			<b>875</b>		

Long-term government bonds with an embedded option is indexed to an increase in exchange rate of UAH to USD between weighted average monthly exchange rate at the intergroup market for a month prior the issue and a month before the maturity date. Coupon is not subject to indexation. The embedded derivative was accounted together with the host contract.

As at 31 December 2020 long-term bonds issued by the State Mortgage Institution for the AC in the amount of UAH 282 million (as at 31 December 2019: in the amount of UAH 875 million) were classified as impaired financial assets (at 31 December 2019: with an estimate of credit losses within the term of the financial instrument). In December 2020, the State Mortgage Institution did not pay the principal amount and accrued interest on bonds with a carrying amount of UAH 763 million at maturity. The Bank, in accordance with the issuance terms of the securities, returned the long-term bonds issued by the State Mortgage Institution and started the debt collection procedure. As a result, the corresponding overdue debt and the provision for expected losses were transferred to other financial assets. Refer to Note 12.

All other investment securities at FVOCI and AC were classified as financial assets with estimate of allowance for 12 month ECL as at 31 December 2020 and 2019.

Long-term government debt securities at FVOCI were pledged under the contract of responsible storage of cash of the NBU in the Bank's cash desks in the amount of UAH 17,880 million (31 December 2019: UAH 18,364 million).

**10 Right-of-Use Assets**

<i>In millions of Ukrainian hryvnias</i>	<b>Right-of-use assets (premises)</b>	<b>Right-of-use assets (other)</b>	<b>Total right-of-use assets</b>
<b>Carrying amount at 1 January 2019</b>	<b>1,649</b>	<b>6</b>	<b>1,655</b>
<b>Cost at 1 January 2019</b>	<b>1,649</b>	<b>6</b>	<b>1,655</b>
<b>Accumulated depreciation at 1 January 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>
Additions	456	4	460
- cost	(254)	(5)	(259)
- accumulated depreciation	(43)	-	(43)
Depreciation charge	(427)	(2)	(429)
Modification of assets:	-	-	-
- cost	330	1	331
- accumulated depreciation	(12)	-	(12)
<b>Carrying amount at 1 January 2020</b>	<b>1,699</b>	<b>4</b>	<b>1,703</b>
<b>Cost at 1 January 2020</b>	<b>2,194</b>	<b>6</b>	<b>2,200</b>
<b>Accumulated depreciation at 1 January 2020</b>	<b>(482)</b>	<b>(2)</b>	<b>(484)</b>
Additions	664	-	664
Disposals:	-	-	-
- cost	(603)	(3)	(606)
- accumulated depreciation	253	2	255
Depreciation charge	(563)	(2)	(565)
Modification of assets:	-	-	-
- cost	352	1	353
- accumulated depreciation	(79)	-	(79)
<b>Carrying amount at 31 December 2020</b>	<b>1,736</b>	<b>2</b>	<b>1,738</b>
<b>Cost at 31 December 2020</b>	<b>2,607</b>	<b>4</b>	<b>2,611</b>
<b>Accumulated depreciation at 31 December 2020</b>	<b>(871)</b>	<b>(2)</b>	<b>(873)</b>

Modification of an asset includes all types of contract modifications, except those resulting in recognition of a new asset.

## 11 Fixed Assets and Intangible Assets

	Premises	Land	Computers	Motor vehicles	Office furniture and equipment	Electronic systems	Other	Intangible assets	Total
<i>In millions of Ukrainian hryvnias</i>									
<b>Carrying amount at 1 January 2019</b>	<b>1,467</b>	<b>8</b>	<b>1,345</b>	<b>138</b>	<b>272</b>	<b>122</b>	<b>146</b>	<b>345</b>	<b>3,843</b>
Cost or revalued cost at 1 January 2019	1,501	8	3,376	294	867	306	203	468	7,023
Accumulated depreciation and amortisation at 1 January 2019	(34)	-	(2,031)	(156)	(595)	(184)	(57)	(123)	(3,180)
Additions	14	-	1,205	142	126	18	31	437	1,973
Disposals of cost or revalued cost	(4)	-	(197)	(5)	(30)	(8)	(21)	(18)	(283)
Disposals of accumulated depreciation and amortisation	50	-	142	5	30	6	2	18	253
Depreciation and amortisation charge	(52)	-	(501)	(36)	(87)	(18)	(16)	(131)	(841)
Impairment charge to profit or loss	(25)	-	-	-	-	-	-	-	(25)
Revaluation recognized in other comprehensive income	(70)	-	-	-	-	-	-	-	(70)
<b>Carrying amount at 31 December 2019</b>	<b>1,380</b>	<b>8</b>	<b>1,994</b>	<b>244</b>	<b>311</b>	<b>120</b>	<b>142</b>	<b>651</b>	<b>4,850</b>
Cost or revalued cost at 31 December 2019	1,412	8	4,384	431	963	313	213	887	8,611
Accumulated depreciation and amortisation at 31 December 2019	(32)	-	(2,390)	(187)	(652)	(193)	(71)	(236)	(3,761)
Additions	110	-	1,095	43	188	60	199	538	2,233
Disposals of cost or revalued cost	(20)	-	(93)	(1)	(128)	(10)	(36)	(8)	(296)
Disposals of accumulated depreciation and amortisation	7	-	89	-	46	9	32	-	183
Depreciation and amortisation charge	(40)	-	(663)	(45)	(191)	(22)	(39)	(225)	(1,225)
Impairment charge to profit or loss	(60)	-	-	-	-	-	-	-	(60)
Revaluation recognized in other comprehensive income	134	3	-	-	-	2	-	-	137
Revaluation (write-off of accumulated depreciation)	189	-	-	-	-	-	-	-	189
Reclassification to/from assets held for sale	(31)	-	-	-	-	-	-	-	(31)
<b>Carrying amount at 31 December 2020</b>	<b>1,669</b>	<b>11</b>	<b>2,422</b>	<b>241</b>	<b>226</b>	<b>159</b>	<b>298</b>	<b>956</b>	<b>5,982</b>
Cost or revalued cost at 31 December 2020	1,720	11	5,396	473	1,022	366	376	1,417	10,781
Accumulated depreciation and amortisation at 31 December 2020	(51)	-	(2,974)	(232)	(796)	(207)	(78)	(461)	(4,799)

As at 31 December 2020, intangible assets include internally generated intangible assets with the carrying amount of UAH 574 million (31 December 2019: UAH 329 million).

As at 31 December 2020, «other» includes leasehold improvements with the carrying amount of UAH 174 million (31 December 2019: UAH 14 million).

In December 2020 premises were revalued at fair value. The valuation was carried out by independent evaluators that hold a suitable professional qualification and have recent experience in valuation of assets of similar location and category. The basis of valuation of premises was observable market prices.

As at 31 December 2020, included in carrying value of premises was UAH 1,002 million of revaluation surplus, on which a deferred tax liability of UAH 140 million was recognised (31 December 2019: UAH 1,002 million and UAH 121 million respectively).

At 31 December 2020 the carrying amount of premises would have been UAH 956 million (31 December 2019: UAH 956 million) had the assets been carried at cost less depreciation.



## 11 Fixed Assets and Intangible Assets (Continued)

As at 31 December 2020, the cost or revaluation of fully depreciated fixed assets and intangible assets that were still in use was UAH 2,093 million (31 December 2019: UAH 1,354 million).

As at 31 December 2019, fixed assets of UAH 1,189 million were pledged as a collateral under the refinancing loans received from the NBU.

## 12 Other Financial Assets

<i>In millions of Ukrainian hryvnias</i>	31 December 2020	31 December 2019
Guarantee deposits	2,182	1,791
Overdue debt by the State Mortgage Institution (refer to Note 9)	697	-
Settlement with clients	651	870
Accrued income receivable	166	168
Other	191	9
Less: Allowance for expected credit losses	(421)	(610)
<b>Total other financial assets</b>	<b>3,466</b>	<b>2,228</b>

In 2020 and 2019 according to IFRS 9, the Group applied a simplified approach for estimation of expected credit losses on receivables. As at 31 December 2020 financial assets other than the impaired overdue indebtedness of the State Mortgage Institution were classified as assets with an assessment of credit losses within the term of the financial instrument (as at 31 December 2019: with an assessment of credit losses within the term of the financial instrument).

The table below presents an analysis of changes in the allowance for expected credit losses of other financial assets at 31 December 2020:

<i>In millions of Ukrainian hryvnias</i>	Allowance for expected credit losses of subject at 1 January 2020	Reclassification from loans and advances to customers	Written off	Changes allowance for expected credit losses for the reporting period	Exchange differences	Allowance for expected credit losses of subject at 31 December 2020
Guarantee deposits	37	-	-	4	8	49
Settlement with clients	191	-	(50)	(95)	9	55
Receivables from transactions with other financial instruments	-	13,586	(13,586)	-	-	-
Accrued income receivable	175	-	-	(74)	-	101
Other	207	-	-	-	10	217
<b>Total allowance for expected credit losses</b>	<b>610</b>	<b>13,586</b>	<b>(13,636)</b>	<b>(165)</b>	<b>27</b>	<b>422</b>

The table below presents an analysis of changes in the allowance for expected credit losses of other financial assets at 31 December 2019:

<i>In millions of Ukrainian hryvnias</i>	Allowance for expected credit losses of subject at 1 January 2019	Changes allowance for expected credit losses for the reporting period	Exchange differences	Allowance for expected credit losses of subject at 31 December 2019
Guarantee deposits	51	6	(20)	37
Settlement with clients	230	-	(39)	191
Accrued income receivable	130	61	(16)	175
Other	213	-	(6)	207
<b>Total allowance for expected credit losses</b>	<b>624</b>	<b>67</b>	<b>(81)</b>	<b>610</b>

### 13 Other Assets

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
Receivables on conversion of liabilities to equity	8,881	8,881
Inventory	513	605
Precious metals	76	68
Prepayments for services	42	157
Prepaid taxes other than income tax	35	52
Other	278	295
Less: Allowance for other assets impairment	(924)	(773)
<b>Total other assets</b>	<b>8,901</b>	<b>9,285</b>

Receivables originated on conversion of liabilities to equity of UAH 8,881 million (31 December 2019: UAH 8,881 million) were recorded by the Group as a result of conversion of customer accounts to equity at the nationalisation in 2016. Management of the Group expects to recover this amount less allowance in full.

### 14 Customer Accounts

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Individuals</b>		
- Term deposits	102,374	99,168
- Current/demand accounts	125,329	90,826
<b>Legal entities</b>		
- Term deposits	14,704	10,478
- Current/settlement accounts	69,905	39,807
<b>Government organizations</b>		
- Current/settlement accounts	256	178
<b>Total customer accounts</b>	<b>312,568</b>	<b>240,457</b>

As at 31 December 2020 term deposits of legal entities and individuals included UAH 8,136 million and UAH 113 million, respectively (31 December 2019: UAH 6,811 million and UAH 95 million), and current accounts of legal entities and individuals included UAH 252 million and UAH 36 million, respectively (31 December 2019: UAH 248 million and UAH 26 million) of customer accounts of Cyprus Branch, that were subject to conversion of liabilities to equity at nationalisation in 2016 (Note 27). These funds were not transferred by the Cyprus branch due to the prohibition of the Central Bank of Cyprus on interbank settlements with the Bank and on-going litigations in respect of these amounts. As at 31 December 2020 Bank did not complete an analysis of whether criteria for derecognition were met in respect of certain amounts due to customers that were subject to conversion into equity.

#### **14 Customer Accounts (Continued)**

Economic sector concentrations within customer accounts are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2020</b>		<b>31 December 2019</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	227,704	73	189,995	79
Services	36,935	12	20,121	8
Manufacturing	19,963	6	12,367	5
Trade	19,093	6	12,265	5
Agriculture	3,420	1	1,925	1
Transport and communication	2,632	1	1,777	1
Machinery	1,055	-	829	-
Government organizations	256	-	178	-
Other	1,510	1	1,000	1
<b>Total customer accounts</b>	<b>312,568</b>	<b>100</b>	<b>240,457</b>	<b>100</b>

At 31 December 2020 included in customer accounts were deposits of UAH 989 million (31 December 2019: UAH 892 million) held as collateral for loans and advances to customers exposure of UAH 989 million (31 December 2019: UAH 892 million), issued by the Group.

Fair value of each class of customer accounts is disclosed in Note 28. Geographical, maturity and interest rate analysis of customer accounts is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

#### **15 Other Financial Liabilities**

Other financial liabilities comprise the following:

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
Settlements	1,014	56
Accounts payable	983	669
Provision for expected credit losses on credit related commitments	329	290
Other	586	508
<b>Total other financial liabilities</b>	<b>2,912</b>	<b>1,523</b>

15 Other Financial Liabilities (Continued)

The table below shows change in the credit related commitments as at 31 December 2020:

	Amount at 31 December 2020	Transfer to category		Credit- impaired	New Derecognition recognized liabilities	of liabilities in liabilities for the reporting period	Exchange differences	Amount at 31 December 2020
		With estimate of allowance for 12 month ECL	With estimate of allowance for lifetime ECL					
<i>In millions of Ukrainian hryvnias</i>								
<i>With estimate of allowance for 12 month ECL</i>								
Guarantees issued	484	57	(37)	-	845	(649)	(85)	658
Avals granted	16	27	(11)	-	26	(38)	1	21
Undrawn loan commitments	96,319	877	(1,423)	(80)	17,737	(20,699)	24,325	117,112
<i>With estimate of allowance for lifetime ECL</i>								
Guarantees issued	343	(57)	37	-	89	(388)	(6)	18
Avals granted	40	(27)	11	-	93	(26)	(66)	25
Undrawn loan commitments	376	(861)	1,425	(10)	464	(898)	186	683
<i>Credit-impaired</i>								
Guarantees issued	61	-	-	-	68	(89)	1	56
Undrawn loan commitments	97	(16)	(2)	90	35	(133)	7	78
<b>Total credit related commitments, gross</b>	<b>97,736</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,357</b>	<b>(22,920)</b>	<b>24,363</b>	<b>118,651</b>

15 Other Financial Liabilities (Continued)

The table below shows change in the credit related commitments as at 31 December 2019:

	Amount at 1 January 2019	Transfer to category		Credit- impaired	New Derecognition recognized liabilities	Other changes of liabilities in liabilities for the reporting period	Exchange differences	Amount at 31 December 2019
		With estimate of allowance for 12 month ECL	With estimate of allowance for lifetime ECL					
<i>In millions of Ukrainian hryvnias</i>								
<i>With estimate of allowance for 12 month ECL</i>								
Guarantees issued	870	10	(317)	-	288	(288)	(48)	484
Avals granted	24	17	(19)	-	121	(8)	(119)	16
Undrawn loan commitments	69,899	800	(968)	(108)	25,183	(17,424)	18,987	96,319
<i>With estimate of allowance for lifetime ECL</i>								
Guarantees issued	14	(10)	317	-	13	(29)	38	343
Avals granted	197	(17)	19	-	-	(10)	(149)	40
Undrawn loan commitments	372	(753)	969	(11)	175	(579)	205	376
<i>Credit-impaired</i>								
Guarantees issued	85	-	-	-	-	-	(14)	61
Undrawn loan commitments	151	(47)	(1)	119	23	(130)	(18)	97
<b>Total credit related commitments, gross</b>	<b>71,612</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,803</b>	<b>(18,468)</b>	<b>18,882</b>	<b>97,736</b>

15 Other Financial Liabilities (Continued)

The table below presents the analysis of changes in the provision for expected credit losses on credit related commitments as at 31 December 2020:

	Amount at 31 December 2020	Transfer to category		Credit- impaired	New recognized liabilities	Derecognition of liabilities	Other changes in liabilities for the reporting period	Exchange differences	Amount at 31 December 2020
		With estimate of allowance for 12 month ECL	With estimate of allowance for lifetime ECL						
<i>In millions of Ukrainian hryvnias</i>									
<i>With estimate of allowance for 12 month ECL</i>									
Guarantees issued	8	4	(1)	-	10	(3)	(6)	1	13
Undrawn loan commitments	185	7	(4)	-	44	(42)	62	-	252
<i>With estimate of allowance for lifetime ECL</i>									
Guarantees issued	31	(4)	1	-	-	(29)	2	-	1
Undrawn loan commitments	6	(7)	4	-	2	(7)	12	-	10
<i>Credit-impaired</i>									
Guarantees issued	60	-	-	-	14	(21)	1	(1)	53
<b>Total provision for expected credit losses for credit related commitments</b>	<b>290</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70</b>	<b>(102)</b>	<b>71</b>	<b>-</b>	<b>329</b>

15 Other Financial Liabilities (Continued)

The table below presents the analysis of changes in the provision for expected credit losses on credit related commitments as at 31 December 2019:

	Amount at 1 January 2019	Transfer to category		Credit- impaired	New recognized liabilities	Derecognition of liabilities	Other changes in liabilities for the reporting period	Exchange differences	Amount at 31 December 2019
		With estimate of allowance for 12 month ECL	With estimate of allowance for lifetime ECL						
<i>In millions of Ukrainian hryvnias</i>									
<i>With estimate of allowance for 12 month ECL</i>									
Guarantees issued	38	-	(19)	-	6	(5)	(11)	(1)	8
Undrawn loan commitments	192	6	(6)	-	217	(222)	(2)	-	185
<i>With estimate of allowance for lifetime ECL</i>									
Guarantees issued	-	-	19	-	-	(1)	13	-	31
Undrawn loan commitments	5	(6)	6	-	1	(4)	4	-	6
<i>Credit-impaired</i>									
Guarantees issued	85	-	-	-	-	-	(14)	(11)	60
<b>Total provision for expected credit losses for credit related commitments</b>	<b>320</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>224</b>	<b>(232)</b>	<b>(10)</b>	<b>(12)</b>	<b>290</b>

Refer to Note 28 for the disclosure of the fair value of each class of other financial liabilities. Geographical, maturity and interest rate analyses of other financial liabilities are disclosed in Note 24.

## **16 Provisions and Non-financial Liabilities**

Provisions and non-financial liabilities comprise the following:

<i>In millions of Ukrainian hryvnias</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
Provision associated with cessation of operations in Crimea	1,193	1,436
Provision for legal cases	8,978	639
Payables for contributions to Deposit Guarantee Fund	500	496
Accrued expenses on unused vacation days	429	329
Accrued salaries and bonuses	417	7
Taxes other than income tax	264	263
Other	306	96
<b>Total provisions and other non-financial liabilities</b>	<b>12,087</b>	<b>3,266</b>

In 2020, the Bank analyzed and assessed the probability of outflow of resources based on the consideration of outcome of the claims against the Bank related to the exchange of the unencumbered monetary obligations of the Bank to related parties for the Bank's shares per additional issue in December 2016, and, in accordance with the accounting policy, formed a provision in the amount of UAH 7,841 million (equivalent USD 286 million at recognition date in June and December 2020).

## **17 Share Capital and Other Reserve Funds**

### *Share Capital*

The nominal registered amount of the Bank's issued share capital at 31 December 2020 was UAH 206,060 million (31 December 2019: UAH 206,060 million). The total authorised number of ordinary shares was 735.93 million shares (31 December 2019: 735.93 million shares) with a par value of UAH 280 per share (31 December 2019: UAH 280 per share). All issued ordinary shares are fully paid and registered. Each ordinary share carries one vote.

As at 31 December 2020 the Government of Ukraine represented by the Cabinet of Ministers of Ukraine is the ultimate controlling party of the Bank (31 December 2019: represented by the Cabinet of Ministers of Ukraine).

### *Result from transactions with the shareholder*

On 31 December 2020 and 31 December 2019, the result from transactions with a shareholder was UAH 12,174 million and comprised of net gain on initial recognition of domestic government bonds received from the Shareholder as contributions to the share capital in 2016–2017.

### *General reserves and other funds*

General reserves and other funds are established in accordance with the requirements of the Ukrainian legislation, amounted to UAH 8,481 million as at 31 December 2020 (31 December 2019: UAH 6,850 million). The Bank is required to establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year is calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders of not less than 5% of current period profit until reserve capital will reach 25% of regulatory capital of the Bank.

### *Dividends*

In 2020 in accordance with the decision of the Cabinet of Ministers of Ukraine on the mandatory distribution of 90% of the profits of state-owned organizations and the decision on the approval of the annual financial statements of JSC CB "PrivatBank" the Bank paid dividends in the amount of UAH 24,457 million (in 2019: UAH 11,518 million) and, according to the Tax Code of Ukraine, the Bank paid UAH 4,403 million (in 2019: UAH 2,073 million) of income tax advance payment. In addition, the Bank's subsidiaries paid dividends to the shareholder in the amount of UAH 70 million (in 2019: UAH 75 million).



## 18 Interest Income and Expense

<i>In millions of Ukrainian hryvnias</i>	2020	2019
<b>Interest income</b>		
<i>Interest income at effective interest rate</i>		
Loans and advances to individuals	17,896	19,014
Investment securities at FVOCI	7,194	6,791
Due from banks	1,446	430
Loans to small and medium enterprises (SME)	1,160	1,256
Loans and advances to legal entities	630	833
Investment securities at AC	191	548
Cash and cash equivalents and mandatory reserves	30	88
<b>Total interest income at effective interest rate</b>	<b>28,547</b>	<b>28,960</b>
<i>Other interest income</i>		
Investment securities at FVPL	4,453	4,441
Finance lease	563	440
<b>Total interest income at effective interest rate</b>	<b>5,016</b>	<b>4,881</b>
<b>Total interest income</b>	<b>33,563</b>	<b>33,841</b>
<b>Interest expense</b>		
Term deposits of individuals	7,428	8,633
Current/settlement accounts	3,419	3,151
Term deposits of legal entities	558	349
Lease liabilities	265	241
Due to the NBU	263	1,687
Due to banks and other financial institutions	4	93
Other	6	8
<b>Total interest expense</b>	<b>11,943</b>	<b>14,162</b>
<b>Net interest income</b>	<b>21,620</b>	<b>19,679</b>

Information on interest income and expense from transactions with related parties is disclosed in Note 30.

## 19 Charge for Impairment

<i>In millions of Ukrainian hryvnias</i>	Note	2020	2019
<i>(Increase)/decrease in charge for impairment:</i>			
Cash and cash equivalents	6	1	-
Investment securities at AC	9	72	55
Loans and advances to customers	8	1,863	(100)
Credit related commitments	15	-	(18)
Other financial assets	12	(165)	67
<b>Total charge for impairment</b>		<b>1,771</b>	<b>4</b>

## 20 Fee and Commission Income and Expense

<i>In millions of Ukrainian hryvnias</i>	2020	2019
<b>Fee and commission income</b>		
Settlement transactions	7,071	7,187
Acquiring transactions	6,569	4,876
Cash withdrawal	5,978	5,574
International payment systems	5,523	4,638
Cash transactions	69	277
Other	2,439	2,023
<b>Total fee and commission income</b>	<b>27,649</b>	<b>24,575</b>
<b>Fee and commission expense</b>		
International payment systems	8,417	6,022
Settlement transactions	304	248
Cash transactions	167	116
<b>Total fee and commission expense</b>	<b>8,888</b>	<b>6,386</b>
<b>Net fee and commission income</b>	<b>18,761</b>	<b>18,189</b>

Information on fee and commission income from transactions with related parties is disclosed in Note 30.

## 21 Administrative and Other Operating Expenses

<i>In millions of Ukrainian hryvnias</i>	2020	2019
Staff costs	8,213	7,315
Professional services	2,117	1,233
Contributions to Deposit Guarantee Fund	1,842	1,857
Depreciation and amortisation of fixed assets and intangible assets	1,225	841
Maintenance of fixed assets	896	545
Taxes other than on income	703	566
Amortisation of right-of-use assets	565	425
Utilities and household expenses	557	504
Mail and telecommunication	452	391
Security	285	234
Rent	255	216
Advertising and marketing	110	110
Transportation	108	120
Insurance expenses	74	18
Impairment charge of premises and intangible assets	60	-
Other	625	127
<b>Total administrative and other operating expenses</b>	<b>18,087</b>	<b>14,502</b>

Included in staff costs was unified social contribution of UAH 1 358 million (2019: UAH 1,176 million). Social contributions are made into the State pension fund which is a defined contribution plan.

Rent expenses includes expenses on unidentifiable assets in the amount of UAH 167 million (2019: UAH 127 million), non-recoverable VAT (and therefore not included in the right-to-use assets and financial liabilities) in the amount of UAH 44 million (2019: UAH 44 million) and other variable rental expenses in the amount of UAH 43 million (2019: UAH 45 million).

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 30.

During 2019 non-audit services provided by Ernst & Young Global Limited network firms comprised of agreed upon procedures on verification of customer information of Cyprus branch of the Bank. No other non-audit services during 2019 and 2020 were provided.

## 22 Income Taxes

<i>In millions of Ukrainian hryvnias</i>	2020	2019
Current tax	25	30
<b>Income tax expense for the year</b>	<b>25</b>	<b>30</b>

In 2020 the income tax rate applicable to the Group's income was 18% (2019: 18%).

As at 31 December 2020 current tax assets consisted of UAH 6,475 million (2019: UAH 2,073 million) of income tax advance payment (payment of dividends) and UAH 185 million of income tax overpayment (2019: 184 million of income tax overpayment).

<i>In millions of Ukrainian hryvnias</i>	2020	2019
<b>Profit before tax</b>	<b>24,587</b>	<b>32,700</b>
Theoretical expense at statutory rate (2019: 18%; 2018: 18%)	4,426	5,886
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income recognised for tax purposes only	59	78
- Non-deductible expenses	11,886	171
Change in unrecognised deferred tax assets	(16,346)	(6,480)
Changes in estimates of permanent and temporary differences	-	375
Tax temporary differences implementation	-	-
<b>Income tax expense/(credit) for the year</b>	<b>25</b>	<b>30</b>

Differences between IFRS and statutory taxation regulations in Ukraine and other countries give rise to certain temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

<i>In millions of Ukrainian hryvnias</i>	1 January 2020	Credited to profit or loss	Credited directly to other compre- hensive income	31 December 2020
<b>Tax effect of deductible temporary differences</b>				
Allowance for expected credit losses	52	7	-	59
Tax loss carried forward	20,520	(16,363)	-	4,157
Fixed assets - other differences (depreciation method and historical cost)	40	10	-	50
Investment securities at FVOCI (negative revaluation)	229	-	299	528
<b>Gross deferred tax asset</b>	<b>20,841</b>	<b>(16,346)</b>	<b>299</b>	<b>4,794</b>
Less unrecognised deferred tax assets	(20,841)	16,346	(299)	(4,794)
<b>Recognised deferred tax asset</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Tax effect of taxable temporary differences</b>				
Investment securities at FVOCI	-	-	(6)	(6)
Fixed assets (revaluation of premises)	(122)	6	(25)	(141)
<b>Net deferred tax liability</b>	<b>(122)</b>	<b>6</b>	<b>(31)</b>	<b>(147)</b>

**22 Income Taxes (Continued)**

<i>In millions of Ukrainian hryvnias</i>	<b>1 January 2019</b>	<b>(Charged)/ credited to profit or loss</b>	<b>Credited directly to other compre- hensive income</b>	<b>31 December 2019</b>
<b>Tax effect of deductible temporary differences</b>				
Allowance for expected credit losses	-	-	-	-
Tax loss carried forward	12,274	(12,222)	-	52
Fixed assets - other differences (depreciation method and historical cost)	14,779	5,741	-	20,520
Fixed assets - other differences (depreciation method and historical cost)	39	1	-	40
Investment securities at FVOCI	595	-	(365)	229
<b>Gross deferred tax asset</b>	<b>27,687</b>	<b>(6,480)</b>	<b>(365)</b>	<b>20,841</b>
Less unrecognised deferred tax assets	-	-	-	-
<b>Recognised deferred tax asset</b>	<b>27,687</b>	<b>(6,480)</b>	<b>(365)</b>	<b>20,841</b>
<b>Tax effect of taxable temporary differences</b>				
Fixed assets (revaluation of premises)	(137)	-	15	(122)
<b>Net deferred tax liability</b>	<b>(137)</b>	<b>-</b>	<b>15</b>	<b>(122)</b>

In the context of the Group's current structure and Ukrainian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

**23 Segment Analysis**

Operating segments are components that engage in business activities 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 the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Management Board of the Group.

**(a) Description of products and services from which each reportable segment derives its revenue**

The Group identifies the following main segments of banking activity:

Retail banking – representing private banking services, private customer current accounts, including through electronic sales channels, deposits, credit cards, consumer loans and mortgages.

Servicing small and medium businesses - this business segment includes the provision of banking services to private entrepreneurs or legal entities, servicing current accounts, attracting deposits, granting loans and other types of financing, and operations with foreign currency;

Corporate banking - this business segment includes the provision of banking services to legal entities, maintenance of current accounts, attracting deposits, the provision of loans and other types of financing, foreign operations with foreign currency. The difference from small and medium business clients is that at least one condition must be met for a client to enter the corporate business segment:

- annual sales of products from 50 million UAH;
- the volume of foreign economic activity from \$1 million per year;
- calculated overdraft limit of 2 million UAH.

## **23 Segment Analysis (Continued)**

Treasury – representing financial instruments trading and representing interbank loans, deposits, foreign currency exchange operations.

Trading enterprises banking - includes banking services for providing the opportunity to make payments through the POS-terminal network, issuing consumer loans in cooperation with trading networks.

Assets and liabilities managed as a separate portfolio - this segment includes operations related to the former owners of the bank and which today are recognized as problematic. This segment includes non-performing loans which were issued before 19 December 2016, as well as all assets, liabilities and related income, expenses of the Cyprus branch. Management considers bear similar credit risk characteristics regardless of the classification by the industry and the commercial activity at the date of issuance of such loans.

From the beginning of 2020, the Bank began to apply an updated system for evaluating the results of business units, taking into account the internal cost of resources (transfer pricing system – «TP»). The updated system is based on determining transfer prices that take into account the actual cost of the Bank's liabilities; market trends and relevant benchmarks (market indicators); premium for the term (higher price for longer terms); liquidity buffer value; the target structure of the balance sheet and the strategy of the Bank. The purpose of the TP system is to objectively assess the results of business lines taking into account the internal cost of resources, stimulate the Bank's structural units to effective interest policy and implementation of the business plan through economically sound reflection of product profitability and efficiency.

In this case, the assets and liabilities are allocated on the principle of fairness: the business unit includes only those assets and liabilities, and the corresponding income and expenses that the business unit can manage. In addition, the segment is a regulator of intra-segment allocation of resource fees.

This segment includes facilities managed centrally - cash, correspondent accounts, fixed assets, bank-wide currency position, shareholder instruments (capital, provided by the state to increase the share capital), NBU refinancing, and other assets and liabilities and related income / expenses, not affected business units. The assets and liabilities of the business unit, and the corresponding income and expenses of which form the segment, define the intra-segment allocation of resource charges.

Domestic government loan bonds provided by the state to increase the authorized capital include all securities classified as balance sheet investment securities at fair value through profit or loss and partially investment securities at fair value through other comprehensive income namely long-term government debt securities with maturity dates of which November 2027-December 2032.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income or expenses that are included in operating income (income from other segments/expenses for other segments).

### ***(b) Factors that management used to identify the reportable segments***

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

Segment financial information reviewed by the CODM does not include information of the Group's subsidiaries. Regular review of these subsidiary companies is delegated to the local management teams. The CODM obtains financial statements of the Banks subsidiaries. Information about subsidiaries is not included in the segment information, as the amount of assets, liabilities and related income/expenses of subsidiaries is not significant.

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

Assets and liabilities are assigned to the segment based on the principle of the ability to manage the respective assets and liabilities. For each segment of banking activity, the CODM analyzes the net interest income adjusted for the result of operations between segments (income from other segments/expenses for other segments). The intra-segment allocation of the resource fee is carried out at internal rates set by the Department for Asset, Liability and Investment Analysis, taking into account market interest rates, loan maturity under the agreement and actual data on the maturity of customer funds.

Fee and commission income and expenses include direct segment commissions and the result of internal redistribution of income and expenses between segments.

The overall result of the segment includes allocations of general bank administrative expenses.

**23 Segment Analysis (Continued)**

**(d) Information about reportable segment profit or loss, assets and liabilities**

Segment information for the reportable segments for the year ended at 31 December 2020 is set out below:

	Retail banking	SME	Trading enterprises banking	Assets and liabilities managed as a separate portfolio	Treasury	Corporate banking	Capital management and other centralized management	Total reportable segments
<i>In millions of Ukrainian hryvnias</i>								
<b>Total reportable segment assets</b>	<b>41,017</b>	<b>5,939</b>	<b>3,419</b>	<b>14,979</b>	<b>101,009</b>	<b>4,821</b>	<b>211,341</b>	<b>382,525</b>
Cash and cash equivalents and mandatory reserves	-	-	-	-	7,536	-	42,375	49,911
Due from banks	-	-	-	-	25,006	53	-	25,059
Loans and advances to customers	38,870	5,928	3,416	2,164	-	4,643	-	55,021
Investment securities at FVPL	-	-	-	-	-	-	100,750	100,750
Investment securities at FVOCI	-	-	-	-	66,043	-	53,153	119,196
Investment securities at AC	-	-	-	-	1,715	-	-	1,715
Investment properties	-	-	-	2,933	-	-	-	2,933
Right-of-use assets	-	-	-	9	-	-	1,739	1,748
Fixed assets and intangible assets	-	-	-	2	-	-	5,892	5,894
Repossessed collateral	-	-	-	1,228	-	-	-	1,228
<b>Total reportable segment liabilities</b>	<b>229,839</b>	<b>64,394</b>	<b>8</b>	<b>17,373</b>	<b>721</b>	<b>12,334</b>	<b>5,031</b>	<b>329,700</b>
Due to banks and other financial institutions	-	-	-	-	2	-	-	2
Customer accounts	227,239	64,240	-	8,958	-	12,271	-	312,708

Capital expenditures are supplements to non-current assets that are different from financial instruments, deferred tax assets, retirement assets and rights arising from insurance contracts.

Segment information for 12 months 2020 before reclassification as it was analysed by the CODM is set below:

	Retail banking	SME	Trading enterprises banking	Assets and liabilities managed as a separate portfolio	Treasury	Corporate banking	Capital management and other centralized management	Total reportable segments
<i>In millions of Ukrainian hryvnias</i>								
<b>2020</b>								
Interest income	17,233	1,301	924	56	3,542	734	9,773	33,563
Interest expense	(10,498)	(736)	(5)	(25)	(162)	(266)	(269)	(11,961)
<b>Revenues from/(expenses on) other segments</b>	<b>9,421</b>	<b>1,781</b>	<b>(306)</b>	<b>(848)</b>	<b>(2,306)</b>	<b>98</b>	<b>(7,840)</b>	<b>-</b>
<b>Total revenues</b>	<b>16,156</b>	<b>2,346</b>	<b>613</b>	<b>(817)</b>	<b>1,074</b>	<b>566</b>	<b>1,664</b>	<b>21,602</b>
Fee and commission expense	12,150	3,653	2,882	7	46	23	-	18,761
Losses less gains from investment securities revaluation	-	-	-	-	-	-	16,045	16,045
Foreign exchange translation gains less losses	1,889	2	8	(2,911)	684	615	(4,644)	(4,357)
Impairment of repossessed collateral	-	-	-	(119)	-	-	-	(119)
Losses/(gains) on the valuation of premises and investment property	-	-	-	(256)	-	-	-	(256)
Other income/expenses	516	(27)	(67)	230	15	11	420	1,098
(Impairment)/reversal of impairment on investment in an associate	-	-	-	(124)	-	-	-	(124)
Administrative and other operating expenses	(12,697)	(1,489)	(366)	(2,332)	(229)	(678)	(215)	(18,006)
Provision for legal cases	(120)	(3)	-	(8,489)	-	35	-	(8,577)
Charge for impairment	(1,555)	(153)	16	(184)	(51)	122	34	(1,771)
<b>Segment result</b>	<b>16,339</b>	<b>4,329</b>	<b>3,086</b>	<b>(14,995)</b>	<b>1,539</b>	<b>694</b>	<b>13,304</b>	<b>24,296</b>

## 23 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended at 31 December 2019 is set out below:

	Retail banking	SME	Trading enterprises banking	Assets and liabilities managed as a separate portfolio	Treasury and Investment banking	Corporate banking	Total reportable segments
<i>In millions of Ukrainian hryvnias</i>							
Cash and cash equivalents and mandatory reserves	16,055	-	-	-	29,839	-	45,894
Due from banks	-	-	-	-	27,043	75	27,118
Loans and advances to customers	42,231	5,447	3,892	2,692	-	5,282	59,544
Investment securities at FVPL	-	-	-	-	84,680	-	84,680
Investment securities at FVOCI	-	-	-	-	66,602	-	66,602
Investment securities at AC	-	-	-	-	875	-	875
Investments in subsidiaries and an associate	-	-	-	155	-	-	155
Current tax assets	1,035	181	44	-	938	59	2,257
Investment properties	-	-	-	3,379	-	-	3,379
Right-of-use assets	786	138	34	-	713	45	1,716
Fixed assets and intangible assets	3,304	482	29	24	803	122	4,764
Other financial assets	420	8	1,531	234	10	7	2,210
Other assets	463	86	6	8,331	256	143	9,285
Repossession collateral	-	-	-	1,244	-	-	1,244
Assets held for sale	-	-	-	-	-	-	-
<b>Total reportable segment assets</b>	<b>64,294</b>	<b>6,342</b>	<b>5,536</b>	<b>16,059</b>	<b>211,759</b>	<b>5,733</b>	<b>309,723</b>
Due to the NBU	-	-	-	-	7,721	-	7,721
Due to banks and other financial institutions	-	-	-	-	201	-	201
Customer accounts	189,285	36,415	-	7,595	-	7,326	240,621
Deferred income tax liability	56	10	2	-	50	3	121
Other financial liabilities	667	88	4	125	530	108	1,522
Lease liabilities	1,210	184	11	4	294	45	1,748
Provisions and non-financial liabilities	1,191	169	41	108	1,685	66	3,260
<b>Total reportable segment liabilities</b>	<b>192,409</b>	<b>36,866</b>	<b>58</b>	<b>7,832</b>	<b>10,481</b>	<b>7,548</b>	<b>255,194</b>

## 23 Segment Analysis (Continued)

Segment information for 12 months 2019 before reclassification as it was analysed by the person responsible for making operational decisions is set below:

	Retail banking	SME	Trading enterprises banking	Assets and liabilities managed as a separate portfolio	Treasury and Investment banking	Corporate banking	Total reportable segments
<i>In millions of Ukrainian hryvnias</i>							
<b>2019</b>							
<b>Total revenues comprise:</b>							
- Interest income	17,404	1,325	1,609	347	12,298	858	33,841
- Fee and commission income	13,373	1,214	9,378	30	296	284	24,575
- Other income	1,435	180	26	392	62	18	2,113
<b>Revenues from/(expenses on) other segments</b>	<b>31,623</b>	<b>5,709</b>	<b>34</b>	<b>(33,034)</b>	<b>(5,190)</b>	<b>858</b>	<b>-</b>
<b>Total revenues</b>	<b>63,835</b>	<b>8,428</b>	<b>11,047</b>	<b>(32,265)</b>	<b>7,466</b>	<b>2,018</b>	<b>60,529</b>
Interest expense	(11,486)	(685)	(1)	(8)	(1,826)	(168)	(14,174)
Charge for impairment	(462)	(37)	19	220	(8)	264	(4)
Fee and commission expense	(70)	-	(6,022)	-	(294)	-	(6,386)
Losses/(gains) on the valuation of premises and investment property	-	-	-	4	-	-	4
Gains less losses from trading in foreign currencies and swaps	1,953	(2)	18	(46)	76	590	2,589
Foreign exchange translation gains less losses	-	-	-	2,645	3,865	-	6,510
Gains less losses from investment securities sale	-	-	-	-	8	-	8
Losses less gains from investment securities revaluation	-	-	-	-	(1,526)	-	(1,526)
Impairment of repossessed collateral	-	-	-	(134)	-	-	(134)
Share of loss of an associate	-	-	-	8	-	-	8
Administrative and other operating expenses	(10,047)	(1,171)	(75)	(1,181)	(2,051)	(290)	(14,815)
Other losses	-	-	-	-	-	-	-
<b>Segment result</b>	<b>43,723</b>	<b>6,533</b>	<b>4,986</b>	<b>(30,757)</b>	<b>5,710</b>	<b>2,414</b>	<b>32,609</b>

Total consolidated revenues comprise interest income, fee and commission income and other operating income for the year ended 31 December 2020:

<i>In millions of Ukrainian hryvnias</i>	<b>2020</b>	<b>2019</b>
<b>Total revenues for reportable segments</b>	<b>53,422</b>	<b>60,529</b>
(a) Consolidation adjustments	222	278
<b>Total consolidated revenues</b>	<b>53,644</b>	<b>60,807</b>

Reconciliation of reportable profit or loss for the year ended 31 December 2020:

<i>In millions of Ukrainian hryvnias</i>	<b>2020</b>	<b>2019</b>
<b>Total reportable segment result</b>	<b>24,296</b>	<b>32,609</b>
(a) Consolidation adjustments	291	91
<b>Profit before tax</b>	<b>24,587</b>	<b>32,700</b>



## 23 Segment Analysis (Continued)

Reconciliation of reportable assets for the year ended 31 December 2020:

<i>In millions of Ukrainian hryvnias</i>	2020	2019
<b>Total reportable segment assets</b>	<b>382,525</b>	<b>309,723</b>
(a) Consolidation adjustments	118	(64)
<b>Total consolidated assets</b>	<b>382,643</b>	<b>309,659</b>

Reconciliation of reportable liabilities for the year ended 31 December 2020:

<i>In millions of Ukrainian hryvnias</i>	2020	2019
<b>Total reportable segment liabilities</b>	<b>329,700</b>	<b>255,194</b>
(a) Consolidation adjustments	(114)	(161)
<b>Total consolidated liabilities</b>	<b>329,586</b>	<b>255,033</b>

Reconciliation of material items of income for the year ended 31 December 2020 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Interest income	Fee and commission expense	Other income
<b>Total amount for all reportable segment</b>	<b>33,563</b>	<b>18,761</b>	<b>1,098</b>
(a) Consolidation adjustments	-	-	222
<b>As reported under IFRS</b>	<b>33,563</b>	<b>18,761</b>	<b>1,320</b>

Reconciliation of material items of expense for the year ended 31 December 2020 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Interest expense	Charge for impairment of loans and advances to customers	Administrative and other operating expenses
<b>Total amount for all reportable segment</b>	<b>(11,961)</b>	<b>(1,771)</b>	<b>(18,006)</b>
(a) Consolidation adjustments	18	-	(81)
<b>As reported under IFRS</b>	<b>(11,943)</b>	<b>(1,771)</b>	<b>(18,087)</b>

Reconciliation of material items of income for the year ended 31 December 2019 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Interest income	Fee and commission income	Other income
<b>Total amount for all reportable segment</b>	<b>33,841</b>	<b>24,575</b>	<b>2,113</b>
(a) Consolidation adjustments	-	-	278
<b>As reported under IFRS</b>	<b>33,841</b>	<b>24,575</b>	<b>2,391</b>

## 23 Segment Analysis (Continued)

Reconciliation of material items of expense for the year ended 31 December 2019 is as follows:

	Interest expense	Charge for impairment of loans and advances to customers	Administrative and other operating expenses
<i>In millions of Ukrainian hryvnias</i>			
<b>Total amount for all reportable segment</b>	(14,174)	(4)	(14,815)
(a) Consolidation adjustments	12	-	(74)
(c) Other adjustments	-	-	387
<b>As reported under IFRS</b>	<b>(14,162)</b>	<b>(4)</b>	<b>(14,502)</b>

Reconciliation of material assets as at 31 December 2020 is as follows:

	Cash and cash equivalents and mandatory reserves	Investment securities at AC	Loans and advances to customers	Fixed assets and intangible assets	Right-of-use assets
<i>In millions of Ukrainian hryvnias</i>					
<b>Total amount for all reportable segment</b>	49,911	1,715	55,021	5,894	1,748
(a) Consolidation adjustments	-	50	-	88	(10)
<b>As reported under IFRS</b>	<b>49,911</b>	<b>1,765</b>	<b>55,021</b>	<b>5,982</b>	<b>1,738</b>

Reconciliation of material liabilities as at 31 December 2020 is as follows:

	Due to banks and other financial institutions	Customer accounts
<i>In millions of Ukrainian hryvnias</i>		
<b>Total amount for all reportable segment</b>	2	312,708
(a) Consolidation adjustments	17	(140)
(c) Other adjustments	-	-
(f) Swap and spot operations at fair value	-	-
(g) Reclassifications	-	-
<b>As reported under IFRS</b>	<b>19</b>	<b>312,568</b>

Reconciliation of material assets as at 31 December 2019 is as follows:

	Cash and cash equivalents and mandatory reserves	Investment securities at amortized cost	Loans and advances to customers	Fixed assets and intangible assets	Right-of-use assets
<i>In millions of Ukrainian hryvnias</i>					
<b>Total amount for all reportable segment</b>	45,894	875	59,544	4,764	1,716
(a) Consolidation adjustments	-	-	-	86	(13)
<b>As reported under IFRS</b>	<b>45,894</b>	<b>875</b>	<b>59,544</b>	<b>4,850</b>	<b>1,703</b>

## **23 Segment Analysis (Continued)**

Reconciliation of material liabilities at 31 December 2019 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Due to the NBU	Customer accounts	Due to banks and other financial institutions	Other financial liabilities	Provisions and non-financial liabilities
<b>Total amount for all reportable segment</b>	<b>7,721</b>	<b>240,621</b>	<b>201</b>	<b>1,522</b>	<b>3,260</b>
(c) Other adjustments	-	(164)	-	1	6
<b>As reported under IFRS</b>	<b>7,721</b>	<b>240,457</b>	<b>201</b>	<b>1,523</b>	<b>3,266</b>

The reconciling items are attributable to the following:

(a) – Segment reporting is prepared before consolidation of subsidiaries.

The Group did not analyse the capital expenditure, current and deferred income tax in segment reporting.

### **(e) Analysis of revenues by products and services**

The Group's revenues are analysed by products and services in Notes 18 (interest income), Note 20 (fee and commission income).

### **(f) Geographical information**

Revenues for each individual country for which the revenues are material are reported separately as follows for the year ended 31 December 2020 and 31 December 2019:

<i>In millions of Ukrainian hryvnias</i>	<b>2020</b>	<b>2019</b>
Ukraine	62,409	60,707
Other	123	100
<b>Total consolidated revenues</b>	<b>62,532</b>	<b>60,807</b>

## **24 Financial Risk Management**

The risk management function within the Group is carried out in respect of financial risks as well as non-financial risks (operational, legal, compliance risks and reputation risks). Financial risks comprise market risk (including currency risk), credit risk, interest rate risk and liquidity risk. The main objectives of financial risk management are to set risk limits and ensure that these limits are not exceeded.

### **Risk Management Bodies**

For the purposes of efficient risk management, the Group has developed and operates the risk management system, which anticipates segregation of rights, duties and responsibilities among governance bodies and structural units of the Group, segregation of the processes of identifying and assessing risks, assessing the efficiency of risk management system from the process of risk acceptance.

## **24 Financial Risk Management (Continued)**

The bodies of risk management system in the Group include:

- Supervisory Board;
- Audit Committee of the Supervisory Board;
- Risk Committee of the Supervisory Board;
- Management Board;
- Operational Risk Management and Informational Security Committee;
- Credit Committee;
- Asset and Liability Management Committee;
- Non-performing Assets Management Committee;
- Internal Audit;
- Risk Management Function;
- Compliance Division;
- Treasury Department;
- Asset, Liability and Investment Analysis Department;
- Other support divisions (Back and Middle Office);
- Business divisions that directly accept risks.

In 2020, to improve the efficiency of management of problem assets, the Management Board of the Group established a Committee for the Management of Non-performing Assets, which is entrusted with the functions of prompt decision-making on the settlement of problem assets. By 2020, the functions were performed directly by the Management Board of the Group.

**Supervisory Board** is fully responsible for managing the risks to which the Group is exposed in its activities and thus:

- ensures the creation and operation risk management system, supervise the effectiveness of the risk management system and internal control;
- determine and monitors compliance with the Group's corporate values based on legitimate and ethical business practices and constantly maintains a high risk management culture;
- establishes and maintain at an appropriate level an organizational structure, risk management information system and internal controls that ensure effective risk management;
- ensures that the Group's remuneration policy is consistent with and promotes effective risk management without encouraging excessive risk taking;
- ensures that risk management practices are an integral part of strategic planning;
- approves internal risk management documents and monitors compliance thereto, and implementation/updating thereof;
- approves a list of limits (restrictions) for each type of risk and procedures for escalating risk limit violations;
- approves the Group Business Recovery Plan and ensures the fulfillment of functions related to recovering activities of the Group by other bodies of the risk management system;
- approves the appointment and dismissal of the Chief Risk Officer (CRO) and Chief Compliance Officer (CCO);
- identify cases of prohibition (veto) of CRO and/or CCO on decisions of the Management Board of the bank, committees and other collegial bodies of the Management Board of the Bank;
- ensures the functioning of the internal control system and supervising its efficiency;
- reviews management risk reports and, if the bank's risk profile does not meet the approved risk appetite, promptly decide on the implementation of adequate risk mitigation measures;
- takes measures to prevent conflicts of interest within the Group, promotes their resolution and informs the National Bank of Ukraine of conflict of interest arising within the Group.

**The Audit Committee of the Supervisory Board** is collegial body that serves as a support of the Supervisory Board for its functions, specifically:

- verifies the efficiency of the risk management system;
- controls the independence, impartiality, competence of the Chief Internal Auditor, the efficiency of exercising internal audit;
- advise the Supervisory Board on the selection, appointment, dismissal of the Chief Internal Auditor.

## **24 Financial Risk Management (Continued)**

**The Risk Committee of the Supervisory Board** is collegial body established and functioning to assist the Supervisory Board in ensuring operation of the Group's risk management system. The Risk Committee of the Supervisory Board performs the following main functions:

- determines and develop an organizational structure for risk management and internal control to ensure sound risk management, adequate internal control;
- monitors and analyzes the current portfolio and the rate of risks accepted by the Group;
- controls the compliance with the risk thresholds established by the Supervisory Board;
- ensures the availability and updating (at least once a year) of the Bank's internal documents regulating the risk management process and the functioning of the internal control system;
- controls and advises the Supervisory Board on the Group's capital adequacy and liquidity;
- submits suggestions to the Supervisory Board on improving the risk management and internal control systems;
- reviews and advises the Supervisory Board on ensuring the going concern and business recovery plans.

**Internal Audit** is a component of the Group's internal control system and performs the following main functions:

- identifies and assesses the main areas of the Group's risk, including the availability and efficiency of the risk management system, the compliance of such system with the types and values of conducted transactions, and the internal control system, the capacity of these systems to respond to new and increasing risks, justification of the risk rate that the Group is ready to accept;
- ensures providing the Supervisory Board, the Supervisory Board Audit Committee and Risk Committee of the Supervisory Board, the Management Board of the Group with an independent justified assessment of the efficiency of actions, measures and inspections regarding risks to which the Group is exposed;
- develops and gives recommendations on the elimination of deficiencies, improvement of efficiency of the Group's risk management and internal control systems, monitoring of the measures taken to eliminate deficiencies and implementation of recommendations.

**The Management Board** is responsible for the implementation of the risk management strategies and policies, risk management culture, risk management and internal control systems, procedures, methods and other measures for the efficient risk management approved by the Supervisory Board and, respectively:

- ensures the development, develops, concurs or approves (depending on the type of a document) internal documents on risk management;
- ensures preparation and submission to the Supervisory Board of the managerial reports on all types of risks to which the Group is exposed, including new types of products or significant changes;
- develops measures for the prompt elimination of deficiencies in the functioning of risk management system, implementation of recommendations and observations of internal control system assessment exercise, audits by internal audit department, external auditors and inspections of supervisory bodies.

### **Credit Committee**

The Credit Committee makes decisions on asset transactions of the Group within the authority limits established by the Group Management Board, approves limits for transacting with counterparty banks, purchase of securities, and oversees significant loan projects. The Credit Committee approves methodologies, instructions, procedures, forms, models and other regulatory or procedural documents for identifying, measuring, monitoring, controlling, reporting and mitigating credit risks at all organizational levels. The Credit Committee meets at least once a week.

### **Assets and Liabilities Committee**

The main purpose of establishing and operating the Assets and Liabilities Committee is to ensure the efficiency and continuity of the Group assets and liabilities management process, monitor liquidity risk, currency, interest and price risks (for liability transactions) and take appropriate measures aimed at minimizing these risks and maximizing the financial result of the Group. The Assets and Liabilities Committee meets every 2 weeks.

## **24 Financial Risk Management (Continued)**

### ***Operational Risk Management and Informational Security Committee***

The main purpose of the Operational Risk Management and Informational Security Committee is to ensure the complexity and effectiveness of operational and informational risk management processes, implementation and support the function of internal control and information security systems, management of risks related to the Group's interaction with non-banking institutions. The Operational Risk Management and Informational Security Committee meets once a month.

### ***Non-performing Assets Management Committee***

The Committee was established to ensure effective work with non-performing assets, make decisions on determining measures to resolve bad debts (restructuring, foreclosure, forgiveness, write-off, etc.), monitor the implementation of the Strategy and Operational Plan for problem assets, control the performance of Collection Services.

### ***Treasury Department***

Treasury Department is responsible for day-to-day liquidity management and day-to-day management of foreign exchange position of the Group.

### ***Asset, Liability and Investment Analysis Department***

Asset, Liability and Investment Analysis Department daily performs the calculation and control of compliance by the Group with the prudential liquidity ratios established by the NBU, as well as internal indicators of liquidity risk, prepares reports on the current liquidity status of the Group.

**Risk Management Function** is independent from business departments and does not contribute to the generation of the Group's income. The Risk Management Function is subordinated to the Chief Risk Officer (CRO). Then, CRO reports and is accountable to the Supervisory Board, and has direct access to the Supervisory Board and/or the Risk Committee of the Supervisory Board. CRO has right to veto resolutions of the collegial bodies established by the Management Board.

The Risk Management Function performs the following main functions:

- ensures functioning of the risk management system for credit risk, operational risk, market and interest rate risks in the bank portfolio (loans, deposits etc.) and liquidity risk through timely identification, measurement, monitoring, control and reporting on each type of risk;
- develops/participates in the development, and keeps updated (depending on the type of a document) the internal bank regulations (procedures, methodologies, regulations, etc.) on risk management;
- prepares conclusions on credit applications submitted by business divisions for both new credits and for modifying terms under valid/current credits;
- prepares and submits risk reports to the Group's Supervisory Board - at least once a quarter, to the Supervisory Board Risk Committee and the Group Management Board as well as to committees of the Group Management Board - at least once a month, and in situations requiring the immediate update of the Group Supervisory Board – immediately;
- performs stress-testing for risks;
- monitors the compliance with the risk limits and risk appetite indicators;
- develops and implements the early warning system for risky borrowers, financing of which can lead to higher credit risk;
- provides for execution and control of loan loss provisioning in accordance with IFRS, and credit risk assessment in accordance with requirements of the National Bank of Ukraine;
- develops, implements and keeps risk assessment methodologies and models updated.

**Compliance Division** is subordinated to the Chief Compliance Officer, which, in turn, reports and is accountable to the Group Supervisory Board. Compliance Division is independent from business divisions, does not take part in generating income of the Group and performs the following functions:

- ensures control over the Group's compliance with legislative rules, regulatory environment, rules, Group internal documents and relevant standards of professional associations, which are applicable to the Group;
- ensures monitoring of changes in the legislation and regulatory environment, rules, Group internal documents and relevant standards of professional associations, applicable to the Group, and evaluate the impact of such changes on the processes and procedures implemented in the Group, as well as ensures control over making the relevant amendments in the Group internal documents;

## **24 Financial Risk Management (Continued)**

- ensures control over the Group's relationships with customers and counterparties in order to prevent the Group's participation and / or use in illegal transactions;
- ensures management of the risks associated with a conflict of interests ;
- prepares conclusions on compliance risk inherent in new products and significant changes in the activities of the Group, before such new products are implemented in order to take timely and adequate managerial decisions;
- prepares and submits the compliance risk assessment reports to the Group Supervisory Board, the Risk Committee of the Supervisory Board and to the Management Board at least once a quarter.

**Credit risk.** The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by defaulting on a contracted liability. Credit risk arises as a result of the Group's lending and other transactions with counterparties generating financial assets.

The Group's credit policy defines the general principles for implementing the credit process and credit risk management, establishes a general approach to the acceptance of credit risks, principles and standards of credit activity, defines the authorities and responsibilities of the Group governance bodies, employees and structural subdivisions at each stage of the credit process, provides for the comprehensive approach to credit risk management.

Credit risk management is carried out on the basis of the regular analysis of the capacity of borrowers and potential borrowers to fulfill their obligations on repaying loan principal and paying interest, the regular analysis of loan portfolio quality in order to monitor the rate of credit risk by changing lending limits as necessary, by obtaining collateral, making its examination and appraisal at established frequency, and by applying other instruments of credit risk mitigation.

Main information on credit risk rate is systematically updated and provided for analysis in the form of loan portfolio status reports.

The Credit Committee approves the classification of credit transactions by risk groups, reviews, corrects and approves the credit risk assessment in line with regulatory requirements and the estimated amount of loan losses in compliance with IFRS (loans and advances to clients, loan commitments and other financial assets).

To limit the risks to which the Group is exposed as a result of its lending transactions, the Group has the following system of decision-making authority for lending transactions:

- individual authority limits : these are limits delegated to the Risk Management Function for decision making on retail and small and medium business clients under standard product terms;
- dual authority limits ("dual signature" authority): these are limits for risky and risk-free transactions delegated to the managers of risk management divisions together with the heads of relevant business divisions within the standard product terms. A transaction is performed provided the unilateral positive vote to authorize it.;
- group authority limits: these are limits delegated by the Bank Management Board to the Credit Committee, subject to the conclusions, comments or recommendations of the Legal Department, the Security Division, and the opinion of the risk management divisions, which includes comments on specific risks and mitigation actions associated with potential lending transaction to have it approved as negative. The decision is taken by a majority vote of the members of the Credit Committee.

For the purposes of credit quality analysis the Group categories loans and advances to the corporate clients, SME and private entrepreneurs into large, medium and small borrowers based on the size of the loan exposure:

Large borrowers	Above UAH 100 million
Loans to medium size borrowers	From UAH 1 million to UAH 100 million
Loans to small borrowers	Less than UAH 1 million

For the purposes of credit quality analysis the Group categories loans and advances to individuals based on the size of the loan exposure:

Loans between UAH 1-100 million  
Loans less than UAH 1 million

## **24 Financial Risk Management (Continued)**

### *Loan Monitoring*

The Group IT systems allow the management to monitor loan portfolio behaviour real time.

The Group regularly monitors the risk of each loan. To do this, it performs: (i) review of the borrower's financial condition, (ii) assessment of the adequacy of the loan collateral. The borrower's financial condition are regularly reviewed, and the borrower's internal credit rating may be revised based on the results of such analysis. This analysis is based on data on the receipt of funds on the client's account, the latest financial statements and other commercial information of the borrower, which he provided to the Group or which the Group otherwise received.

The Group calculates early warning indicators, namely signs of abnormal customer behavior / activity, which could potentially lead to a deterioration of the customer's risk profile.

The Group performs regular monitoring of market value of the collateral to assess its sufficiency for loan coverage. Assessment of collateral is performed by independent appraisers, certified by the Group or qualified as internal appraisers. Regularity of these assessments depends on type of collateral.

The Group maintains client credit history records. This allows the Group to control the credit risk rate by targeting borrowers, who have a good credit history.

### *Problem Loan Recovery*

For the purpose of efficient management of non-performing assets, the Group performs the following:

- prevention and timely detection of non-performing loans, efficient handling of potentially non-performing debts;
- reduction of the value and share of non-performing debts in the Group portfolio by developing and implementing measures for the recovery of such debts, in particular, restructuring, pre-trial settlement, enforcement on collateral including its forecasted sale, etc.;
- establishment of the comprehensive and efficient system of non-performing loans management.

The Group has implemented a segregation of duties as to recovery of non-performing loans at different stages of their identification and settlement depending on the type and amount of an NPL, availability and condition of collateral, capacity and/or intention of a borrower to repay the loan and accrued interest.

Stages of managing potential non-performing debts and actual non-performing debts:

1. Pre-Collection stage - a set of activities aimed at identifying potential non-performing debts and actual non-performing debts, and preventing the client's failure on the payment schedule.
2. Soft Collection stage - a range of activities targeted to the collection of payments past due for 1-90 days, in particular, by communicating with clients remotely (telephone, SMS, IVR, letters, etc.)
3. Hard Collection stage - a set of measures aimed at collecting payments past due from 90 to 180 days through direct communication with clients.
4. Legal Collection stage. Preparation for the legal collection stage commences simultaneously with the hard collection stage. Legal collection involves a set of measures to enforce debts through claims.

The tools to manage potential non-performing claims and actual non-performing claims include:

1. Remote contacts with debtors: phone calls, messages to the client's telephone; Privat-24, IVR system calls; notifications, messengers.
2. Meetings with borrowers: discussing further cooperation with a client.
3. Claims: litigation, debt enforcement by government or private enforcement officers.
4. Restructuring: the main purpose of the restructuring process is to restore the solvency of a borrower for non-performing loans.



## 24 Financial Risk Management (Continued)

The Group uses the following restructuring scenarios:

- restructuring uncollateralized retail loans – renegotiation of a debt by partial recalculation of the debt-related penalties and fines, commissions, interest, changes in the schedule of debt repayment;
- loan restructuring of “Consumer Lending” segment - renegotiation of a debt by partial recalculation of debt-related penalties and fines, forgiveness of a part of the debt, changes in the schedule of debt repayment, conversion of foreign currency loans into hryvnia, etc.;
- restructuring nonperforming assets of SME clients– renegotiation of a debt by partial recalculation of debt-related penalties, commissions, interest, changes in the schedule of debt repayment, except for court fees and fines (court costs and fines should be paid by the client as a precondition of restructuring).

5. Writing off debts from the Group's accounting books: the Group writes off assets in accordance with the Group's accounting policies.

6. Outsourcing: depending on the Group's strategy, the necessity of transferring distressed assets to external collection companies may be considered.

7. Factoring: if the Group assesses the debt recovery probability as low, the Group has the right to assign its debt claimant right to the third party that is a factoring company.

8. Foreclosure of collateral: selling or repossession of collateral.

### *Related Party Lending*

The Group conducts its business with related parties on commercial terms. Each loan request from a related party is subject to the same credit approval procedures that apply to any loan application from a nonrelated party.

**Market risk.** Market risk is a probability of occurrence of losses or additional expenses or a shortfall in the planned income as a result of unfavourable movements in foreign exchange rates, interest rates, cost of financial instruments (market quotes, indexes, etc.). The strategic objective of the Group risk management policy is to minimize and prevent possible losses that can arise in case the market conditions change.

**Currency risk.** Currency risk is the risk that the value of financial instruments owned by the Group will fluctuate due to changes in foreign exchange rates. The Group's major currency positions are in Ukrainian hryvnia, U.S. dollars and Euros. The Group's policy in respect of open currency positions is restricted under Ukrainian law to regulatory limits. The Asset, Liability and Investment Analysis Department and Treasury Department perform daily control of compliance with regulatory limits and currency exchange positions by means of compiling appropriate reports. Refer to Note 8 and 9.

The table below summarises the Group's exposure to currency risk at the end of the reporting period and position in Ukrainian hryvnias:

<i>In millions of Ukrainian hryvnias</i>	31 December 2020				31 December 2019			
	Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance and off- balance sheet position	Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance and off- balance sheet position
Ukrainian hryvnias	293,670	223,205	-	70,465	249,797	175,512	-	74,285
US Dollars	40,788	73,219	-	(32,431)	23,531	62,336	-	(38,805)
Euros	20,238	20,303	-	(65)	13,361	13,507	-	(146)
Other	470	616	-	(146)	249	281	-	(32)
<b>Total</b>	<b>355,166</b>	<b>317,343</b>	<b>-</b>	<b>37,823</b>	<b>286,938</b>	<b>251,636</b>	<b>-</b>	<b>35,302</b>

Fair value of embedded derivatives was included in the table above together with host instruments into UAH denominated financial assets.

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

**24 Financial Risk Management (Continued)**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

<i>In millions of Ukrainian hryvnias</i>	31 December 2020		31 December 2019	
	Impact on profit or loss (before tax)	Impact on equity	Impact on profit or loss (before tax)	Impact on equity
US Dollar strengthening by 20% (2018: strengthening by 20%)	(6,954)	(6,954)	(8,093)	(8,093)
US Dollar weakening by 5% (2018: weakening by 5%)	1,738	1,738	2,023	2,023
Euro strengthening by 10% (2018: strengthening by 10%)	(7)	(7)	(15)	(15)
Euro weakening by 5% (2018: weakening by 5%)	3	3	7	7
Other strengthening by 5% (2018: strengthening by 5%)	(7)	(7)	(2)	(2)
Other weakening by 5% (2018: weakening by 5%)	7	7	2	2

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group. Sensitivity of US Dollar exchange rate in the above table takes into account effect of recognition of fair value of derivative embedded in investment securities available-for-sale and in investment securities held to maturity.

**Interest rate risk.** Interest rate risk in the banking book is a probability of occurrence of losses or additional expenses, or a shortfall in the planned income due to the effect of unfavourable changes in the interest rates. Interest rate risk affects the economic value of the Group capital and net interest income of the Group.

The strategic objective of the Group's interest rate management policy is to minimize and prevent possible losses that can arise in case the market conditions change. The Group faces the risk of financial losses due to movement of interest rates on assets and liabilities, mainly as a result of granting fixed interest rate loans for the terms and in amounts different from the terms and amounts of liabilities with fixed interest rate.

The collegial body that ensures the tactical implementation of the Group's interest rate policy is the Assets and Liabilities Committee. Responsibilities of the Assets and Liabilities Committee in this area include an overview of the financial market price policy, credit and deposit interest rates under the programs of competitive banks, consideration of proposals of the Business and the Head Office divisions to improve the efficiency of the Group's credit and deposit policy, the assessment of the cost of liabilities and return on assets, interest margin policy, approval of interest rates. Interest rates may undergo review in the event of significant fluctuations in market rates, changes in the discount rate of the regulator, depending on the resource position of the Group.

Market Risk Management Division, that is a part of the Risk Management Function, monitors and controls the interest rate risk based on the GAP analysis, in which assets and liabilities sensitive to interest rate changes are grouped by time bands.

Fixed interest rate assets and liabilities are arranged by remaining maturities, while assets and liabilities with a variable interest rate are arranged by the earliest repricing dates. The net interest sensitivity gap between assets and liabilities in a given time band represents the GAP. The GAP analysis produces the assessment of the effect of changes in interest rates on the Group's net interest income. The Group conducts stress testing to determine the conditions under which the Group is exposed to possible losses, as well as to determine the amount of these losses and the impact on the Group's interest income. Stress testing is performed by analyzing the sensitivity of net interest income to movements in interest rates assuming that the rates increase or decrease for a certain number of percentage points.

**24 Financial Risk Management (Continued)**

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earliest of contractual interest repricing or maturity dates.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Non-monetary	Total
<i>In millions of Ukrainian hryvnias</i>						
<b>31 December 2020</b>						
Total financial assets	86,321	9,110	67,719	192,016	3	355,169
Total financial liabilities	229,269	33,245	53,374	1,455	-	317,343
<b>Net interest sensitivity gap at 31 December 2020</b>	<b>(142,948)</b>	<b>(24,135)</b>	<b>14,345</b>	<b>190,561</b>	<b>3</b>	<b>37,826</b>
<b>31 December 2019</b>						
Total financial assets	77,365	4,231	23,722	181,620	3	286,941
Total financial liabilities	169,545	34,926	45,244	1,921	-	251,636
<b>Net interest sensitivity gap at 31 December 2019</b>	<b>(92,180)</b>	<b>(30,695)</b>	<b>(21,522)</b>	<b>179,699</b>	<b>3</b>	<b>35,305</b>

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	31 December 2020				31 December 2019			
	USD	UAH	Euro	Other	USD	UAH	Euro	Other
<i>In % p.a.</i>								
<b>Assets</b>								
Loans and advances to legal entities	9	11	6	5	6	12	3	6
Loans and advances to individuals	17	44	17	5	17	44	18	43
Investment securities at FVPL	-	6	-	-	-	6	-	-
Investment securities at FVOCI	4	10	2	-	6	10	2	-
Investment securities at AC	-	19	-	-	-	19	-	-
<b>Liabilities</b>								
Due to the NBU	-	-	-	-	-	15	-	-
Correspondent accounts and overnight deposits of banks	0	0	-	-	0	0	-	-
Term placements of banks	-	-	-	-	-	-	-	-
Customer accounts	-	-	-	-	-	-	-	-
- current accounts of customers	0	1	-	-	0	4	0	-
- term deposits of legal entities	0	5	1	-	0	12	2	-
- term deposits of individuals	1	9	0	8	3	15	1	8
Debt securities in issue	-	15	-	-	-	15	-	-
Subordinated debt	-	-	-	-	-	-	-	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current period profit and equity at the end of the reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

**24 Financial Risk Management (Continued)**

**Geographical risk concentrations.** The geographical concentration of the Group's financial assets and liabilities at 31 December 2020 is set out below:

<i>In millions of Ukrainian hryvnias</i>	<b>Ukraine</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents and mandatory reserves	26,319	21,662	1,930	49,911
Due from banks	25,059	-	-	25,059
Loans and advances to customers	54,443	1	577	55,021
Investment securities at FVPL	100,750	-	-	100,750
Investment securities at FVOCI	119,194	2	-	119,196
Investment securities at AC	1,765	-	-	1,765
Other financial assets	1,013	2,449	5	3,467
<b>Total financial assets</b>	<b>328,543</b>	<b>24,114</b>	<b>2,512</b>	<b>355,169</b>
<b>Non-financial assets</b>	<b>19,298</b>	<b>2</b>	<b>8,174</b>	<b>27,474</b>
<b>Total assets</b>	<b>347,841</b>	<b>24,116</b>	<b>10,686</b>	<b>382,643</b>
<b>Liabilities</b>				
Due to banks and other financial institutions	17	-	2	19
Customer accounts	301,665	8,606	2,297	312,568
Lease liabilities	1,836	-	8	1,844
Other financial liabilities	2,057	712	143	2,912
<b>Total financial liabilities</b>	<b>305,575</b>	<b>9,318</b>	<b>2,450</b>	<b>317,343</b>
<b>Non-financial liabilities</b>	<b>11,229</b>	<b>4</b>	<b>1,010</b>	<b>12,243</b>
<b>Total liabilities</b>	<b>316,804</b>	<b>9,322</b>	<b>3,460</b>	<b>329,586</b>
<b>Net position</b>	<b>31,037</b>	<b>14,794</b>	<b>7,226</b>	<b>53,057</b>
<b>Credit related commitments (Note 15)</b>	<b>118,259</b>	<b>4</b>	<b>59</b>	<b>118,322</b>

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand, precious metals and premises and equipment have been allocated based on the country in which they are physically held.

## 24 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2019 is set out below:

<i>In millions of Ukrainian hryvnias</i>	<b>Ukraine</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents and mandatory reserves	28,032	16,390	1,472	45,894
Due from banks	27,118	-	-	27,118
Loans and advances to customers	58,698	2	844	59,544
Investment securities at FVPL	84,680	-	-	84,680
Investment securities at FVOCI	66,601	1	-	66,602
Investment securities at AC	875	-	-	875
Other financial assets	170	2,044	14	2,228
<b>Total financial assets</b>	<b>266,174</b>	<b>18,437</b>	<b>2,330</b>	<b>286,941</b>
<b>Non-financial assets</b>	<b>14,557</b>	<b>0</b>	<b>8,162</b>	<b>22,718</b>
<b>Total assets</b>	<b>280,731</b>	<b>18,437</b>	<b>10,492</b>	<b>309,659</b>
<b>Liabilities</b>				
Due to the NBU	7,721	-	-	7,721
Due to banks and other financial institutions	183	13	5	201
Customer accounts	231,513	7,119	1,825	240,457
Lease liabilities	1,734	-	-	1,734
Other financial liabilities	983	435	105	1,523
<b>Total financial liabilities</b>	<b>242,134</b>	<b>7,567</b>	<b>1,935</b>	<b>251,636</b>
<b>Non-financial liabilities</b>	<b>3,390</b>	<b>2</b>	<b>5</b>	<b>3,397</b>
<b>Total liabilities</b>	<b>245,524</b>	<b>7,569</b>	<b>1,940</b>	<b>255,033</b>
<b>Net position</b>	<b>35,207</b>	<b>10,868</b>	<b>8,552</b>	<b>54,626</b>
<b>Credit related commitments (Note 27)</b>	<b>97,392</b>	<b>8</b>	<b>46</b>	<b>97,446</b>

**Liquidity risk.** Liquidity risk is a probability of losses or additional expenses, or a shortfall in the planned revenues as a result of the Group's inability to finance the growth of its assets and/or fulfil its obligations in due time.

Strategic tasks of the Group policy in area of liquidity risk management are: liquidity indicators keeping at level higher the regulatory level, minimization of liquidity risk by keeping of sufficient amount of high quality liquid assets as possible source of pledge for case of stressing situations implementation, limits of borrowed funds concentration by formation of diversifying resources base, etc.

The Group strives to support stable form of financing, develop sources of funds, in first turn, funds of individuals and legal entities.

For monitoring of current liquidity status Treasury Department manages liquidity daily by control of payment calendar of the Bank. Assets, Liabilities and Investments Analysis Department performs daily calculation of liquidity indicators in accordance with the NBU requirements.

## **24 Financial Risk Management (Continued)**

Assets, Liabilities and Investments Analysis Department submits reports on liquidity risk to ALCO members and Market risk management unit - to the Risk Committee of Supervisory Board not less than once a month. The reports include information on liquidity breaches based GAP-analysis method (comparison of assets amount and liabilities by liquidity gaps) in main currencies and in equivalent of national currency, available high quality liquid assets, concentration of funding by sources, compliance with the NBU's ratios and mandatory reserves requirements, etc.

Liquidity risk control is implemented through the compliance with regulatory ratios of short-term liquidity and LCR ratio, as well as limits and liquidity GAPs indicators requirements, required level of high quality liquid assets and funding concentrations by sources.

The Group calculates regulatory liquidity ratios established by the National Bank of Ukraine on a daily basis. These obligatory limits shall include:

- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with contractual maturity of up to one year. The ratio was 92.92% at 31 December 2020 (31 December 2019: 100.41%) with the minimum required limit of 60% (31 December 2019: 60%).
- liquidity coverage ratio (LCR) - in multicurrency (LCRBB) and in foreign currency (LCRIB). LCR was 278.23% in multicurrency (LCRBB) and 218.18% in foreign currency (LCRIB) as at 31 December 2020 (31 December 2019: 268.26% and 307.71% respectively) with regulatory limit established by the NBU not less than 100% in multicurrency (LCRBB) and in foreign currency (LCRIB) (31 December 2019: not less than 100% in multicurrency (LCRBB) and 100% in foreign currency (LCRIB)).

Reports on liquidity ratios are used by Treasury for daily liquidity management.

The Group Treasury manages current liquidity, analyses schedules of payments, manages liquidity position daily by placing and attracting short-term funds at interbank market, purchase or sale of securities, or by other available financial transactions. Treasury analyses possible consequences of outflows of essential amounts of funds to reduce to the maximum extent a probability of unexpected changes of resources volumes. Treasury ensures compliance with mandatory reserve and regulatory liquidity ratios requirements.

Contingency Funding Plan was developed to manage liquidity in crisis periods. It contains a list of possible reasons leading to crisis, indicators of crisis and list of measures on crisis events localization and liquidation. The Plan establishes responsible bodies for certain measures and procedure of their interaction. The Group also performs stress-testing by liquidity scenarios that include possible unfavourable conditions.

The table below shows liabilities at 31 December 2020 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including and gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because amounts disclosed in consolidated statement of financial position are based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2020 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months to 12 months</b>	<b>From 5 years to 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Due to banks and other financial institutions	19	-	-	-	-	19
Customer accounts	226,883	33,807	53,858	213	-	314,761
Lease liabilities	62	113	551	1,527	19	2,272
Other financial liabilities	2,910	1	1	-	-	2,912
<b>Total contractual future payments for financial obligations</b>	<b>229,874</b>	<b>33,921</b>	<b>54,410</b>	<b>1,740</b>	<b>19</b>	<b>319,964</b>
<b>Credit related commitments (Note 27)</b>	<b>117,686</b>	<b>176</b>	<b>239</b>	<b>221</b>	<b>-</b>	<b>118,322</b>

## 24 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2019 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
<b>Liabilities</b>						
Due to the NBU	7,721	-	-	-	-	7,721
Due to banks and other financial institutions	201	-	-	-	-	201
Customer accounts	160,833	35,810	46,069	732	1	243,445
Debt securities in issue	62	95	493	1,521	131	2,302
Other financial liabilities	1,521	1	1	-	-	1,523
<b>Total contractual future payments for financial obligations</b>	<b>170,338</b>	<b>35,906</b>	<b>46,563</b>	<b>2,253</b>	<b>132</b>	<b>255,192</b>
<b>Credit related commitments and financial guarantees, gross (Note 27)</b>	<b>96,690</b>	<b>383</b>	<b>182</b>	<b>191</b>	<b>-</b>	<b>97,446</b>

Customer accounts are classified in the above analysis based on contractual maturities.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors maturities, which may be summarised as follows at 31 December 2020 in accordance with the requirements of the National Bank of Ukraine:

<i>In millions of Ukrainian hryvnias</i>	Net liquidity gap at 31 December 2020	Cumulative liquidity gap at 31 December 2020
On demand	30,796	30,796
Overnight	(12,092)	18,703
From 2 to 7 days	20,875	39,578
From 8 to 14 days	(8,987)	30,591
From 15 to 21 days	(3,751)	26,840
From 22 to 31 days	(9,151)	17,689
From 1 to 2 months	(12,337)	5,352
From 2 to 3 months	(13,801)	(8,449)
From 3 to 6 months	8,064	(384)
From 6 to 9 months	(6,920)	(7,304)
From 9 to 12 months	10,952	3,648
From 1 to 2 years	3,092	6,739
From 2 to 3 years	1,832	8,572
From 3 to 5 years	2,911	11,483
More than 5 years	29,654	41,137
Not defined	(41,137)	-

The Group had a cumulative liquidity gap between financial assets and financial liabilities (excess of liabilities over assets) with a maturity from 2 to 9 months as of 31 December 2020 (as of 31 December 2019: to 12 months).

The Bank regularly monitors liquidity position, performs quarterly stress testing of liquidity indicators under adverse scenarios, which provide for outflows of customer funds in amounts that were in the most unfavorable periods since 2013, control of compliance with regulatory liquidity ratios established by the National Bank of Ukraine, etc.

In accordance with effective legislation, the Group is obliged to repay term deposits of individuals on demand of a depositor if early repayment option is set contractually, but in this case a depositor's right to accrued interest is forfeited. The Group expects that customers will not request term deposits early, thus these balances are included in disclosures above in accordance with their contractual maturities. Current accounts are included on their historical stability.

**24 Financial Risk Management (Continued)**

In 2020, the Group introduced an updated model for assessing the historical stability of current accounts. The previous valuation model used by the Group in 2019 and earlier is based on the calculation of the turnover (expected maturity) of funds in the accounts, excluding inflows of such funds, which, in the opinion of management, are too conservative for liquidity management purposes. The new model assumes: (i) Segmentation: retail business, SME and corporate business; by currencies: UAH, USD, EUR; (ii) Modeling Method (99% confidence level); (iii) Analysis of periods for each segment, including various phases of the economic cycle since 2013 in terms of days. Thus, the new model reflects an actual stable trend towards an increase in account balances during various phases of the economic cycle. As a result of the application of the new model, historical stability has increased significantly, which affected the maturity of clients' funds, and therefore the net and cumulative liquidity gaps as of 31 December 2020 as disclosed in the table above.

**25 Maturity analysis of assets and liabilities**

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 24 "Financial Risk Management" for the Group's contractual undiscounted repayment obligations.

In millions of Ukrainian hryvnias	31 December 2020			31 December 2019		
	Less 12 month	Over 12 month	Total	Less 12 month	Over 12 month	Total
Cash and cash equivalents and mandatory reserves	49,911	-	49,911	45,894	-	45,894
Due from banks	25,015	44	25,059	27,044	74	27,118
Loans and advances to customers	45,986	9,035	55,021	50,435	9,109	59,544
- at fair value through profit or loss	888	99,862	100,750	865	83,815	84,680
- at fair value through other comprehensive income	66,701	52,495	119,196	10,675	55,927	66,602
- at amortized cost	1,560	205	1,765	636	239	875
Current tax assets	-	6,660	6,660	-	2,257	2,257
Investment properties	-	2,933	2,933	-	3,379	3,379
Right-of-use assets	-	1,738	1,738	-	1,703	1,703
Fixed assets and intangible assets	-	5,982	5,982	-	4,850	4,850
Other financial assets	1,327	2,140	3,467	456	1,772	2,228
Other assets	-	8,901	8,901	-	9,285	9,285
Reposessed collateral	-	1,228	1,228	-	1,244	1,244
Assets held for sale	-	32	32	-	-	-
<b>Total assets</b>	<b>191,388</b>	<b>191,255</b>	<b>382,643</b>	<b>136,005</b>	<b>173,654</b>	<b>309,659</b>
Due to the NBU	-	-	-	7,721	-	7,721
Due to banks and other financial institutions	19	-	19	201	-	201
Customer accounts	312,236	332	312,568	239,764	693	240,457
Lease liabilities	602	1,242	1,844	508	1,226	1,734
Current income tax liability	-	9	9	-	9	9
Deferred income tax liability	-	147	147	-	122	122
Other financial liabilities	2,336	576	2,912	1,040	483	1,523
Provisions and non-financial liabilities	-	12,087	12,087	-	3,266	3,266
<b>Total liabilities</b>	<b>315,193</b>	<b>14,393</b>	<b>329,586</b>	<b>249,234</b>	<b>5,799</b>	<b>255,033</b>

**26 Management of Capital**

Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation, which are reviewed and signed by the Chairman of the Board and the Chief Accountant. Under the current capital requirements set by the National Bank of Ukraine have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. The capital adequacy ratio in accordance with the requirements of the Basel Capital Accord is calculated once a year.



## 26 Management of Capital (Continued)

a) The Group also manages its capital, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with the Basel Accord is as follows:

<i>In millions of Ukrainian hryvnias</i>	31 December 2020	31 December 2019
<b>Tier 1 capital</b>	<b>54,348</b>	<b>54,634</b>
<b>Tier 2 capital (a portion not exceeding 100% of Tier 1)</b>	<b>(2,248)</b>	<b>(660)</b>
<b>Total capital</b>	<b>52,100</b>	<b>53,974</b>
<b>Risk Weighted Assets</b>		
Banking book	280,660	233,978
Trading book	32,718	39,051
<b>Risk Weighted Assets</b>	<b>313,378</b>	<b>273,029</b>
<b>Tier 1 capital ratio</b>	<b>17.34%</b>	<b>20.01%</b>
<b>Capital adequacy ratio (%)</b>	<b>16.63%</b>	<b>19.77%</b>

b) As at 31 December 2020, the National Bank of Ukraine required banks to maintain a capital adequacy ratio at least 10% of risk weighted assets calculated in accordance with the regulations of the National Bank of Ukraine (31 December 2019: at least 10%).

Regulatory capital in accordance with the NBU's regulations comprises:

<i>In millions of Ukrainian hryvnias</i>	31 December 2020	31 December 2019
<b>Total regulatory capital</b>	<b>35,257</b>	<b>19,223</b>
Tier 1 capital	17,644	9,685
Tier 2 capital (a portion not exceeding 100% of Tier 1)	17,644	9,685
Deduction	(30)	(147)
<b>Risk weighted assets</b>	<b>93,201</b>	<b>91,727</b>
<b>Open foreign currency position</b>	<b>32,679</b>	<b>44,833</b>
<b>Uncovered credit risk</b>	<b>(368)</b>	<b>(719)</b>
<b>Capital adequacy ratio (N2)</b>	<b>28.09%</b>	<b>14.15%</b>
<b>Tier 1 capital adequacy ratio (N3)</b>	<b>14.06%</b>	<b>7.13%</b>

Information included in the table above is calculated according to the Regulation No. 368 of the Board of the National Bank of Ukraine dated 28 August 2001 (as amended) "On the Regulation of the Banks and Banking Activity in Ukraine", including assessment of credit risk in accordance with Regulation No. 351 of the Board of the National Bank of Ukraine dated 30 June 2016 "On Calculation of the Loan Loss Provision by Ukrainian banks".

## **27 Contingencies and Commitments**

**Legal proceedings.** From time to time and in the normal course of business, claims against the Group are received. As at 31 December 2020, provision for legal cases of UAH 8,978 million and provision associated with cessation of operations in Crimea of UAH 1,193 million have been recorded (31 December 2019: UAH 639 million and UAH 1,436 million respectively). Refer to Note 16.

Also, at the nationalisation of the Bank, in December 2016 liabilities of the Group, including UAH 10,934 million of amounts due to customers, UAH 10,721 million of Eurobonds issued and UAH 7,783 million of subordinated debt were converted into the Bank's share capital. At the date of these consolidated financial statements, UAH 17,761 million (31 December 2019: UAH 23,491 million) at exchange rate as at the date of these financial statements of claims, related to nationalisation, were filed against the Group in respect of some of these liabilities. The ultimate outcome cannot be determined, except for amounts already recognized in these consolidated financial statements.

**Crimea related contingent liabilities.** As at 31 December 2013, the Group operated 337 bank offices, 483 ATM/cash machines, and 773 self-service portals at the territory of the Republic of Crimea. In February 2014, the Russian Federation commenced a military operation and established physical possession and control over Crimea. On 15 April 2014, the Ukrainian parliament adopted the Law on occupied territories. Further, the NBU's Regulation enforced on 6 May 2014 effectively prohibited Ukrainian banks to conduct their operations in Crimea.

In response to the above circumstances, during 2014-2016, the Group has concluded a number of agreements with third party to transfer amounts due to customers and sell the Group's assets associated with the operations in, in particular:

- two debt transfer agreements under which the Bank transferred its amounts due to customers in Crimea of UAH 8,215 million in 2014 (according to the 2014 Bank's separated financial statements) and of UAH 7 million in 2016. In order to obtain the depositors' consent to the transfer of debt, the Bank posted on its Internet portal (website) a notice of transfer, which indicated the procedure for action in case of the depositor's disagreement with such transfer. The Bank did not receive any objections from depositors within the period specified in the notice;
- five agreements on assignment of rights of claim, according to which the Group transferred its claims on loans issued by the Group to individuals and legal entities in Crimea in the amount of UAH 13,622 million (including fines and penalties). Carrying amount of such loans at the date of transfer was UAH 6,274 million (according to the 2014 Group's consolidated financial statements: gross value of UAH 7,508 million minus provision of UAH 1,234 million);
- purchase and sale agreements for movable and immovable property of the Group located in Crimea;
- an agreement for the transferred loans servicing, which entails an obligation for the Group to collect proceeds on transferred loan contracts and transfer them to third party.

Accordingly, the Bank derecognized both assets and liabilities transferred to third party, including obligations towards the depositors that were transferred to the third party under two debt transfer agreements. The Bank recognized net loss on cessation of the Bank's activity in Crimea in 2014 of UAH 155 million.

Subsequent to 2014, the Bank has paid UAH 750 million to clients (including interest, fines and penalties) based on the court decisions in favor of depositors irrespective of the transfer of obligations to make such payments under the deposits to third party. The amount compensated to the Bank by third party on respective deposits paid by the Bank is UAH 32 million. Compensation was obtained in the period before the nationalisation during 2014 – 2016.

As at 31 December 2020, a number of claims were brought by the depositors against the Bank seeking payment of deposits (including interest, fines and penalties) that are pending before courts in Ukraine for the total amount of UAH 1,193 million. When considering these disputes, in the reporting period certain courts pointed to the circumstances of the invalidity (nullity) of one out of two debt transfer agreements between the Bank and third party regarding transfer of UAH 8,215 million.

The Bank filed appeals or will appeals shortly within the statutory deadlines against judgments in the said cases to the Supreme Court or appellate courts respectively.

As at 31 December 2020, the Group had a contingent liability of UAH 5,720 million (31 December 2019: UAH 6,030 million) relating to cessation of its operations in Crimea, being the outstanding amount of customer accounts in Crimea at discontinuance of operations (i.e. as of November 2014) less amount claimed and provisioned. The probability of the outflow of resources to settle these obligations cannot be properly estimated and the amount of such obligations cannot be measured reliably by the Group.

**Tax legislation.** Ukrainian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

**27 Contingencies and Commitments (Continued)**

The Ukrainian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities and it is possible that transactions and activities that have not been challenged in the past may be challenged.

Ukrainian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

Management further believes that ascertained risks of possible outflow of resources arising from tax and other regulatory compliance matters in the periods preceding 31 December 2020 do not exceed UAH 105 million (31 December 2019: UAH 99 million).

**Capital expenditure commitments.** At 31 December 2020, the Group had contractual capital expenditure commitments in respect of construction of premises and acquisition of computers and furniture and equipment totalling UAH 204 million (31 December 2019: UAH 256 million). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

**Assets pledged.** The Group had assets pledged as collateral with the following carrying value:

	Note	31 December 2020		31 December 2019	
<i>In millions of Ukrainian hryvnias</i>		Asset pledged	Related liability/ commitment	Asset pledged	Related liability/ commitment
Cash balances					
with the NBU, premises, investment properties and repossessed collateral	6,11	-	-	5,232	7,721
Investment securities at FVOCI under the cash consignment contract with the NBU	9	17,880	-	18,364	-

**28 Fair Value of Financial Instruments**

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.

**28 Fair Value of Financial Instruments (Continued)**

**(a) Recurring fair value measurements.**

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. Classification of financial instruments at fair value by fair value hierarchy level as follows:

<i>In millions of Ukrainian hryvnias</i>	31 December 2020				31 December 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>FINANCIAL ASSETS AT FAIR VALUE</b>								
<b><i>Investment securities at FVPL</i></b>								
Long-term government bonds with an embedded option	-	-	100,750	100,750	-	-	84,680	84,680
<b><i>Investment securities at FVOCI</i></b>								
Long-term government bonds	2	-	53,153	53,155	5	-	55,634	55,639
Medium-term government bonds								
denominated in foreign currency	9,234	-	14,732	23,966	2,128	-	5	2,133
Medium-term government bonds	6,545	-	14,539	21,084	585	-	-	585
Short-term government bonds	1,983	-	13,825	15,808	-	-	-	-
Short-term government bonds								
denominated in foreign currency	3	-	5,180	5,183	-	-	8,245	8,245
<b>NON-FINANCIAL ASSETS</b>								
Premises	-	-	1,669	1,669	-	-	1,380	1,380
Reposessed collateral	-	-	1,228	1,228	-	-	1,244	1,244
Investment properties	-	-	2,933	2,933	-	-	3,379	3,379
Assets held for sale	-	-	-	-	-	-	-	-
<b>TOTAL ASSETS RECCURING FAIR VALUE MEASUREMENT</b>	<b>17,767</b>	<b>-</b>	<b>208,009</b>	<b>225,776</b>	<b>2,718</b>	<b>-</b>	<b>154,567</b>	<b>157,285</b>

Valuation technique used for level 2 measurements is linked to market prices of similar financial instruments quoted on active market.

Valuation technique used for level 3 measurements included discounted cash flows and other appropriate valuation techniques (models). Embedded derivative assets and investment securities at FVOCI are classified into level 3 instruments because these instruments require management to make assumptions for certain adjustments which had significant impact on fair values - exchange rates volatility, discount rates and/ or a credit risk of the counterparties which are not fully supportable by observable market data.

**28 Fair Value of Financial Instruments (Continued)**

**Movements in level 3 financial instruments measured at fair value**

The following is a reconciliation of changes in fair value at level 3 of the fair value hierarchy of investment securities at FVPL and investment securities at FVOCI:

<i>In millions of Ukrainian hryvnias</i>	<b>Investment securities at FVPL</b>	<b>Investment securities at FVOCI</b>
<b>Fair value at 1 January 2019</b>	<b>86,244</b>	<b>79,299</b>
Purchased of investment securities	-	21,305
Total gains (losses) recorded in : Revaluation of investment securities in other comprehensive income - profit or loss:	-	2,039
Interest income accrued	4,441	6,765
Revaluation of investment securities in profit or loss	(1,526)	-
<i>Settlements:</i> Cash received (repayment or sale)	(4,457)	(43,105)
Sales of investment securities	(18)	(343)
Other changes	(4)	(2,076)
<b>Fair value as at 31 December 2019</b>	<b>84,680</b>	<b>63,884</b>
Purchased of investment securities	-	64,013
Total gains/(losses) recorded in: Revaluation of investment securities in other comprehensive income - profit or loss:	-	(1,646)
Interest income accrued	4,453	6,871
Revaluation of investment securities in profit or loss	16,045	-
<i>Settlements:</i> Cash received (repayment)	(4,428)	(37,353)
Sales of investment securities	-	(540)
Exchange differences	-	3,579
Changing between the Level estimates	-	2,621
<b>Fair value as at 31 December 2020</b>	<b>100,750</b>	<b>101,429</b>

**Sensitivity analysis of the fair value measurement of financial instruments measured at fair value for Level 3**

**Long-term government bonds with an embedded option at FVPL**

The fair value of a financial instrument is determined using an adjusted European Currency Options valuation model (Gaman-Kohlhagen form of the Black-Scholes formula) and an estimated risk-free UAH rate. The specified calculation is carried out using the following observable and non-observable input data:

Observable:

- strike rate of the US dollar against the Ukrainian hryvnia. It is defined as the weighted average exchange rate of the US dollar against the Ukrainian hryvnia on the interbank foreign exchange market for the month preceding the date of issue of the corresponding series of government bonds with indexed value (according to the terms of issue for indexation). For Long-term government bonds with an embedded option issued in December 2016 and February 2017, the strike rate is UAH 25.71 and UAH 27.22 per US dollar, respectively;
- spot rate of the US dollar to the Ukrainian hryvnia. Defined as the average monthly interbank exchange rate of the US dollar against the Ukrainian hryvnia according to the NBU for the last month of the reporting period

**28 Fair Value of Financial Instruments (Continued)**

Unobservable:

- volatility of the US dollar against the Ukrainian hryvnia. Defined for the last 10 years as the average annual volatility on average weighted monthly interbank exchange rate of the US dollar against the Ukrainian hryvnia (up to 1 August 2018) and the average exchange rate for the month of the NBU (starting from August 1, 2018). As of 31 December 2020 Volatility of the US dollar against the Ukrainian hryvnia comprised 17.70% (31 December 2019: 17.58%). Sensitivity is defined as the effect of changes in the volatility of the US dollar against the Ukrainian hryvnia in the direction of increase or decrease by a given number of points;
- risk-free USD interest rate. It is determined in accordance with the period from the reporting date to the maturity date of the securities using a linear approximation of interest rates on US government debt, bringing the rate with a semi-annual accrual of interest to the annual rate. Sensitivity is defined as the effect of a change in the risk-free USD interest rate in the direction of increase or decrease by a given number of points;
- discount rate (risk-free UAH interest rate). It is determined according to the Nelson-Siegel's coupon-free yield curve, the coefficient for which are published by the National Bank of Ukraine. The model involves use maturity of each cash flow separately. As of 31 December 2020, the discount rate ranged from 8.65% per annum for the term 0.50 years before 9.42% per annum for the term 11.33 years (31 December 2019: from 12.24% per annum for the term 0.10 years before 8.92% per annum for the term 12.08 years). Sensitivity is defined as the effect of a change calculated according to the maturity of each cash flow, interest rate's increase or decrease by a specified number of points.

The tables below present a sensitivity analysis for each of those described non-observable input data:

<i>In millions of Ukrainian hryvnias</i>	<b>Changes in historical volatility</b>		<b>Changes of fair value</b>	
31 December 2020	+1 p.p.	-1 p.p.	122	-103
31 December 2019	+1 p.p.	-1 p.p.	244	-226

<i>In millions of Ukrainian hryvnias</i>	<b>Changes of risk-free USD interest rate</b>		<b>Changes of fair value</b>	
31 December 2020	+0.5 p.p.	-0.5 p.p.	(3 472)	3,662
31 December 2019	+0.5 p.p.	-0.5 p.p.	(2 595)	2,772

<i>In millions of Ukrainian hryvnias</i>	<b>Changes of risk-free UAH interest rate</b>		<b>Changes of fair value</b>	
31 December 2020	+1 p.p.	-1 p.p.	(899)	1,022
31 December 2019	+1 p.p.	-1 p.p.	(1 321)	1,572

**28 Fair Value of Financial Instruments (Continued)**

**Government bonds at FVOCI**

- The fair value of a financial instrument is determined using discounted flows and a discount rate (estimated risk-free rate in UAH based on the term of the financial instrument) is determined according to the Nelson-Siegel coupon-free yield curve, the coefficients for which are published by the National Bank of Ukraine. The model assumes the use of the maturity of each cash flow separately. As of 31 December 2020, the discount rate ranged from 7.89% per annum for a period of 0.02 years, to 9.12% per annum for a period of 12.20 years (31 December 2019: from 12.27% per annum for a period of 0.02 years, up to 8.71% per annum for a period of 12.95 years). Sensitivity is defined as the effect of a change in the interest rate calculated, according to the maturity of each cash flow, to increase or decrease by a specified number of points. Sensitivity analysis is given below:

<i>In millions of Ukrainian hryvnias</i>	<b>Changes of risk-free UAH interest rate</b>		<b>Changes of fair value</b>	
31 December 2020				
Long-term government bonds	+1 p.p.	-1 p.p.	(3 035)	3,319
Medium-term government bonds	+1 p.p.	-1 p.p.	(36)	36
Short-term government bonds	+1 p.p.	-1 p.p.	-	-
31 December 2019				
Long-term government bonds	+1 p.p.	-1 p.p.	(3 314)	3,643

**Government bonds denominated in foreign currency at FVOCI**

The fair value of foreign currency debt securities denominated in US dollars is calculated using a model and input data similar to government debt securities with an embedded option, as described above. As of 31 December 2020 and 2019, the growth (decrease) of the risk-free interest rate in hryvnia by 1 percentage point, would increase (decrease) the fair value of such securities by UAH 25 million.

**28 Fair Value of Financial Instruments (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 millions of Ukrainian hryvnias</i>	31 December 2020				31 December 2019			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
<b>FINANCIAL ASSETS</b>								
<b><i>Due from banks</i></b>								
Deposit certificates of the National Bank of Ukraine	-	25,006	-	25,006	-	27,043	-	27,043
Finance lease receivable	-	53	-	53	-	75	-	75
<b><i>Loans and advances to customers</i></b>								
Loans and finance lease managed as a separate portfolio	-	-	2,771	2,169	-	-	3,034	2,728
Corporate loans	-	-	4,184	4,079	-	-	4,711	4,567
Loans to individuals - cards	-	-	35,523	35,523	-	-	38,822	38,822
Loans to individuals - mortgage	-	-	2,334	2,322	-	-	2,353	2,312
Loans to individuals - auto	-	-	-	-	-	-	1	1
Loans to individuals - consumer	-	-	3,612	3,416	-	-	4,280	3,892
Loans to individuals - other	-	-	18	18	-	-	37	37
Loans to small and medium enterprises (SME)	-	-	5,448	5,506	-	-	5,148	5,130
Finance lease receivables	-	-	2,010	1,988	-	-	2,075	2,055
<b><i>Investment securities at AC</i></b>								
Medium-term government bonds	19	-	-	19	-	-	-	-
Short-term government bonds	50	-	1,489	1,524	-	-	-	-
Long-term bonds issued by the State Mortgage Institution	-	-	186	222	-	-	1,022	875
<b><i>Other financial assets</i></b>								
Receivables from operations with customers	-	-	151	151	-	-	152	152
Other	-	-	3,316	3,316	-	-	2,076	2,076
<b>TOTAL</b>	<b>69</b>	<b>25,059</b>	<b>61,042</b>	<b>85,312</b>	<b>-</b>	<b>27,118</b>	<b>63,711</b>	<b>89,765</b>

Fair value of cash and cash equivalents approximates their carrying value.



**28 Fair Value of Financial Instruments (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	31 December 2020				31 December 2019			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
<b>FINANCIAL LIABILITIES</b>								
<b><i>Due to the NBU</i></b>								
Due to the NBU	-	-	-	-	-	7,721	-	7,721
<b><i>Due to banks and other financial institutions</i></b>								
Term placements of banks	-	-	17	17	-	-	-	-
Current placements of commercial banks	-	-	-	-	-	-	-	-
Correspondent accounts and overnight placements of banks	-	2	-	2	-	201	-	201
<b><i>Customer accounts</i></b>								
Term deposits of individuals	-	-	102,401	102,374	-	-	99,268	99,168
Current/demand accounts of individuals	-	125,329	-	125,329	-	90,826	-	90,826
Current/settlement accounts of government organizations	-	256	-	256	-	178	-	178
Current/settlement accounts of legal entities	-	69,905	-	69,905	-	39,807	-	39,807
Term deposits of legal entities	-	-	14,705	14,704	-	-	10,624	10,478
<b><i>Other financial liabilities</i></b>								
Funds in the course of settlement	-	-	1,014	1,014	-	-	56	56
Accounts payable	-	-	983	983	-	-	669	669
Other	-	-	915	915	-	-	798	798
Lease liabilities	-	-	1,844	1,844	-	-	1,734	1,734
<b>TOTAL</b>	<b>-</b>	<b>195,492</b>	<b>121,879</b>	<b>317,343</b>	<b>-</b>	<b>138,733</b>	<b>113,149</b>	<b>251,636</b>

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique and market prices of quoted notes on non-active market. 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 interest rates for new instruments with similar credit risk and 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.

The Group's liabilities to its customers are subject to state deposit insurance plan as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

**29 Presentation of Financial Instruments by Measurement Category**

Financial instruments are classified: (a) financial assets at fair value through profit or loss; (b) financial assets at fair value through other comprehensive income; (c) financial assets at amortized cost; (d) financial liabilities at fair value through profit or loss; (e) financial liabilities at amortized cost.

**29 Presentation of Financial Instruments by Measurement Category (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	<b>Assets at AC</b>	<b>Assets at FVPL</b>	<b>Assets at FVOCI</b>	<b>Finance lease receivables</b>	<b>Total</b>
<b>ASSETS</b>					
<b>Cash and cash equivalents and mandatory reserves</b>	49,911	-	-	-	49,911
<b>Due from banks</b>					
Deposit certificates of the National Bank of Ukraine	25,006	-	-	-	25,006
Finance lease receivable	53	-	-	-	53
<b>Loans and advances to customers</b>					
Loans and finance lease managed as a separate portfolio	2,169	-	-	-	2,169
Corporate loans	4,079	-	-	-	4,079
Loans to individuals – cards	35,523	-	-	-	35,523
Loans to individuals – mortgage	2,322	-	-	-	2,322
Loans to individuals – consumer	3,416	-	-	-	3,416
Loans to individuals – other	18	-	-	-	18
Loans to small and medium enterprises (SME)	5,506	-	-	-	5,506
Finance lease receivables	-	-	-	1,988	1,988
<b>Investment securities at AC</b>					
Medium-term government bonds	19	-	-	-	19
Short-term government bonds	1,524	-	-	-	1,524
Long-term bonds issued by the State Mortgage Institution	222	-	-	-	222
<b>Investment securities at FVPL</b>					
Long-term government bonds with an embedded option	-	100,750	-	-	100,750
<b>Investment securities at FVOCI</b>					
Long-term government bonds without an embedded option	-	-	53,155	-	53,155
Medium-term government bonds denominated in foreign currency	-	-	23,966	-	23,966
Medium-term government bonds	-	-	21,084	-	21,084
Short-term government bonds	-	-	15,808	-	15,808
Short-term government bonds denominated in foreign currency	-	-	5,183	-	5,183
<b>Other financial assets</b>					
Receivables from operations with customers	151	-	-	-	151
Other	3,316	-	-	-	3,316
<b>TOTAL FINANCIAL ASSETS</b>	<b>133,235</b>	<b>100,750</b>	<b>119,196</b>	<b>1,988</b>	<b>355,169</b>
<b>NON-FINANCIAL ASSETS</b>					<b>27,474</b>
<b>TOTAL ASSETS</b>					<b>382,643</b>

As at 31 December 2020 and 2019 all of the Group's financial liabilities were carried at amortised cost.

**29 Presentation of Financial Instruments by Measurement Category (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	<b>Assets at AC</b>	<b>Assets at FVPL</b>	<b>Assets at FVOCI</b>	<b>Finance lease receivables</b>	<b>Total</b>
<b>ASSETS</b>					
<b>Cash and cash equivalents and mandatory reserves</b>	45,894	-	-	-	45,894
<b>Due from banks</b>					
Deposit certificates of the National Bank of Ukraine	27,043	-	-	-	27,043
Finance lease receivable	75	-	-	-	75
<b>Loans and advances to customers</b>					
Loans and finance lease managed as a separate portfolio	2,728	-	-	-	2,728
Corporate loans	4,567	-	-	-	4,567
Loans to individuals – cards	38,822	-	-	-	38,822
Loans to individuals – mortgage	2,312	-	-	-	2,312
Loans to individuals – auto	1	-	-	-	1
Loans to individuals – consumer	3,892	-	-	-	3,892
Loans to individuals – other	37	-	-	-	37
Loans to small and medium enterprises (SME)	5,130	-	-	-	5,130
<b>Finance lease receivables</b>	-	-	-	2,055	2,055
<b>Investment securities at AC</b>					
Medium-term government bonds denominated in foreign currency	-	-	-	-	-
Long-term bonds issued by the State Mortgage Institution	875	-	-	-	875
<b>Investment securities at FVPL</b>					
Long-term government bonds with an embedded option	-	84,680	-	-	84,680
Medium-term government bonds denominated in foreign currency	-	-	-	-	-
<b>Investment securities at FVOCI</b>					
Long-term government bonds without an embedded option	-	-	55,639	-	55,639
Medium-term government bonds denominated in foreign currency	-	-	2,133	-	2,133
Medium-term government bonds	-	-	585	-	585
Short-term government bonds	-	-	-	-	-
Short-term government bonds denominated in foreign currency	-	-	8,245	-	8,245
Long-term bonds issued by the State Mortgage Institution	-	-	-	-	-
<b>Other financial assets</b>					
Receivables from operations with customers	152	-	-	-	152
Other	2,076	-	-	-	2,076
<b>TOTAL FINANCIAL ASSETS</b>	<b>133,604</b>	<b>84,680</b>	<b>66,602</b>	<b>2,055</b>	<b>286,941</b>
<b>NON-FINANCIAL ASSETS</b>					<b>22,718</b>
<b>TOTAL ASSETS</b>					<b>309,659</b>

**30 Related Party Transactions**

In accordance with IAS 24 "Related Party Disclosures", parties are generally considered to be related if the parties are under common control, joint 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. The note only discloses significant amounts.

As at 31 December 2020 and 31 December 2019 the Group was 100% owned by the Government represented by the Cabinet of Ministers of Ukraine. Transactions and balances with related parties mainly consist of transactions with Ukrainian companies related to the State (both directly and indirectly under the control and significant influence of the State) and the shareholder.

**30 Related Party Transactions (Continued)**

At 31 December 2020 and 31 December 2019, the outstanding balances with related parties are as follows:

<i>In millions of Ukrainian hryvnias</i>	31 December 2020				31 December 2019			
	Shareholder	Management	Associated	Other related	Shareholder	Management	Associated	Other related
			companies	parties			companies	parties
Cash and cash equivalents and mandatory reserves	-	-	-	5,553	-	-	11	8,529
Due from banks	-	-	-	25,059	-	-	-	27,118
Loans and advances to customers, gross (contractual interest rate: 2020 – UAH – 15%, USD – 0%; 2019 – UAH – 18%, USD – 4%)	-	-	-	335	-	-	-	713
Less: Allowance for expected credit losses	-	-	-	(172)	-	-	-	(202)
Investment securities at FVPL	100,750	-	-	-	84,680	-	-	-
Investment securities at FVOCI	119,195	-	-	-	66,601	-	-	-
Investment securities at AC	1,542	-	-	222	-	-	-	875
Other financial assets	-	-	-	700	-	-	-	12
Other assets	-	-	-	4	-	-	-	-
Due to the NBU	-	-	-	-	-	-	-	7,721
Due to banks and other financial institutions	-	-	-	-	-	-	13	-
Customer accounts (contractual interest rate: 2020 UAH – 0.4%, USD – 0%, EUR – 1%; 2019 UAH – 4%, USD – 1%, EUR – 1%)	-	10	-	13,114	-	17	-	2,850
Other financial liabilities	-	-	-	505	-	-	-	423

The income and expense items with related parties during the 12 months 2020 and 2019 are as follows:

<i>In millions of Ukrainian hryvnias</i>	12 months 2020				12 months 2019			
	Shareholder	Management	Associated	Other related	Shareholder	Management	Associated	Other related
			companies	parties			companies	parties
Interest income	11,674	-	-	1,687	11,595	-	-	701
Interest expense	-	-	-	(604)	-	-	-	(1,818)
Charge for impairment	-	-	-	(7)	-	-	-	22
Fee and commission income	-	-	-	206	-	-	-	185
Losses less gains from trading in foreign currencies and swaps	-	-	-	3	-	-	-	-
Losses less gains from investment securities	16,045	-	-	-	(1,526)	-	-	-
Foreign exchange translation (losses less gains)/gains less losses	3,734	-	3	6	(3,310)	-	(2)	(25)
Other operating income	-	-	-	3	-	-	-	9
Administrative and other operating expenses, excluding management remuneration	-	-	-	(49)	-	(2)	-	(15)

**30 Related Party Transactions (Continued)**

Aggregate amounts lent to and repaid by related parties during the period for 12 months 2020 and the period 12 months 2019 are as follows:

	12 months 2020			12 months 2019				
<i>In millions of Ukrainian hryvnias</i>	Shareholder	Management Associated companies	Other related parties	Shareholder	Management Associated companies	Other related parties		
Amounts lent to related parties during the period	-	6	-	1,297,691	-	9	-	315,957
Amounts repaid by related parties during the period	-	-	-	571,735	-	9	-	284,118
Loans repaid to related parties during the period	-	-	-	14,596	-	-	-	67,079
Loans lent by related parties during the period	-	-	-	751,829	-	1	-	57,580
Amounts received under investment securities at FVPL	4,428	-	-	-	4,457	-	-	-
Amounts granted by investment securities at FVOCI	81,623	-	-	-	24,156	-	-	-
Amounts received under investment securities at FVOCI	37,443	-	-	-	42,997	-	-	109
Amounts granted by investment securities at AC	1,518	-	-	-	106	-	-	-
Amounts received under investment securities at AC	-	-	-	51	12,948	-	-	101

For 12 months 2020 the remuneration of the members of the Management Board comprised of salaries, pension contributions and other short-term benefits totalling UAH 134 million (for 12 months 2019: UAH 167 million).

**Regulatory criteria for related party identification**

Related party identification criteria of IAS 24 differs from the criteria set forth by the National Bank of Ukraine Regulation "On determination of related parties for banks" № 315 dated 12 May 2015 (as amended) (Regulation № 315).

The loan portfolio, presented as 'Loans managed as a separate portfolio' of UAH 164,332 million (31 December 2019: UAH 210,579 million), as disclosed in Note 8, is classified as related with previous shareholders according to the Regulation № 315.

**31 Changes in Liabilities Arising from Financial Activities**

<i>In millions of Ukrainian hryvnias</i>	Due to the NBU – long- term borrowings	Dividends payable	Lease liabilities	Total
<b>Carrying value as at 1 January 2019</b>	<b>9,817</b>	<b>-</b>	<b>1,650</b>	<b>11,467</b>
Repayment of the refinancing loan to the NBU	(2,068)	-	-	(2,068)
Dividends accrual	-	11,593	-	11,593
Dividend payment	-	(11,593)	-	(11,593)
Recognition of new lease liabilities during the year, modification of previously recognized liabilities	-	-	615	615
Repayment of lease liabilities	-	-	(531)	(531)
Other	(28)	-	-	(28)
<b>Carrying value as at 31 December 2019</b>	<b>7,721</b>	<b>-</b>	<b>1,734</b>	<b>9,455</b>
Repayment of the refinancing loan to the NBU	(7,621)	-	-	(7,621)
Dividends accrual	-	24,581	-	24,581
Dividend payment	-	(24,581)	-	(24,581)
Recognition of new lease liabilities during the year, modification of previously recognized liabilities	-	-	741	741
Repayment of lease liabilities	-	-	(631)	(631)
Other	(100)	-	-	(100)
<b>Carrying value as at 31 December 2020</b>	<b>-</b>	<b>-</b>	<b>1,844</b>	<b>1,844</b>

The "Other" line includes the effect of accrued but not yet paid interest on due to the NBU and others. The Group classifies interest paid as cash flows from operating activities.

**32 Events After the End of the Reporting Period**

Subsequent to the reporting date, the Board of the National Bank of Ukraine has approved decisions to reduce the key policy rate from 6.0% per annum effective 21 January 2021 to 6.5% per annum effective 5 March 2021.